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ZTE CORPORATION

中興通訊股份有限公司

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

(Stock Code: 763)

2019 INTERIM REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that the contents of the 2019 Interim Report (the “Interim Report”) are true, accurate and complete without any false information, misleading statements or material omissions, and accept individual and collective legal responsibility.

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

- 1.2 There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of the Interim Report.
- 1.3 The Interim Report has been considered and approved at the Eighth Meeting of the Eighth Session of the Board of Directors of the Company. Mr. Gu Junying, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Li Zixue, Chairman, to vote on his behalf. Mr. Zhu Weimin, Director, was unable to attend the meeting due to work reasons and has authorised Ms. Fang Rong, Director, to vote on his behalf.

- 1.4 The interim financial reports of ZTE and its subsidiaries (“the Group”) for the six months ended 30 June 2019 were unaudited.
- 1.5 Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Interim Report.
- 1.6 No profit distribution will be implemented in respect of the interim period of 2019.

2. CORPORATE PROFILE

2.1 Corporate information

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

2.2 Contact persons and correspondence

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

3. SUMMARY OF THE COMPANY'S BUSINESS

3.1 Principal businesses

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

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

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

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

3.2 The industry in which we operates

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.

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

4. HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

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

PRC Accounting Standards for Business Enterprises (“PRC ASBEs”)

On 7 December 2018, the PRC Ministry of Finance (“MOF”) issued the revised “ASBE 21 — Leases” (“New ASBE on Leases”). Enterprises listed in both domestic and overseas markets were required to adopt the New ASBE on Leases with effect from 1 January 2019. The Group has modified its accounting policies in accordance with the provisions of the aforesaid accounting standard.

In accordance with relevant convergence provisions under the New ASBE on Leases, the Group has elected not to reassess whether contracts subsisting prior to 1 January 2019 are lease contracts or contracts containing leases. As a lessee, the Group has elected to adopt a modified convergence treatment of retrospective adjustment. The cumulative effect from the first implementation of the New ASBE on Leases shall be recognised by adjusting the opening balance of “Right-of-use assets” and “Lease liabilities” in the financial statements as at 1 January 2019, while other items in the balance sheet shall not be affected. No retrospective adjustments shall be made to the comparative statements for the same period last year.

For operating leases subsisting prior to 1 January 2019, the Group as lessee shall measure lease liabilities on 1 January 2019 based on remaining lease payments discounted to present value using the incremental borrowing rate for the Group. Assets comprising rights of use are recognised as the amount of lease liabilities adjusted for rental prepayments as necessary. The Group has adopted the simplified treatment of recognising leases which will end within 12 months after 1 January 2019 as short-term leases. Based on detailed evaluation of the impact of the adoption of the New ASBE on Leases, assets comprising rights of use with an amount of RMB952,264,000 and lease liabilities amounting to RMB952,264,000 have been recognised for the Group, while assets comprising rights of use with an amount of RMB660,822,000 and lease liabilities amounting to RMB660,822,000 have been recognised for the Company as at 1 January 2019.

In April 2019, the MOF promulgated the “Notice on the Revision and Publication of the 2019 General Corporate Financial Reporting Format” (the “New Reporting Format”) and at the same time annulled the “Notice on the Revision and Publication of the 2018 General Corporate Financial Reporting Format”. The Company has amended its financial reporting format in accordance with pertinent requirements. The previous “Bills receivable and trade receivables” shall be segregated into “Bills receivable” and “Trade receivables”; bills receivable and trade receivable at fair value through other comprehensive income shall be included in under “Receivable financing”. The Company accounted for bills receivable at fair value through other comprehensive income previously accounted for under “Other current assets” under “Receivable financing”. The previous “Bills payable and trade payables” was segregated into “Bills payable” and “Trade payables”. The portion of “Deferred income” with an amortisation period of one year or less and expected to be amortised within a period of one year or less shall not be classified as current liabilities. “Deferred income” in current liabilities was consolidated with the “Deferred income” under non-current liabilities. Gain or loss arising from the derecognition of financial assets at amortised cost as a result of transfers is included under “Gain from derecognition of financial assets at amortised cost”. In accordance with “ASBE 30 — Presentation of Financial Statements”, the presentation of current financial statements should contain the comparative data of at least the previous comparable accounting period for all presented items. In the event of any change in the items presented in the financial statements, adjustments according to the current presentation requirements should be made at least to the data of the comparable period. The Group has made adjustments to the comparable data on “Bills receivable”, “Trade receivables”, “Receivable financing”, “Bills payable”, “Trade payables”, “Deferred income”, “Investment income” and “Finance costs”

Hong Kong Financial Reporting Standards (“HKFRSs”)

In 2018, the Hong Kong Institute of Certified Public Accountants announced HKFRS 16 LEASES (the “New HKFRS on Leases”) which is effective from 1 January 2019.

In accordance with the New HKFRS on Leases, the Group has revised the previous lease accounting policy. The details and impact are the same as described in the above in relation to PRC ASBEs. The Group has made adjustments to the presentation of financial statements prepared under HKFRSs.

The implementation of the aforesaid New ASBE on Leases and the New Reporting Format has had no material impact on the Group’s consolidated financial reports.

4.1 Major Accounting Data and Financial Indicators of the Group prepared in accordance with PRC ASBEs

Unit: RMB in thousands

Item	End of the reporting period (30 June 2019)	End of last year (31 December 2018)	Changes as at the end of the reporting period compared with the end of last year
Total assets	140,742,648	129,350,749	8.81%
Owners' equity attributable to holders of ordinary shares of the listed company	24,520,310	22,897,576	7.09%
Share capital (<i>thousand shares</i>)	4,192,672	4,192,672	—
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	5.85	5.46	7.14%
Gearing ratio (%)	75.97%	74.52%	Increased by 1.45 percentage points

Unit: RMB in thousands

Item	Reporting period (Six months ended 30 June 2019)	Same period of last year (Six months ended 30 June 2018) (restated)	Changes compared with the same period of last year
Operating revenue	44,609,219	39,433,777	13.12%
Operating profit	2,343,209	(1,745,477)	234.24%
Total profit	2,237,477	(8,425,843)	126.55%
Net profit attributable to holders of ordinary shares of the listed company	1,470,699	(7,824,190)	118.80%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	612,138	(2,379,203)	125.73%
Basic earnings per share <i>(RMB/share)</i> ^{Note 1}	0.35	(1.87)	118.72%
Diluted earnings per share <i>(RMB/share)</i> ^{Note 2}	0.35	(1.87)	118.72%
Basic earnings per share after extraordinary items <i>(RMB/share)</i> ^{Note 1}	0.15	(0.57)	126.32%
Weighted average return on net assets	6.20%	(29.71%)	Increased by 35.91 percentage points
Weighted average return on net assets after extraordinary items	2.58%	(9.03%)	Increased by 11.61 percentage points
Net cash flows from operating activities	1,266,617	(5,046,386)	125.10%
Net cash flows from operating activities per share <i>(RMB/share)</i>	0.30	(1.20)	125.00%

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 30,440,000 and 0 potentially dilutive ordinary share for the six months ended 30 June 2019 and the six months ended 30 June 2018, respectively, dilutive earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

4.2 Extraordinary gains or losses items and amounts prepared in accordance with PRC ASBEs

Unit: RMB in thousands

Extraordinary item	Amount
Non-operating income, other income and others	1,091,159
Gains/(Losses) from fair value change	(28,572)
Investment income	140,154
Less: Losses on disposal of non-current assets	16,975
Less: Other non-operating expenses	163,065
Less: Effect of income tax	153,405
Less: Effect of non-controlling interests (after tax)	10,735
Total	<u>858,561</u>

4.3 Major financial indicators prepared in accordance with HKFRSs

Item	Six months ended 30 June 2019	Six months ended 30 June 2018
Basic earnings per share (<i>RMB/share</i>) ^{Note}	0.35	(1.87)
Weighted average return on net assets	6.20%	(29.71%)
Weighted average return on net assets after extraordinary items	2.58%	(9.03%)
Item	30 June 2019	31 December 2018
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	5.85	5.46

Note: Basic earnings per share 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.

4.4 The amounts of net profit and shareholders' equity of the Group for the six months ended and as at 30 June 2019 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

5. SHAREHOLDINGS OF THE SHAREHOLDERS

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

Total number of shareholders

As at 30 June 2019

There were 375,081 shareholders (comprising 374,765 holders of A shares and 316 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)	Increase/decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen (shares)
1. Zhongxingxin Telecom Company Limited (“Zhongxingxin”)	Domestic general corporation	27.40%	1,148,849,600	-123,018,733	—	98,667,983
2. HKSCC Nominees Limited ^{Note 1}	Foreign shareholders	17.99%	754,411,622	+104,830	—	Unknown
3. Hong Kong Securities Clearing Company Limited ^{Note 2}	Overseas corporation	1.27%	53,071,288	+28,572,450	—	Nil
4. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.25%	52,519,600	—	—	Nil
5. Hunan Nantian (Group) Co., Ltd	State-owned corporation	0.99%	41,516,065	—	—	Nil
6. Shanghai Gaoyi Asset Management Partnership (Limited Partnership) — Gaoyi Linshan No. 1 Yuanwang Fund	Others	0.72%	30,000,000	+30,000,000	—	Nil
7. NSSF Portfolio #108	Others	0.57%	23,999,913	+23,999,913	—	Nil
8. NSSF Portfolio #101	Others	0.57%	23,905,054	+23,905,054	—	Nil
9. NSSF Portfolio #112	Others	0.56%	23,507,904	+4,623,504	—	Nil
10. Agricultural Bank of China Limited — ICBCCS Shanghai-Shenzhen 300 Traded Open-ended Index Securities Investment Fund	Others	0.50%	21,049,300	+21,049,300	—	Nil

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,146,811,600	A share
	2,038,000	H share
2. HKSCC Nominees Limited	754,411,622	H share
3. Hong Kong Securities Clearing Company Limited	53,071,288	A share
4. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
5. Hunan Nantian (Group) Co., Ltd	41,516,065	A share
6. Shanghai Gaoyi Asset Management Partnership (Limited Partnership) — Gaoyi Linshan No. 1 Yuanwang Fund	30,000,000	A share
7. NSSF Portfolio #108	23,999,913	A share
8. NSSF Portfolio #101	23,905,054	A share
9. NSSF Portfolio #112	23,507,904	A share
10. Agricultural Bank of China Limited — ICBCCS Shanghai-Shenzhen 300 Traded Open-ended Index Securities Investment Fund	21,049,300	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

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

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

Note 3: During the 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 4: Shareholders holding 5% or above of the Company's shares — Zhongxingxin, holding 1,148,849,600 shares in the Company in aggregate, representing 27.40% of the total share capital of the Company as at the end of the reporting period, is 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	Number of shares not	Number of shares pledged or frozen (shares)
				subject to lock-up held at the end of the reporting period (shares)	subject to lock-up held at the end of the reporting period (shares)	
Zhongxingxin	-123,018,733	1,146,811,600	A shares	0	1,146,811,600	Nil
	0	2,038,000	H shares	0	2,038,000	Nil

Note: Zhongxingxin conducted a sell-down of 81,092,033 A shares in the Company through block trading during the reporting period and completed the subscription for units in the ICBCCS Shanghai-Shenzhen 300 Traded Open-ended Index Securities Investment Fund for a subscription consideration of 41,926,700 A shares in the Company on 15 May 2019. As at 30 June 2019, Zhongxingxin held 1,148,849,600 shares in the Company in aggregate.

Whether 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

Yes No

The Company had no preferential shares.

5.2 Changes in controlling shareholder and de facto controller

Applicable N/A

During the reporting period, there was no change to the controlling shareholder of the Company. There was no de facto controller of the Company.

5.3 Purchase, sale and redemption of securities

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

6. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

6.1 Changes in the shareholdings and share options of the Company's Directors, Supervisors and senior management

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on	Term of office ending on	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	Whether remuneration is received from connected parties ^{Note 1}
Directors of the Company ^{Note 2}													
1	Li Zixue ^{Note 5}	Male	55	Chairman Acting Secretary to the Board of Directors	Incumbent Note 5	3/2019 7/2019	3/2022 Note 5	—	—	—	—	—	No
2	Xu Ziyang	Male	47	Director President	Incumbent	3/2019 4/2019	3/2022 3/2022	—	—	—	—	—	No
3	Li Buqing	Male	47	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	Yes
4	Gu Junying	Male	52	Director Executive Vice President	Incumbent	3/2019 4/2019	3/2022 3/2022	—	—	—	—	—	No
5	Zhu Weimin	Male	53	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	Yes
6	Fang Rong	Female	55	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	Yes
7	Cai Manli	Female	46	Independent Non-executive Director	Incumbent	3/2019	3/2022	—	—	—	—	—	Yes
8	Yuming Bao	Male	47	Independent Non-executive Director	Incumbent	3/2019	3/2022	—	—	—	—	—	Yes
9	Gordon Ng	Male	55	Independent Non-executive Director	Incumbent	3/2019	3/2022	—	—	—	—	—	Yes
Supervisors of the Company ^{Note 3}													
10	Xie Daxiong	Male	56	Chairman of Supervisory Committee	Incumbent	3/2019	3/2022	495,803	—	—	495,803	—	No
11	Xia Xiaoyue	Female	44	Supervisor	Incumbent	3/2019	3/2022	50,927	—	—	50,927	—	No
12	Li Quancai	Male	58	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	No
13	Shang Xiaofeng	Male	44	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	Yes
14	Zhang Sufang	Female	45	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	Yes
15	Wang Junfeng	Male	53	Supervisor	Resigned	3/2016	3/2019	—	—	—	—	—	Yes
Senior Management of the Company													
16	Wang Xiyu ^{Note 4}	Male	45	Executive Vice President	Incumbent	4/2019	3/2022	—	—	—	—	—	No
17	Li Ying ^{Note 4, Note 5}	Female	41	Executive Vice President and Chief Financial Officer	Incumbent	4/2019	3/2022	1,800	—	—	1,800	—	No
				Acting Secretary to the Board of Directors	Note 5	4/2019	6/2019						
18	Ding Jianzhong ^{Note 5}	Male	43	Secretary to the Board of Directors	Incumbent	7/2019	3/2022	—	—	—	—	—	No
19	Cao Wei ^{Note 4}	Female	43	Secretary to the Board of Directors	Resigned	4/2016	3/2019	25,200	—	—	25,200	—	No
—	Total	—	—	—	—	—	—	573,730	—	—	573,730	—	—

- Note 1:* Pursuant to Rule 10.1.3 (III) of the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company act as directors and senior management (other than the listed company and its subsidiaries) are deemed as connected parties of the listed company.
- Note 2:* The Seventh Session of the Board of Directors of the Company concluded on 29 March 2019. At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Li Zixue, Mr. Xu Ziyang, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-independent Directors of the Eighth Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng were elected as Independent Non-executive Directors of the Eighth Session of the Board of Directors of the Company. The term of the Eighth Session of the Board of Directors of the Company commenced on 30 March 2019 and shall end on 29 March 2022. At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, Mr. Li Zixue was elected as Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Eighth Session of the Board of Directors of the Company, and Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying were elected as Executive Directors of the Eighth Session of the Board of Directors of the Company.
- Note 3:* The Seventh Session of the Supervisory Committee of the Company concluded on 29 March 2019. At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Shang Xiaofeng and Ms. Zhang Sufang were elected Shareholders' Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company. In addition, Mr. Xie Daxiong, Ms. Xia Xiaoyue and Mr. Li Quancai had been elected Staff Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company through democratic election by the staff of the Company. The term of the Eighth Session of the Supervisory Committee of the Company commenced on 30 March 2019 and shall end on 29 March 2022. At the First Meeting of the Eighth Session of the Supervisory Committee of the Company held on 1 April 2019, Mr. Xie Daxiong was elected as Chairman of the Eighth Session of the Supervisory Committee of the Company.
- Note 4:* The term of office of senior management personnel appointed by the Seventh Session of the Board of Directors of the Company concluded on 29 March 2019. At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, it was approved that Mr. Xu Ziyang be re-appointed President of the Company, each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be re-appointed Executive Vice President of the Company, and Ms. Li Ying be concurrently re-appointed Chief Financial Officer of the Company. As the term of office of the previous Secretary to the Board of Directors had concluded, it was approved that Ms. Li Ying, Executive Vice President and Chief Financial Officer of the Company, would undertake the duties of the Secretary to the Board of Directors on an acting basis.
- Note 5:* A period of three months had lapsed since Ms. Li Ying undertook the duties of the Secretary to the Board of Directors on an acting basis, Mr. Li Zixue, Chairman of the Company, has undertaken the duties of the Secretary to the Board of Directors on an acting basis with effect from 1 July 2019. At the Seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 29 July 2019, the appointment of Mr. Ding Jianzhong as Secretary to the Board of Directors was approved.

Note 6: 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.

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 “Material Matters — (VIII) IMPLEMENTATION AND IMPACT OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME” in the Interim Report.

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

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2019 are set out in the section of this chapter headed “6.1 Changes in the shareholdings and share options of the Company’s Directors, Supervisors and senior management”.

Save as disclosed above, as at 30 June 2019, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2019, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

7. REPORT OF THE BOARD OF DIRECTORS

7.1 Review of business in the first half of 2019

(1) Overview of the domestic telecommunications industry for the first half of 2019

According to the data published by the Ministry of Industry and Information Technology of the PRC (the “MIIT”), the domestic telecommunications sector reported revenue of RMB672.1 billion for the six months ended 30 June 2019, which was similar to that reported for the same period last year. The 4G network continued to expand in coverage, as the quality of mobile network services continued to improve. On 6 June 2019, the MIIT granted a fundamental telecommunication business permit for the operation of “5th Generation Digital Cellular Mobile Communication Business” to each of China Telecom Corporation Limited, China Mobile Communications Group Co., Ltd, China United Network Communications Group Co., Ltd and China Broadcasting Network Corporation Ltd.

(2) Overview of the global telecommunications industry for the first half of 2019

Driven by the mobile data business, in particular the smart terminal video business, the global telecommunications industry sustained stable growth during the first half of 2019. Countries were stepping up with their 5G commercial deployment, with Korea, the United States, Switzerland and the United Kingdom taking the lead to open the 5G communication network to individual users.

(3) Operating results of the Group for the first half of 2019

For the first half of 2019, the Group reported operating revenue of RMB44.609 billion, representing a year-on-year increase of 13.12% mainly in line with the year-on-year growth in revenue from carriers’ networks and government and corporate business. Net profit attributable to holders of ordinary shares of the listed company amounted to RMB1.471 billion, representing a year-on-year increase of 118.80%. Basic earnings per share amounted to RMB0.35.

A. By market

The domestic market

For the reporting period, the Group’s operating revenue from the domestic market amounted to RMB27.422 billion, accounting for 61.47% of the Group’s operating revenue. The Group sustained stable market shares and network presence for 4G by focusing on key projects and striving to enhance customer satisfaction, while stepping up with 5G deployment with a view to seizing opportunities presented by the technological revolution on the back of its technological prowess and product competitiveness developed over the years.

The international market

For the reporting period, the Group's operating revenue from the international market amounted to RMB17.187 billion, accounting for 38.53% of the Group's operating revenue. The Group persisted in the globalisation strategy with a consistent focus on the carriers' market and its premium core customers. In addition to strengthening our presence in the inventory market, we also enhanced 5G cooperation with mainstream carriers, while continuing to enforce breakthrough and deployment for our core products.

B. By business segment

For the reporting period, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB32.485 billion, RMB4.700 billion and RMB7.424 billion, respectively.

Carriers' network

In connection with wireless products, the Group continued to pursue innovation in wireless products and related commercial applications, persisting in proprietary R&D and technological innovation. The Company maintained its leading position in the implementation of key 5G technologies for commercial networks. More than 10,000 Massive MIMO base stations have been dispatched, while over 450 cases of NFV commercial application have been deployed across the globe. With the first large-scale 5G commercial deployment rolling out around the world, the Group secured 25 5G commercial contracts globally, covering major 5G markets such as China, Europe, the Asia Pacific and the Middle East and commenced 5G cooperation with over 60 global carriers.

In connection with wireline products, the Group was focused on mainstream carriers and high-worth customers as it continued to optimise its market profile in the bearer and fixed line segments. During the reporting period, we completed more than 30 commercial bureau and operating network experiments in respect of 5G bearer and maintained our leading position among our peers in terms of 5G bearer core technical benchmarks and the progress in commercial application. TITAN, our flagship product in optical access, an industry leader in capacity and the level of integration, was put to large-scale applications in China, Italy and Japan.

In 5G industrial application, the Group was committed to research and investigation, showcase construction and business incubation in relation to "5G+" industrial empowerment in sectors such as intelligent manufacturing, Internet of Vehicles, New Media, Intelligent Power Grid, Smart Port, Smart Airport, environment, tourism and medical care, among others, with a view to help facilitating the digital transformation of vertical sectors in the 5G era.

In the chip segment, the Group placed a strong emphasis on the R&D on and investment in chips. Currently, all of our core communication chips have been developed on a proprietary basis, as we have developed and successfully completed mass production of over 100 types of chips, covering products for use in wireless access, fixed-line access, bearers and terminals in the communication network. We have commenced mass production of a core communication chip based on the advanced 10nm/7nm process technology, with a view to facilitating large-scale commercial application of 5G with lower costs, lower power consumption requirements and higher quality on the back of superior performance, as well as ensuring the competitive edge of our product performance and our ability to progress smoothly in long-term evolution.

Government and corporate business

Focused on proprietary products with an emphasis on key sectors, the Group optimised its market profile through product optimisation and the enhancement of product competitiveness, while seeking actively development in the new segments of the industry to contribute to the transformation of industries towards digitalisation. During the reporting period, the Group reported further gains in market shares for the public security, transportation, energy and financial sectors.

Consumer business

The Group's consumer business was actively engaged in the development of multi-form terminals through the smart handset, home information terminal and fixed network broadband terminal businesses, with a particular emphasis on core models and product competitiveness, as it persisted in ongoing value enhancement driven by customer experience. We were also engaged in active cooperation with carriers on 5G terminals to build the foundation for ongoing development. During the reporting period, the Group further enhanced cooperation with global mainstream carriers.

7.2 Discussion and analysis of operations under PRC ASBEs

The financial data below are extracted from the Group's unaudited financial statements prepared in accordance with PRC ASBEs. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes as set out in the Interim Report.

7.2.1 Breakdown of indicators for the reporting period by industry, business and region segments 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	44,609,219	100%	27,119,296	39.21%	13.12%	(1.41%)	8.97
Total	44,609,219	100%	27,119,296	39.21%	13.12%	(1.41%)	8.97
II. By business							
Carriers' networks	32,485,158	72.82%	17,955,560	44.73%	38.19%	29.99%	3.49
Government and corporate business	4,700,031	10.54%	2,963,416	36.95%	6.02%	(6.36%)	8.33
Consumer business	7,424,030	16.64%	6,200,320	16.48%	(35.41%)	(41.12%)	8.10
Total	44,609,219	100%	27,119,296	39.21%	13.12%	(1.41%)	8.97
III. By region							
The PRC	27,421,729	61.47%	16,375,760	40.28%	6.51%	5.79%	0.41
Asia (excluding the PRC)	7,807,728	17.50%	4,521,661	42.09%	83.16%	48.02%	13.75
Africa	2,715,340	6.09%	1,513,173	44.27%	111.61%	82.11%	9.02
Europe, Americas and Oceania	6,664,422	14.94%	4,708,702	29.35%	(18.14%)	(42.17%)	29.36
Total	44,609,219	100%	27,119,296	39.21%	13.12%	(1.41%)	8.97

(1) Analysis of change in revenue

The Group reported RMB44,609,219,000 in operating revenue for the first six months of 2019, increasing by 13.12% as compared to the same period last year. Operating revenue from domestic business amounted to RMB27,421,729,000, increasing by 6.51% as compared to the same period last year; operating revenue from international business amounted to RMB17,187,490,000, increasing by 25.57% as compared to the same period last year.

Analysed by business segment, the Group reported year-on-year growth in operating revenue for the first half of 2019, reflecting mainly growth in operating revenue from carriers' networks and government and corporate business. For the first half of 2019, the Group reported a 38.19% year-on-year growth in operating revenue from carriers' networks, reflecting mainly growth in operating revenue from FDD system equipment and optical transmission products in the domestic and international

markets. For the first half of 2019, the Group reported a 6.02% year-on-year growth in operating revenue from government and corporate business, reflecting mainly growth in operating revenue from data centre products, optical transmission products and FDD system equipment in the international market.

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

Unit: RMB in thousands

Six months ended 30 June 2019			Six months ended 30 June 2018 ^{Note}			Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin			
44,609,219	27,119,296	39.21%	38,816,051	27,209,823	29.90%	14.92%	(0.33%)	9.31

Note: Figures of operating revenue and operating costs for the six months ended 30 June 2018 are stated after exclusion of operating revenue and operating costs of subsidiaries deconsolidated for the six months ended 30 June 2019.

Shijiazhuang Smart City Research Institute Company Limited, Shenzhen Zhongliancheng Electronic Development Company Limited, ZTE (Kunming) Smart City Industry Research Institute Co., Ltd., 中興智能終端有限公司, 深圳市興聯達科技有限公司 and ZTEJC NIGERIA LIMITED completed deregistration with the industrial and commercial administration authorities on 4 January 2019, 17 January 2019, 21 January 2019, 12 March 2019, 21 March 2019 and 8 May 2019, respectively, and had been excluded from the consolidated financial statements of the Group as from the date of completion of deregistration with the industrial and commercial administration authorities.

Henan ZTE ICT Company Limited, a subsidiary of the Company, completed the disposal of 100% equity interests in 河南興遠智慧產業發展有限公司 on 29 March 2019 and 河南興遠智慧產業發展有限公司 has been excluded from the consolidated financial statements of the Group as from 29 March 2019; the Company completed the disposal of 51% equity interests in 中興(淮安)智慧產業有限公司 in June 2019 and 中興(淮安)智慧產業有限公司 has been excluded from the consolidated financial statements of the Group as from June 2019; Shenzhen ZTE ICT Company Limited, a subsidiary of the Company, completed the disposal of 90% equity interests in 深圳青豆教育科技有限公司 on 18 June 2019 and 深圳青豆教育科技有限公司 has been excluded from the consolidated financial statements of the Group as from 18 June 2019.

7.2.2 Reasons for substantial changes in the Group's principal business and its structure, profit mix and profitability during the reporting period

- (1) There was no significant change in the principal business and its structure during the reporting period compared to the same period last year.
- (2) Changes in the profit mix during the reporting period compared to the same period last year are set out as follows:

For the first half of 2019, the Group reported operating profit of RMB2,343,209,000, a year-on-year increase by 234.24%, which reflected mainly the operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018 for the same period last year. Expenses for the period amounted to RMB13,698,929,000, a year-on-year increase by 21.95%, which reflected mainly the increase in legal costs and staff expenses; investment income amounted to RMB315,397,000, a year-on-year increase by 367.20%, reflecting mainly the increase in income from the disposal of listed equity by subsidiary partnership funds of ZTE Capital; net non-operating income and expenses amounted to RMB-105,732,000, representing a year-on-year increase of 98.42%, which reflected mainly the Company's payment of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018.

- (3) Changes in the profitability (gross profit margin) of our principal business during the reporting period compared to the same period last year are set out as follows:

The Group's gross profit margin for the first half of 2019 was 39.21%, which improved by 8.97 percentage points compared to the same period last year reflecting mainly the increase in revenue from carriers' networks which commanded a higher gross profit margin as a percentage of total revenue and the growth in the gross profit margins for carriers' networks, government and corporate business and consumer business.

7.3 Management discussion and analysis prepared in accordance with HKFRSs

The financial data below are extracted from the Group's unaudited financial statements prepared in accordance with HKFRSs. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes as set out in the Interim Report.

REVENUE

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

Unit: RMB in millions

Business segment	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	32,485.2	72.8%	23,506.9	59.6%
Government and corporate business	4,700.0	10.5%	4,433.3	11.2%
Consumer business	7,424.0	16.7%	11,493.6	29.2%
Total	<u>44,609.2</u>	<u>100.0%</u>	<u>39,433.8</u>	<u>100.0%</u>

The following table sets out the revenue of the Group attributable to the PRC, Asia (excluding the PRC), Africa, Europe, the Americas and Oceania for the periods indicated, in monetary amount and as a percentage of the total operating revenue:

Unit: RMB in millions

Regions	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	27,421.7	61.5%	25,746.1	65.3%
Asia (excluding the PRC)	7,807.7	17.5%	4,262.8	10.8%
Africa	2,715.3	6.1%	1,283.2	3.3%
Europe, the Americas and Oceania	6,664.5	14.9%	8,141.7	20.6%
Total	<u>44,609.2</u>	<u>100.0%</u>	<u>39,433.8</u>	<u>100.0%</u>

The Group reported RMB44,609.2 million in operating revenue for the first six months of 2019, increasing by 13.1% as compared to the same period last year. Operating revenue from domestic business amounted to RMB27,421.7 million, increasing by 6.5% as compared to the same period last year; operating revenue from international business amounted to RMB17,187.5 million, increasing by 25.6% as compared to the same period last year.

Analysed by business segment, the Group reported year-on-year growth in operating revenue for the first half of 2019, reflecting mainly growth in operating revenue from carriers' networks and government and corporate business. For the first half of 2019, the Group reported a 38.2% year-on-year growth in operating revenue from carriers' networks, reflecting mainly growth in operating revenue from FDD system equipment and optical transmission products in the domestic and international markets. For the first half of 2019, the Group reported a 6.0% year-on-year growth in operating revenue from government and corporate business, reflecting mainly growth in operating revenue from data centre products, optical transmission products and FDD system equipment in the international market.

COST OF SALES AND GROSS PROFIT

The following tables set out (1) the cost of sales of the Group and cost of sales as a percentage of total operating revenue; and (2) the Group's gross profit and gross profit margin for the periods indicated:

Unit: RMB in millions

Business segment	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Cost of sales	As a percentage of business segment revenue	Cost of sales	As a percentage of business segment revenue
Carriers' networks	18,665.9	57.5%	14,877.8	63.3%
Government and corporate business	3,059.9	65.1%	3,390.3	76.5%
Consumer business	6,332.5	85.3%	10,868.5	94.6%
Total	28,058.3	62.9%	29,136.6	73.9%

Unit: RMB in millions

Business segment	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	13,819.3	42.5%	8,629.1	36.7%
Government and corporate business	1,640.1	34.9%	1,043.0	23.5%
Consumer business	1,091.5	14.7%	625.1	5.4%
Total	<u>16,550.9</u>	<u>37.1%</u>	<u>10,297.2</u>	<u>26.1%</u>

Cost of sales of the Group for the first half of 2019 amounted to RMB28,058.3 million, a 3.7% decrease compared to the same period last year. The Group's overall gross profit margin for the first half of 2019 of 37.1% was 11.0 percentage points higher as compared to the same period last year, reflecting the increase in revenue from carriers' networks which commanded a higher gross profit margin as a percentage of total revenue and the growth in the gross profit margins of carriers' networks, government and corporate business and consumer business.

Cost of sales of the Group's carriers' networks for the first half of 2019 amounted to RMB18,665.9 million, a 25.5% increase compared to the same period last year. The relevant gross profit margin was 42.5%, compared to 36.7% for the same period last year. Growth in the gross profit margin for carriers' networks reflected mainly growth in the gross profit margins for FDD system equipment in the international market and optical transmission products in the domestic and international markets.

Cost of sales of the Group's government and corporate business for the first half of 2019 amounted to RMB3,059.9 million, a 9.7% decrease compared to the same period last year. The relevant gross profit margin was 34.9%, compared to 23.5% for the same period last year. Growth in gross profit margin for the government and corporate business reflected mainly growth in the gross profit margins for FDD system equipment in the international market and data centre products in the international market.

Cost of sales of the Group's consumer business for the first half of 2019 amounted to RMB6,332.5 million, a 41.7% decrease compared to the same period last year. The relevant gross profit margin was 14.7%, compared to 5.4% for the same period last year. Growth in gross profit margin for the consumer business reflected mainly growth in the gross profit margins for handset products in the international market.

OTHER INCOME AND GAINS

Other income and gains of the Group for the first half of 2019 amounted to RMB1,818.5 million, representing a 13.0% decrease compared to RMB2,091.3 million for the same period last year, reflecting mainly the combined effect of the decrease in VAT rebate for software products and the increase in gains from the disposal of listed equity by subsidiary partnership funds of ZTE Capital for the period.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for the first half of 2019 increased by 27.9% to RMB6,471.9 million from RMB5,060.6 million for the same period last year, as the Group continued to invest in the research and development of core technologies such as 5G wireless, core network, bearer, access and chips for the period. Research and development costs as a percentage of operating revenue increased by 1.7 percentage points to 14.5%, as compared to 12.8% for the same period last year.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses for the first half of 2019 decreased by 16.1% to RMB4,025.7 million from RMB4,795.6 million for the same period last year, attributable mainly to the Group's effort to enhance control over selling and distribution expenses during the period. Selling and distribution expenses as a percentage of operating revenue decreased by 3.2 percentage points to 9.0%, compared to 12.2% for the same period last year.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for the first half of 2019 increased by 99.3% to RMB2,767.0 million, as compared to RMB1,388.1 million for the same period last year. Such increase was attributable mainly to the increase in the Group's legal costs and staff expenses for the period. Administrative expenses as a percentage of operating revenue increased by 2.7 percentage points to 6.2% as compared to 3.5% for the same period last year.

CREDIT IMPAIRMENT LOSS

Credit impairment loss of the Group for the first half of 2019 amounted to RMB1,416.1 million, representing a decrease of 14.5% compared to RMB1,656.8 million for the same period last year, which was mainly attributable to the decrease in the Group's bad-debt provision for trade receivables for the period.

LOSS FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST

Loss from derecognition of financial assets at amortised cost of the Group for the first half of 2019 amounted to RMB84.1 million, representing a decrease of 15.3% compared to RMB99.3 million for the same period last year, reflecting mainly to the decrease in the Group's loss from derecognition of financial assets at amortised cost for the period.

OTHER EXPENSES

Other expenses comprise mainly non-operating expenses, loss on fair value changes and exchange losses. Other expenses of the Group for the first half of 2019 was RMB386.0 million, representing a decrease of 94.6% from RMB7,210.0 million for the same period last year, which was attributable mainly to the payment of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 for the same period last year.

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for the first half of 2019 amounted to RMB3,218.7 million, as compared to RMB-7,822.1 million for the same period last year, attributable mainly to the payment by the Company for the same period last year the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 and operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018 for the same period last year.

FINANCE COSTS

Finance costs of the Group for the first half of 2019 amounted to RMB823.1 million, increasing by 110.9% compared to RMB390.2 million for the same period last year, which was attributable mainly to the increase in interest expenses in line with the increase in financing of the Group for the period.

INCOME TAX EXPENSE

The Group's income tax expense for the first half of 2019 amounted to RMB412.9 million, compared to RMB-565.0 million for the same period last year, reflecting mainly the deferred tax assets deductible against loss recognised by the Company in same period last year.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The Group's profit attributable to non-controlling interests for the first half of 2019 amounted to RMB181.0 million, compared to RMB-251.5 million for the same period last year, which was attributable mainly to profit reported by certain subsidiaries of the Group for the period.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for the first half of 2019 amounted to RMB51.1 million, compared to RMB-815.5 million for the same period last year, reflecting mainly gains on translation of statements denominated in foreign currencies owing to exchange rate fluctuations for the period versus losses on translation of statements denominated in foreign currencies owing to exchange rate fluctuations for the same period last year.

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

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

The Group's debt-equity ratio for the first half of 2019 was 54.4%, increasing by 7.7 percentage points as compared to 46.7% for 2018, reflecting mainly the increase in the Group's interest-bearing liabilities for the period.

CASH FLOW DATA

Unit: RMB in millions

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Net cash outflow from operating activities	(625.1)	(7,472.5)
Net cash outflow from investing activities	(4,637.9)	(83.9)
Net cash inflow/(outflow) from financing activities	10,687.6	(6,801.9)
Net increase/(decrease) in cash and cash equivalents	5,424.6	(14,358.2)
Cash and cash equivalents at the end of the period	26,636.7	15,783.3

Cash and cash equivalents of the Group as of 30 June 2019 amounted to RMB26,636.7 million, which were mainly denominated in RMB, and to a lesser extent in USD, EUR, INR and other currencies.

OPERATING ACTIVITIES

The Group reported net cash outflow from operating activities of RMB625.1 million for the first half of 2019, compared to RMB7,472.5 million for the same period last year, reflecting mainly year-on-year decrease in cash received from sales of goods and provision of services by RMB8,711.6 million, decrease in tax refund received by RMB1,557.2 million, increase in other cash receipts relating to operating activities by RMB995.7 million, decrease in cash paid for the purchase of goods and services by RMB5,940.2 million, decrease in cash payments to and on behalf of employees by RMB4,621.3 million, increase in payments of tax expenses by RMB960.3 million, and decrease in other cash payments relating to operating activities by RMB5,984.8 million.

INVESTING ACTIVITIES

The Group's net cash outflow from investing activities was RMB4,637.9 million for the first half of 2019, compared to RMB83.9 million for the same period last year, reflecting mainly the refund of amounts paid in connection with cooperation with Shenzhen Investment Holdings Co., Ltd. and the increase in cash paid for the acquisition of fixed assets, intangible assets and other long-term assets for the period.

FINANCING ACTIVITIES

The Group's net cash inflow from financing activities for the first half of 2019 was RMB10,687.6 million, compared to RMB6,801.9 million for the same period last year, reflecting mainly the increase in cash received from borrowing and the decrease in cash paid for the repayment of debts by the Group for the period.

INDEBTEDNESS

Item	<i>Unit: RMB in millions</i>	
	30 June 2019	31 December 2018
Secured bank loans	1,086.2	1,155.8
Unsecured bank loans	37,155.3	26,194.1

Item	<i>Unit: RMB in millions</i>	
	30 June 2019	31 December 2018
Short-term bank loans	34,911.1	24,983.3
Long-term bank loans	3,330.4	2,366.6

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. As at 30 June 2019, the Group's RMB short-term and long-term bank loans subject to fixed interest rates amounted to RMB28,807.1 million and RMB374.0 million respectively. Short-term bank loans and long-term bank loans in TRY and EUR subject to fixed interest rates amounted to the equivalent of approximately RMB1,652.0 million and RMB69.7 million, respectively. Short-term USD bank loans subject to fixed interest rates amounted to the equivalent of approximately RMB1,253.4 million. The remaining USD, EUR and TRY loans were subject to floating interest rates. The Group's borrowings were mainly denominated in USD and EUR, apart from certain RMB loans.

The Group's bank loans as at 30 June 2019 increased by RMB10,891.6 million as compared to 31 December 2018, which were mainly applied to replenish its working capital.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

Item	Total	30 June 2019		
		Less than 1 year	2–5 years	More than 5 years
Bank loans	38,241.5	34,911.1	3,276.4	54.0

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	30 June 2019	31 December 2018
Land and buildings:		
Contracted, but not provided for	3,177.0	3,414.1
Investment in associates:		
Contracted, but not provided for	49.9	65.3

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES OF THE GROUP

Details of acquisitions and disposals of subsidiaries, associates and joint ventures of the Group for the first half of 2019 are set out in the section headed "Material Matters" in the Interim Report.

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40(2) of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2018 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

7.4 Warnings of and reasons for any projected accumulated net loss from the beginning of the year to the end of the next reporting period or substantial change in accumulated net profit from the beginning of the year to the end of the next reporting period as compared to the same period last year

√ Applicable □ N/A

Preliminary results announcement

	Turnaround to profit Beginning of year to end of next reporting period (January to September 2019)	Same period last year (January to September 2018)	Increase/decrease (%)
Net profit attributable to holders of ordinary shares of the listed company (RMB'000)	Profit: 3,800,000–4,600,000	Loss: 7,259,723	Increased by 152.34%–163.36%
Basic earnings per share (RMB/share) ^{Note 1}	Profit: 0.90–1.09	Loss: 1.73	Increased by 152.02%–163.01%

Explanatory statement regarding the preliminary results announcement The significant growth in the Group's results for the nine months ended 30 September 2019 compared to the same period last year was mainly attributable to: (1) loss reported for the same period last year attributable mainly to the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 and operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018; and (2) income pertaining to matters described in the "UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION" published by the Company on 11 July 2019 recognised by the Company for the third quarter of 2019.

Note 1: Basic earnings per share for the nine months ended 30 September 2019 is computed based on the Company's total share capital of 4,217,247,000 shares as at the date of this report.

Note 2: The aforesaid preliminary results announcement has not been pre-audited by a certified public accountant. For details, please refer to the "Preliminary Results Announcement for the Nine Months ended 30 September 2019" published by the Company on 27 August 2019.

7.5 Business outlook for the second half of 2019 and risk exposures

7.5.1 Business outlook for the second half of 2019

The Group will persist in the fundamental strategic principle of “focusing on efficiency enhancement, bolstering principle business, pursuing healthy operations and achieving qualitative growth”.

Looking the second half of 2019, the Group will welcome new opportunities for development, given sustained rapid growth in the consumption and volume of data flow over and increasing demand for communication networks. Specifically, such opportunities will be represented by: 5G entering the stage of large-scale deployment as countries around the world starts to issue 5G licenses; emerging 5G industrial applications underpinned by extensive deployments for the Internet of Vehicles, IOT and Industrial Internet promising significant opportunities; the ongoing transformation process of corporate digitalisation offering broad market opportunities; new market opportunities afforded by the growing maturity of 5G handsets and multi-form terminals. In view of the above, the Group will adopt the following strategies in the second half of 2019:

Carriers’ networks: in the wireless sector, we will enhance the research and development of 5G on an ongoing basis with a persistent commitment to proprietary R&D and technological innovation. We will enhance strategic cooperation with domestic and international high-end carriers to ensure we remain in the top-tier camp in terms of competitiveness of principal 5G products. In the wireline sector, we will continue to focus on mainstream carriers and high-worth customers and improve our market profile in the bearer and fixed line segments on an ongoing basis. In the 5G industrial application segment, we will strengthen cooperation with the vertical sectors to speed up 5G applications in various industries. In the chip segment, we will increase investment in chips and key technologies to ensure business sustainability and product safety.

Government and corporate business: we will continue to focus on key sectors such as public security, transportation, energy and financial services, as we set sight on the development of proprietary products and step up with our effort in the innovation of commercial technologies to optimise our market profile through product optimisation and stronger product competitiveness. Meanwhile, we will also actively establish our presence in new sectors to help facilitate the digitalised transformation of various industries.

Consumer business: we will continue to develop multi-form 5G terminal products and engage in active cooperation with carriers on 5G terminals, while vigorously exploring multiple market channels.

In the second half of 2019, the Group will persist in proprietary innovation of core technologies and seek to herald technology-guided innovation in the 5G business. We will enhance cooperation and coordination with customers and partners on a customer-oriented basis, with an ongoing focus on high-worth customers and core products. In the meantime, we will drive the co-development of staff and corporation, strengthen the development of compliance processes, optimise our corporate governance structure and prevent business risks by continuing to reinforce compliance, human resources and internal control as our three cornerstones.

7.5.2 Risk Exposures

(1) Country risks

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

(2) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. Trademarks of the Group's products and services are all registered, and such products and services are all protected under relevant patent rights. While the Group has adopted highly stringent measures to protect its intellectual property rights, potential disputes over intellectual property rights between the Group and other telecommunications equipment manufacturers, franchisee companies and carriers under partnerships with the Group cannot be totally ruled out. The Group will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

(3) *Exchange rate risks*

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates, which might affect the operations of the Group. The Group adopts ongoing measures to strengthen exposure management and seeks to minimise exposures through initiatives such as business strategic guidance, internal settlement management, financing mix design, internal exchange settlement and value-protected derivative exchange instruments. The Group has also strengthened liquidity risk management in countries practicing exchange control and endeavoured to facilitate RMB pricing and settlement for overseas projects to lower its exchange risks in the long term.

(4) *Interest rate risk*

The interest rate risk of the Group is mainly associated with interest-bearing liabilities. Fluctuations in the interest rates of RMB or foreign currencies will result in changes in the total amount of interest payable by the Group and will therefore affect the Group's profitability. The Group seeks to lower its interest rate risk mainly by managing the total amount and structure of its interest bearing liabilities. Control over the total amount of interest-bearing liabilities is mainly achieved by improving the cash turnover efficiency and increasing the free cash flow of the Group. Structured management of interest-bearing liabilities is achieved mainly through portfolio control of a mixture of long-term/short-term domestic and overseas loans denominated in RMB or foreign currencies with fix or floating interests, complemented by derivative instruments such as interest rate swaps, sought from a diverse range of low-cost financing channels in the global market taking into account the trends of market changes.

(5) *Customer credit risk*

The Group provides one-stop communications solutions to its customers. With the rapid expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers. The Group seeks to mitigate the aforesaid impact mainly by identifying and managing credit risks through the adoption of internal credit management measures, such as customer credit search, customer credit rating, customer credit limit management, overall risk control and credit control against customers with faulty payment records, and by transferring credit risks through the purchase of credit insurance and appropriate financial instruments.

8. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

8.1 Compliance of the Corporate Governance Code

During the period from 1 January to 30 June 2019, the Company was in full compliance with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules.

8.2 Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company had adopted the Model Code as set out in Appendix 10 to 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.

9. FINANCIAL REPORTS

9.1 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 the Interim Report, including the financial statements of the Group for the six months ended 30 June 2019.

9.2 Audit opinion

Unaudited Audited

9.3 Comparative financial statements

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

9.3.2 Financial statements prepared in accordance with HKAS 34 (Unaudited) and notes thereto (Please see Appendix II)

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

Applicable N/A

For details of changes in the Company's accounting policies for the reporting period, please refer to the section headed "4. Highlights of Accounting Data and Financial Indicators" of this announcement.

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

Applicable N/A

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

New subsidiaries established during the period included: tier-one subsidiary 深圳市英博超算科技有限公司, tier-two subsidiary 深圳市英博智能汽車科技有限公司 and tier-four subsidiary Netas Algeria SARL.

Subsidiaries deregistered during the period included tier-one subsidiaries Shijiazhuang Smart City Research Institute Company Limited, Shenzhen Zhongliancheng Electronic Development Company Limited, ZTE (Kunming) Smart City Industry Research Institute Co., Ltd. and 中興智能終端有限公司; tier-two subsidiary 深圳市興聯達科技有限公司 and tier-three subsidiary ZTEJC NIGERIA LIMITED.

Henan ZTE ICT Company Limited, a subsidiary of the Group, completed the disposal of 100% equity interests in 河南興遠智慧產業發展有限公司 on 29 March 2019 and 河南興遠智慧產業發展有限公司 has been excluded from the consolidated financial statements of the Group as from 29 March 2019; the Company completed the disposal of 51% equity interests in 中興(淮安)智慧產業有限公司 in June 2019 and 中興(淮安)智慧產業有限公司 has been excluded from the consolidated financial statements of the Group as from June 2019; Shenzhen ZTE ICT Company Limited, a subsidiary of the Group, completed the disposal of 90% equity interests in 深圳青豆教育科技有限公司 on 18 June 2019 and 深圳青豆教育科技有限公司 has been excluded from the consolidated financial statements of the Group as from 18 June 2019.

For details of changes to the scope of consolidation financial statement in comparison with the previous annual financial report, please refer to Note VI to the financial statements prepared under PRC ASBEs in the Interim Report.

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
27 August 2019

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

**APPENDIX I: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
PRC ASBES (UNAUDITED)**

CONSOLIDATED BALANCE SHEET

	<i>RMB'000</i>	
Assets	30 June 2019 (unaudited)	31 December 2018 (audited) (Restated)
Current assets		
Cash	29,508,813	24,289,798
Trading financial assets	620,193	1,476,823
Derivative financial assets	204,652	228,117
Trade receivables	21,465,718	21,592,325
Receivable financing	2,352,485	2,730,351
Factored trade receivables	552,068	587,869
Prepayments	696,564	615,489
Other receivables	1,348,997	2,004,870
Inventories	27,257,338	25,011,416
Contract assets	10,563,305	8,462,226
Other current assets	7,412,753	5,848,369
Total current assets	101,982,886	92,847,653
Non-current assets		
Long-term receivables	707,472	843,429
Factored long-term receivables	500,747	432,041
Long-term equity investments	2,796,606	3,015,295
Other non-current financial assets	1,595,800	1,502,499
Investment properties	2,015,319	2,011,999
Fixed assets	8,993,841	8,898,068
Construction in progress	2,271,944	1,296,044
Right-of-use assets	1,010,182	—
Intangible assets	9,016,102	8,558,488
Development costs	2,542,728	2,732,356
Goodwill	186,206	186,206
Deferred tax assets	2,929,146	2,787,790
Other non-current assets	4,193,669	4,238,881
Total non-current assets	38,759,762	36,503,096
TOTAL ASSETS	140,742,648	129,350,749

CONSOLIDATED BALANCE SHEET (CONTINUED)

RMB'000

Liabilities	30 June 2019 (unaudited)	31 December 2018 (audited) (Restated)
Current liabilities		
Short-term loans	34,605,631	23,739,614
Bank advances on factored trade receivables	554,263	591,931
Derivative financial liabilities	92,527	101,332
Bills payable	9,059,673	7,915,700
Trade payables	17,738,924	19,527,404
Contract liabilities	15,497,576	14,479,355
Salary and welfare payables	7,152,707	6,259,639
Taxes payable	812,026	954,021
Other payables	8,971,447	11,135,030
Provisions	1,668,151	2,167,614
Non-current liabilities due within one year	822,576	1,243,709
Total current liabilities	<u>96,975,501</u>	<u>88,115,349</u>
Non-current liabilities		
Long-term loans	3,330,373	2,366,568
Bank advances on factored long-term trade receivables	502,645	434,137
Lease liabilities	597,171	—
Provision for retirement benefits	134,561	136,245
Deferred income	3,146,022	1,953,057
Deferred tax liabilities	180,178	155,041
Other non-current liabilities	2,059,565	3,229,677
Total non-current liabilities	<u>9,950,515</u>	<u>8,274,725</u>
Total liabilities	<u><u>106,926,016</u></u>	<u><u>96,390,074</u></u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

RMB'000

Shareholder's equity	30 June 2019 (unaudited)	31 December 2018 (audited) (Restated)
Shareholder's equity		
Share capital	4,192,672	4,192,672
Capital reserves	11,544,662	11,444,456
Other comprehensive income	(1,995,732)	(2,047,561)
Surplus reserve	2,324,748	2,324,748
Retained profits	8,453,960	6,983,261
	<hr/>	<hr/>
Total equity attributable to holders of ordinary shares of the parent	24,520,310	22,897,576
	<hr/> <hr/>	<hr/> <hr/>
Other equity instruments		
Including: perpetual capital instruments	6,076,632	6,252,364
	<hr/>	<hr/>
Non-controlling interests	3,219,690	3,810,735
	<hr/>	<hr/>
Total shareholders' equity	33,816,632	32,960,675
	<hr/>	<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	140,742,648	129,350,749
	<hr/> <hr/>	<hr/> <hr/>

Legal Representative:
Li Zixue

Chief Financial Officer:
Li Ying

Head of Finance Division:
Xu Jianrui

CONSOLIDATED INCOME STATEMENT

RMB'000

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited) (Restated)
Operating revenue	44,609,219	39,433,777
Less: Operating costs	27,119,296	27,508,353
Taxes and surcharges	595,289	377,117
Selling and distribution costs	4,025,746	4,729,622
Administrative expenses	2,538,508	1,359,347
Research and development costs	6,471,866	5,060,624
Finance costs	662,809	84,013
Including: Interest expense	823,053	390,211
Interest income	322,233	483,485
Add: Other income	860,800	1,321,997
Investment income	315,397	(118,040)
Including: Share of losses of associates and joint ventures	(158,146)	(213,534)
Losses from derecognition of financial assets at amortised cost	(84,063)	(99,338)
Gains from changes in fair values	(142,604)	(377,439)
Credit impairment losses	(1,416,091)	(1,656,845)
Impairment losses	(469,998)	(1,229,851)
Operating profit/(loss)	2,343,209	(1,745,477)
Add: Non-operating income	74,308	73,063
Less: Non-operating expenses	180,040	6,753,429
Total profit/(loss)	2,237,477	(8,425,843)
Less: Income tax	412,914	(565,033)
Net profit/(loss)	1,824,563	(7,860,810)
Analysed by continuity of operations		
Net profit from continuing operations	1,824,563	(7,860,810)
Analysed by ownership		
Holders of ordinary shares of the parent	1,470,699	(7,824,190)
Holders of perpetual capital instruments	172,867	214,918
Non-controlling interests	180,997	(251,538)

CONSOLIDATED INCOME STATEMENT(CONTINUED)

RMB'000

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited) (Restated)
Other comprehensive income, net of tax	<u>51,077</u>	<u>(815,502)</u>
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	<u>51,829</u>	<u>(794,391)</u>
Other comprehensive income that will be reclassified to profit or loss		
Exchange differences on translation of foreign operations	<u>51,829</u>	<u>(794,391)</u>
	<u>51,829</u>	<u>(794,391)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>(752)</u>	<u>(21,111)</u>
Total comprehensive income/(loss)	<u><u>1,875,640</u></u>	<u><u>(8,676,312)</u></u>
Attributable to:		
Holders of ordinary shares of the parent	<u><u>1,522,528</u></u>	<u><u>(8,618,581)</u></u>
Holders of perpetual capital instruments	<u><u>172,867</u></u>	<u><u>214,918</u></u>
Non-controlling interests	<u><u>180,245</u></u>	<u><u>(272,649)</u></u>
Earnings per share (RMB/share)		
Basic	<u><u>RMB0.35</u></u>	<u><u>RMB(1.87)</u></u>
Diluted	<u><u>RMB0.35</u></u>	<u><u>RMB(1.87)</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

RMB'000

Six months ended 30 June 2019 (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. Current period's opening balance									
4,192,672	11,444,456	(2,047,561)	2,324,748	6,983,261	22,897,576	6,252,364	3,810,735	32,960,675	
II. Changes during the period									
(I) Total comprehensive income									
—	—	51,829	—	1,470,699	1,522,528	172,867	180,245	1,875,640	
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders									
—	43,434	—	—	—	43,434	—	111,917	155,351	
2. Share-based payment included in shareholder's equity									
—	150,266	—	—	—	150,266	—	—	150,266	
3. Capital reduction by shareholders									
—	—	—	—	—	—	—	(584,836)	(584,836)	
4. Acquisition of non-controlling interests									
—	(93,494)	—	—	—	(93,494)	—	(24,790)	(118,284)	
(III) Profit appropriation									
1. Distribution to shareholders									
—	—	—	—	—	—	(348,599)	(273,581)	(622,180)	
III. Current period's closing balance									
<u>4,192,672</u>	<u>11,544,662</u>	<u>(1,995,732)</u>	<u>2,324,748</u>	<u>8,453,960</u>	<u>24,520,310</u>	<u>6,076,632</u>	<u>3,219,690</u>	<u>33,816,632</u>	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

RMB'000

Six months ended 30 June 2018 (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									
4,192,672	11,304,854	(723,770)	2,205,436	14,667,683	31,646,875	9,321,327	4,411,945	45,380,147	
Others	—	(438,135)	(63,082)	(518,366)	(1,019,583)	—	27,565	(992,018)	
Adjusted current period's opening balance									
4,192,672	11,304,854	(1,161,905)	2,142,354	14,149,317	30,627,292	9,321,327	4,439,510	44,388,129	
II. Changes during the period									
(I) Total comprehensive loss									
—	—	(794,391)	—	(7,824,190)	(8,618,581)	214,918	(272,649)	(8,676,312)	
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders									
—	(6,680)	—	—	—	(6,680)	—	187,280	180,600	
2. Share-based payment included in shareholders' equity									
—	78,709	—	—	—	78,709	—	—	78,709	
3. Acquisition of non-controlling shareholders									
—	(31,606)	—	—	—	(31,606)	—	15,866	(15,740)	
4. Redemption of perpetual capital instruments									
—	(4,500)	—	—	—	(4,500)	(1,495,500)	—	(1,500,000)	
(III) Profit appropriation									
1. Distribution to shareholders									
—	—	—	—	—	—	(433,949)	(313,249)	(747,198)	
III. Current period's closing balance									
<u>4,192,672</u>	<u>11,340,777</u>	<u>(1,956,296)</u>	<u>2,142,354</u>	<u>6,325,127</u>	<u>22,044,634</u>	<u>7,606,796</u>	<u>4,056,758</u>	<u>33,708,188</u>	

CONSOLIDATED CASH FLOW STATEMENT

RMB'000

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	43,797,682	52,509,269
Refunds of taxes	2,853,112	4,410,278
Cash received relating to other operating activities	2,912,413	1,916,690
Sub-total of cash inflows	<u>49,563,207</u>	<u>58,836,237</u>
Cash paid for goods and services	30,226,065	36,166,294
Cash paid to and on behalf of employees	8,740,820	13,362,104
Cash paid for various types of taxes	5,289,879	4,329,621
Cash paid relating to other operating activities	4,039,826	10,024,604
Sub-total of cash outflows	<u>48,296,590</u>	<u>63,882,623</u>
Net cash flows from operating activities	<u>1,266,617</u>	<u>(5,046,386)</u>
II. Cash flows from investing activities		
Cash received from sale of investments	1,227,875	1,502,078
Cash received from return on investment	101,557	431,435
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	14,593	1,936
Net cash received from the disposal of subsidiaries and other operating units	445,907	—
Sub-total of cash inflows	<u>1,789,932</u>	<u>1,935,449</u>
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	4,263,060	2,036,418
Cash paid for acquisition of investments	194,901	1,050,375
Other cash paid in relation to investing activities	2,200,000	—
Sub-total of cash outflows	<u>6,657,961</u>	<u>3,086,793</u>
Net cash flows from investing activities	<u>(4,868,029)</u>	<u>(1,151,344)</u>

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	4,570	180,600
Including: Capital injection into subsidiaries by minority shareholders	4,570	180,600
Cash received from borrowings	23,776,919	11,249,198
Other cash received in relation to financing activities	26,280	—
Sub-total of cash inflows	23,807,769	11,429,798
Cash repayment of borrowings	12,468,044	16,733,687
Cash payments for perpetual capital instruments	—	1,500,000
Cash payments for distribution of dividends, profits and for interest expenses	1,661,520	1,356,586
Including: Distribution of dividends, profits by subsidiaries to minority shareholders	273,581	213,422
Other cash paid relating to financing activities	652,159	—
Sub-total of cash outflows	14,781,723	19,590,273
Net cash flows from financing activities	9,026,046	(8,160,475)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	77,915	32,223
V. Net increase/(decrease) in cash and cash equivalents	5,502,549	(14,325,982)
Add: cash and cash equivalents at beginning of period	21,134,111	30,109,268
VI. Net balance of cash and cash equivalents at the end of period	26,636,660	15,783,286

BALANCE SHEET

RMB'000

Assets	30 June 2019 (unaudited)	31 December 2018 (audited) (Restated)
Current assets		
Cash	14,321,052	11,523,002
Derivative financial assets	46,368	72,450
Trade receivables	26,839,744	29,045,827
Receivable financing	2,051,545	2,030,426
Factored trade receivables	487,943	356,134
Prepayments	22,688	37,194
Other receivables	22,254,054	15,935,675
Inventories	17,740,543	15,343,153
Contract assets	4,373,508	3,911,263
Other current assets	4,406,681	3,218,932
Total current assets	92,544,126	81,474,056
Non-current assets		
Long-term trade receivables	5,481,424	5,542,886
Factored long-term trade receivables	495,477	270,063
Long-term equity investments	12,838,565	13,168,721
Other non-current financial assets	679,236	658,078
Investment properties	1,559,344	1,556,775
Fixed assets	5,462,596	5,319,213
Construction in progress	455,152	250,417
Right-of-use assets	618,521	—
Intangible assets	5,429,925	5,210,847
Development costs	270,499	379,318
Deferred tax assets	1,555,286	1,383,311
Other non-current assets	3,246,272	3,094,949
Total non-current assets	38,092,297	36,834,578
TOTAL ASSETS	130,636,423	118,308,634

BALANCE SHEET (CONTINUED)

RMB'000

Liabilities and shareholders' equity	30 June 2019 (unaudited)	31 December 2018 (audited) (Restated)
Current liabilities		
Short-term loans	14,979,710	13,072,700
Bank advances on factored trade receivables	490,135	360,196
Derivative financial liabilities	88,992	14,041
Bills payable	21,305,582	12,019,698
Trade payables	35,384,375	34,535,131
Contract liabilities	8,831,827	9,204,928
Salary and welfare payables	4,133,113	3,229,594
Taxes payable	198,706	219,325
Other payables	20,112,779	18,280,463
Provisions	1,362,873	1,757,603
Non-current liabilities due within one year	<u>463,535</u>	<u>370,000</u>
Total current liabilities	<u>107,351,627</u>	<u>93,063,679</u>
Non-current liabilities		
Long-term loans	2,886,660	2,115,290
Bank advances on factored long-term trade receivables	497,375	272,159
Lease liabilities	420,238	—
Provision for retirement benefits	134,561	136,245
Deferred income	1,216,094	1,067,445
Other non-current liabilities	<u>894,583</u>	<u>2,697,982</u>
Total non-current liabilities	<u>6,049,511</u>	<u>6,289,121</u>
Total liabilities	<u>113,401,138</u>	<u>99,352,800</u>
Shareholders' equity		
Share capital	4,192,672	4,192,672
Capital reserves	9,395,250	9,244,984
Other comprehensive income	703,619	704,686
Surplus reserve	1,662,992	1,662,992
Retained profits	<u>(4,795,880)</u>	<u>(3,101,864)</u>
Shareholders' equity attributable to holders of ordinary shares	<u>11,158,653</u>	<u>12,703,470</u>
Other equity instruments Including: perpetual capital instruments	<u>6,076,632</u>	<u>6,252,364</u>
Total shareholders' equity	<u>17,235,285</u>	<u>18,955,834</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>130,636,423</u></u>	<u><u>118,308,634</u></u>

INCOME STATEMENT

RMB'000

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited) (Restated)
Operating revenue	39,475,276	39,579,488
Less: Operating costs	32,290,242	33,113,845
Taxes and surcharges	344,033	93,760
Selling and distribution costs	2,138,680	2,708,843
Administrative expenses	2,071,946	923,524
Research and development costs	1,935,014	1,624,777
Finance costs	542,245	(11,114)
Including: Interest expense	475,331	194,683
Interest income	108,109	75,667
Add: Other income	27,253	118,713
Investment income	113,190	(39,230)
Including: Share of losses of associates and joint ventures	(98,657)	(180,228)
Losses from derecognition of financial assets at amortised cost	(21,607)	(45,284)
Gains from changes in fair values	(82,272)	74,544
Credit impairment losses	(1,330,901)	(1,701,758)
Impairment losses	(392,017)	(952,830)
Operating loss	(1,511,631)	(1,374,708)
Add: Non-operating income	38,226	43,648
Less: Non-operating expenses	106,330	6,721,519
Total loss	(1,579,735)	(8,052,579)
Less: Income tax	(58,586)	(709,515)
Net loss	(1,521,149)	(7,343,064)
Including: net loss from continuing operations	(1,521,149)	(7,343,064)
Analysed by ownership		
Attributable to holders of ordinary shares	(1,694,016)	(7,557,982)
Attributable to holders of perpetual capital instruments	172,867	214,918

INCOME STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited) (Restated)
Other comprehensive income, net of tax		
Other comprehensive income will be reclassified to profit and loss		
Exchange Differences on translation of foreign operations	<u>(1,067)</u>	<u>(653)</u>
Other comprehensive income, net of income tax effect on respective items	<u>(1,067)</u>	<u>(653)</u>
Total comprehensive (loss)/income	<u><u>(1,522,216)</u></u>	<u><u>(7,343,717)</u></u>
Attributable to:		
Holders of ordinary shares	<u><u>(1,695,083)</u></u>	<u><u>(7,558,635)</u></u>
Holders of perpetual capital instruments	<u><u>172,867</u></u>	<u><u>214,918</u></u>

STATEMENT OF CHANGES IN EQUITY

RMB'000

Six months ended 30 June 2019 (unaudited)								
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Other equity instruments including: Perpetual capital instruments	Total shareholders' equity
I. Current period's opening balance	4,192,672	9,244,984	704,686	1,662,992	(3,101,864)	12,703,470	6,252,364	18,955,834
II. Changes during the period								
(I) Total comprehensive income	—	—	(1,067)	—	(1,694,016)	(1,695,083)	172,867	(1,522,216)
(II) Shareholder's capital injection and capital reduction								
1. Share-based payment included in shareholders' equity	—	150,266	—	—	—	150,266	—	150,266
(III) Profit appropriation								
1. Distribution to shareholders	—	—	—	—	—	—	(348,599)	(348,599)
III. Current period's closing balance	<u>4,192,672</u>	<u>9,395,250</u>	<u>703,619</u>	<u>1,662,992</u>	<u>(4,795,880)</u>	<u>11,158,653</u>	<u>6,076,632</u>	<u>17,235,285</u>

RMB'000

Six months ended 30 June 2018 (unaudited)								
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Other equity instruments including: Perpetual capital instruments	Total shareholders' equity
I. Previous period's closing balance	4,192,672	9,067,096	706,538	1,543,680	3,588,581	19,098,567	9,321,327	28,419,894
Other	—	—	—	64,414	(695,238)	(630,824)	—	(630,824)
Adjusted current period's opening balance	4,192,672	9,067,096	706,538	1,608,094	2,893,343	18,467,743	9,321,327	27,789,070
II. Changes during the period								
(I) Total comprehensive income	—	—	(653)	—	(7,557,982)	(7,558,635)	214,918	(7,343,717)
(II) Shareholder's capital injection and capital reduction								
1. Share-based payment included in shareholders' equity	—	78,709	—	—	—	78,709	—	78,709
2. Redemption of perpetual capital instruments	—	(4,500)	—	—	—	(4,500)	(1,495,500)	(1,500,000)
(III) Profit appropriation								
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(433,949)
III. Current period's closing balance	<u>4,192,672</u>	<u>9,141,305</u>	<u>705,885</u>	<u>1,608,094</u>	<u>(4,664,639)</u>	<u>10,983,317</u>	<u>7,606,796</u>	<u>18,590,113</u>

CASH FLOW STATEMENT

RMB'000

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	44,767,563	48,816,197
Refunds of taxes	2,072,501	3,187,537
Cash received relating to other operating activities	<u>973,060</u>	<u>1,039,560</u>
Sub-total of cash inflows	<u>47,813,124</u>	<u>53,043,294</u>
Cash paid for goods and services	34,880,732	43,633,667
Cash paid to and on behalf of employees	2,659,160	5,940,747
Cash paid for various types of taxes	2,366,021	1,025,163
Cash paid relating to other operating activities	<u>2,588,942</u>	<u>8,612,274</u>
Sub-total of cash outflows	<u>42,494,855</u>	<u>59,211,851</u>
Net cash flows from operating activities	<u>5,318,269</u>	<u>(6,168,557)</u>
II. Cash flows from investing activities		
Cash received from sale of investments	611,851	—
Cash received from return on investments	240,311	106,975
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	<u>10,258</u>	<u>1,292</u>
Sub-total of cash inflows	<u>862,420</u>	<u>108,267</u>
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	3,065,420	602,389
Cash paid for acquisition of investments	70,735	306,551
Other cash paid in relation to investing activities	<u>2,200,000</u>	<u>—</u>
Sub-total of cash outflows	<u>5,336,155</u>	<u>908,940</u>
Net cash flows from investing activities	<u>(4,473,735)</u>	<u>(800,673)</u>

CASH FLOW STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
III. Cash flows from financing activities		
Cash received from borrowings	<u>12,387,166</u>	<u>7,043,693</u>
Sub-total of cash inflows	<u>12,387,166</u>	<u>7,043,693</u>
Cash repayment of borrowings	9,468,566	6,605,215
Cash payment for perpetual capital instruments	—	1,500,000
Cash payments for distribution of dividends and profits or for interest expenses	818,775	673,917
Other cash paid in relation to financing activities	<u>61,378</u>	<u>—</u>
Sub-total of cash outflows	<u>10,348,719</u>	<u>8,779,132</u>
Net cash flows from financing activities	<u>2,038,447</u>	<u>(1,735,439)</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>(18,497)</u>	<u>8,673</u>
V. Net increase/(decrease) in cash and cash equivalents	2,864,484	(8,695,996)
Add: cash and cash equivalents at the beginning of the period	<u>10,147,946</u>	<u>17,006,734</u>
VI. Net balance of cash and cash equivalents at the end of the period	<u><u>13,012,430</u></u>	<u><u>8,310,738</u></u>

**APPENDIX II: FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH
HKAS 34 (UNAUDITED) AND NOTES THERETO**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	Six months ended 30 June 2019 (Unaudited) RMB'000	Six months ended 30 June 2018 (Unaudited) RMB'000 (Restated)
REVENUE	44,609,219	39,433,777
Cost of sales	<u>(28,058,303)</u>	<u>(29,136,633)</u>
Gross profit	16,550,916	10,297,144
Other income and gains	1,818,453	2,091,251
Research and development costs	(6,471,866)	(5,060,624)
Selling and distribution expenses	(4,025,746)	(4,795,563)
Administrative expenses	(2,766,954)	(1,388,118)
Impairment losses on financial and contract assets, net	(1,416,091)	(1,656,845)
Loss on disposal of financial assets measured at amortised cost	(84,063)	(99,338)
Other expenses	(385,973)	(7,210,005)
Finance costs	(823,053)	(390,211)
Share of profits and losses of:		
Joint ventures	(3,363)	113
Associates	(154,783)	(213,647)
PROFIT/(LOSS) BEFORE TAX	2,237,477	(8,425,843)
Income tax	<u>(412,914)</u>	<u>565,033</u>
Profit/(Loss) for the period	1,824,563	(7,860,810)
Attributable to:		
Ordinary equity holders of the parent	1,470,699	(7,824,190)
Perpetual capital instruments	172,867	214,918
Non-controlling interests	180,997	(251,538)
	<u>1,824,563</u>	<u>(7,860,810)</u>

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

	Six months ended 30 June 2019 (Unaudited) RMB'000	Six months ended 30 June 2018 (Unaudited) RMB'000 (Restated)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>51,077</u>	<u>(815,502)</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>51,077</u>	<u>(815,502)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>51,077</u>	<u>(815,502)</u>
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD	<u><u>1,875,640</u></u>	<u><u>(8,676,312)</u></u>
Attributable to:		
Ordinary equity holders of the parent	1,522,528	(8,618,581)
Perpetual capital instruments holders	172,867	214,918
Non-controlling interests	<u>180,245</u>	<u>(272,649)</u>
	<u><u>1,875,640</u></u>	<u><u>(8,676,312)</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	<u>RMB0.35</u>	<u>RMB(1.87)</u>
Diluted	<u>RMB0.35</u>	<u>RMB(1.87)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2019 (Unaudited) <i>RMB'000</i>	31 December 2018 (Audited) <i>RMB'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	11,265,785	10,194,112
Investment properties	2,015,319	2,011,999
Right-of-use assets	5,893,532	—
Prepaid land lease payments	—	4,867,296
Goodwill	186,206	186,206
Other intangible assets	6,675,480	6,270,288
Investments in joint ventures	94,287	97,650
Investments in associates	2,702,319	2,917,645
Financial assets at fair value through profit or loss	1,595,800	1,502,499
Long-term trade receivables	707,472	843,429
Factored long-term trade receivables	500,747	432,041
Deferred tax assets	2,929,146	2,787,790
Pledged deposits	2,981,516	2,928,146
Long-term prepayments, deposits and other receivables	1,212,153	1,310,735
	38,759,762	36,349,836
Total non-current assets	38,759,762	36,349,836
CURRENT ASSETS		
Prepaid land lease payments	—	153,260
Inventories	27,257,338	25,011,416
Contract assets	10,563,305	8,462,226
Trade receivables	21,465,718	21,592,325
Factored trade receivables	552,068	587,869
Prepayments, deposits and other receivables	9,458,314	8,468,728
Financial assets at fair value through profit or loss	620,193	1,476,823
Derivative financial instruments	204,652	228,117
Debt investments at fair value through other comprehensive income	2,352,485	2,730,351
Pledged deposits	2,622,391	3,057,459
Time deposits with original maturity of over three months	249,762	98,228
Cash and cash equivalents	26,636,660	21,134,111
	101,982,886	93,000,913
Total current assets	101,982,886	93,000,913

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June 2019 (Unaudited) <i>RMB'000</i>	31 December 2018 (Audited) <i>RMB'000</i>
CURRENT LIABILITIES		
Trade and bills payables	26,798,597	27,443,104
Contract liabilities	15,497,576	14,479,355
Other payables and accruals	16,540,349	19,076,536
Provision	1,668,151	2,167,614
Derivative financial instruments	92,527	101,332
Interest-bearing bank borrowings	34,911,173	24,983,323
Bank advances on factored trade receivables	554,263	591,931
Dividend payables	1,322	1,322
Tax payable	394,509	532,281
Current portion of lease liabilities	517,034	—
	96,975,501	89,376,798
	96,975,501	89,376,798
NET CURRENT ASSETS	5,007,385	3,624,115
TOTAL ASSETS LESS CURRENT LIABILITIES	43,767,147	39,973,951
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	3,330,373	2,366,568
Bank advances on factored long-term trade receivables	502,645	434,137
Deferred tax liabilities	180,178	155,041
Provision for retirement benefits	134,561	136,245
Lease liabilities	597,171	—
Other non-current liabilities	5,205,587	3,921,285
	9,950,515	7,013,276
	9,950,515	7,013,276
Net assets	33,816,632	32,960,675

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
EQUITY		
Equity attributable to ordinary equity holders of the parent		
Issued capital	4,192,672	4,192,672
Reserves	<u>20,327,638</u>	<u>18,704,904</u>
	24,520,310	22,897,576
Perpetual capital instruments	6,076,632	6,252,364
Non-controlling interests	<u>3,219,690</u>	<u>3,810,735</u>
 Total equity	 <u>33,816,632</u>	 <u>32,960,675</u>

Li Zixue
Director

Xu Ziyang
Director

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with HKAS 34: Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

1.2 Changes in accounting policies and disclosures

(a) Overview

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Details of the changes in accounting policies are discussed in note 1.2(b) for IFRS 16.

Several other amendments and interpretation listed below apply for the first time in 2019, but they do not have any significant impact on the condensed consolidated interim financial statements of the Group:

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

- (b) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of right-of-use assets and lease liabilities at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices.

A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

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

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

	<i>RMB'000</i> (Unaudited)
Operating lease commitments as at 31 December 2018	1,025,375
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	146,023
Add: Payments for optional extension periods not recognised as at 31 December 2018	<u>164,962</u>
Total undiscounted lease liabilities as at 1 January 2019 for adoption of IFRS 16	<u>1,044,314</u>
Weighted average incremental borrowing rate as at 1 January 2019	<u>5.66%</u>
Lease liabilities as at 1 January 2019	<u><u>952,264</u></u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease

payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets			Sub-total	Lease liabilities
	Plant and machinery	Motor vehicles	Other equipment		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at					
1 January 2019	902,642	40,736	8,886	952,264	952,264
Additions	191,730	78,657	870	271,257	271,257
Depreciation charge	(184,713)	(24,417)	(1,780)	(210,910)	—
Exchange realignments	(459)	(1,970)	—	(2,429)	(2,499)
Interest expense	—	—	—	—	32,669
Payments	—	—	—	—	(139,486)
As at 30 June 2019	<u>909,200</u>	<u>93,006</u>	<u>7,976</u>	<u>1,010,182</u>	<u>1,114,205</u>

The Group recognised rent expense from short-term leases of RMB177million for the six months ended 30 June 2019.

2. OPERATING SEGMENT INFORMATION

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

- (a) The Carriers' Networks are focused on meeting the demands of carriers by providing wireless networks, wireline networks, core networks, IT systems and products, telecommunication software systems and services and other innovative technologies and product solutions.

- (b) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the demands 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.
- (c) The Government and Corporate Business is focused on meeting the demands of government and corporate clients, providing top-level design and consultation services and integrated informatisation solutions for the government and corporate informatisation projects through the application of Communications Networks, Internet of Things, Big Data technologies, Cloud Computing and related core ICT products.

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 profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds payable, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

An analysis of the Group's revenue and profit by operating segment is set out in the following table:

	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Six months ended 30 June 2019				
Segment revenue:				
Sales to external customers	32,485,158	7,424,030	4,549,262	44,458,450
Rental income	—	—	150,769	150,769
	<u>32,485,158</u>	<u>7,424,030</u>	<u>4,700,031</u>	<u>44,609,219</u>
Segment results	11,164,485	454,661	1,249,742	12,868,888
Bank and other interest income				322,233
Dividend income and unallocated gains				1,496,220
Unallocated expenses				(11,468,665)
Finance costs				(823,053)
Share of profits and losses of:				
Joint ventures				(3,363)
Associates				(154,783)
Profit before tax				<u><u>2,237,477</u></u>
30 June 2019				
Segment assets	46,855,294	9,764,702	6,779,137	63,399,133
Investment in joint ventures				94,287
Investment in associates				2,702,319
Unallocated assets				74,546,909
Total assets				<u><u>140,742,648</u></u>
Segment liabilities	12,557,710	2,179,894	1,816,880	16,554,484
Unallocated liabilities				90,371,532
Total liabilities				<u><u>106,926,016</u></u>
Six months ended 30 June 2019				
Other segment information:				
Impairment losses recognised in profit or loss	342,260	78,219	49,519	469,998
Impairment losses on financial and contract assets	1,031,221	235,671	149,199	1,416,091
Depreciation and amortisation	979,104	223,761	352,569	1,555,434
Capital expenditure*	2,171,090	496,173	585,376	3,252,639

* Capital expenditure included the increase in property, plant and equipment, intangible assets, prepaid land lease payments and investment properties.

	Carriers' Networks	Consumer Business	Government & Corporate Business	Total (Restated)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2018				
Segment revenue:				
Sales to external customers	23,506,876	11,493,605	4,366,917	39,367,398
Rental income	—	—	66,379	66,379
	<u>23,506,876</u>	<u>11,493,605</u>	<u>4,433,296</u>	<u>39,433,777</u>
Segment results	6,650,002	(525,812)	694,495	6,818,685
Bank and other interest income				483,485
Dividend income and unallocated gains				1,607,766
Unallocated expenses				(16,732,034)
Finance costs				(390,211)
Share of profits and losses of:				
Joint ventures				113
Associates				(213,647)
Profit before tax				<u>(8,425,843)</u>
31 December 2018				
Segment assets	38,903,524	11,734,829	6,290,953	56,929,306
Investment in joint ventures				97,650
Investment in associates				2,917,645
Unallocated assets				<u>69,406,148</u>
Total assets				<u>129,350,749</u>
Segment liabilities	11,113,248	2,595,090	1,797,085	15,505,423
Unallocated liabilities				<u>80,884,651</u>
Total liabilities				<u>96,390,074</u>
Six months ended 30 June 2018				
Other segment information:				
Impairment losses recognised in profit or loss	733,126	358,460	138,265	1,229,851
Impairment losses on financial and contract assets	987,662	482,914	186,269	1,656,845
Depreciation and amortisation	697,163	340,876	131,482	1,169,521
Capital expenditure*	<u>1,189,841</u>	<u>581,768</u>	<u>224,399</u>	<u>1,996,008</u>

Geographical information

(a) Revenue from external transactions

	January to June 2019 RMB'000	January to June 2018 RMB'000
The PRC (place of domicile)	27,421,729	25,746,045
Asia (excluding the PRC)	7,807,728	4,262,810
Africa	2,715,340	1,283,203
Europe, Americas and Oceania	6,664,422	8,141,719
Total	<u>44,609,219</u>	<u>39,433,777</u>

Information on revenue set out above is analysed by geographical locations where the customers are located.

(b) Non-current assets

	30 June 2019 RMB'000	31 December 2018 RMB'000
The PRC (place of domicile)	16,643,848	15,392,949
Asia (excluding the PRC)	2,405,259	1,741,804
Africa	951,661	540,986
Europe, Americas and Oceania	965,998	953,920
Total	<u>20,966,766</u>	<u>18,629,659</u>

Figures for non-current assets set out above is based on the locations of the assets and excludes financial instruments, deferred tax assets, goodwill, investments in joint ventures, investments in associates and other non-current assets.

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Revenue from contracts with customers	44,458,450	39,367,398
Rental income	150,769	66,379
	<u>44,609,219</u>	<u>39,433,777</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

Six months ended 30 June 2019

Segments	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government and Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services				
Sale of goods	4,666,095	7,352,068	2,071,498	14,089,661
Sale of services	6,372,364	71,962	830,937	7,275,263
Telecommunication system construction contracts	<u>21,446,699</u>	—	<u>1,646,827</u>	<u>23,093,526</u>
Total revenue from contracts with customers	<u><u>32,485,158</u></u>	<u><u>7,424,030</u></u>	<u><u>4,549,262</u></u>	<u><u>44,458,450</u></u>
Geographical markets				
The PRC (place of domicile)	21,663,736	3,526,101	2,081,123	27,270,960
Asia (excluding the PRC)	6,195,497	673,751	938,480	7,807,728
Africa	2,011,499	228,684	475,157	2,715,340
Europe, Americas and Oceania	<u>2,614,426</u>	<u>2,995,494</u>	<u>1,054,502</u>	<u>6,664,422</u>
Total revenue from contracts with customers	<u><u>32,485,158</u></u>	<u><u>7,424,030</u></u>	<u><u>4,549,262</u></u>	<u><u>44,458,450</u></u>
Timing of revenue recognition				
Transferred at a point in time	26,015,071	7,351,694	3,694,971	37,061,736
Transferred over time	<u>6,470,087</u>	<u>72,336</u>	<u>854,291</u>	<u>7,396,714</u>
Total revenue from contracts with customers	<u><u>32,485,158</u></u>	<u><u>7,424,030</u></u>	<u><u>4,549,262</u></u>	<u><u>44,458,450</u></u>

Six months ended 30 June 2018

Segments	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government and Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services				
Sale of goods	2,224,148	11,401,836	1,861,632	15,487,616
Sale of services	4,627,965	91,769	672,386	5,392,120
Telecommunication system construction contracts	<u>16,654,763</u>	<u>—</u>	<u>1,832,899</u>	<u>18,487,662</u>
Total revenue from contracts with customers	<u><u>23,506,876</u></u>	<u><u>11,493,605</u></u>	<u><u>4,366,917</u></u>	<u><u>39,367,398</u></u>
Geographical markets				
The PRC (place of domicile)	18,499,750	4,965,138	2,214,778	25,679,666
Asia (excluding the PRC)	2,824,125	696,235	742,450	4,262,810
Africa	759,868	104,818	418,517	1,283,203
Europe, Americas and Oceania	<u>1,423,133</u>	<u>5,727,414</u>	<u>991,172</u>	<u>8,141,719</u>
Total revenue from contracts with customers	<u><u>23,506,876</u></u>	<u><u>11,493,605</u></u>	<u><u>4,366,917</u></u>	<u><u>39,367,398</u></u>
Timing of revenue recognition				
Transferred at a point in time	18,938,272	11,340,402	3,643,717	33,922,391
Transferred over time	<u>4,568,604</u>	<u>153,203</u>	<u>723,200</u>	<u>5,445,007</u>
Total revenue from contracts with customers	<u><u>23,506,876</u></u>	<u><u>11,493,605</u></u>	<u><u>4,366,917</u></u>	<u><u>39,367,398</u></u>

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

**Six months
ended
30 June 2019
RMB'000**

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

9,076,839

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of hardware products

The performance obligation is satisfied upon delivery of the hardware products and payment is generally due within 60 to 120 days from delivery.

Installation services

The performance obligation is satisfied when the services are rendered and accepted by customer.

A bundle of sales of equipment and installation services

The sale of equipment and installation services are highly interdependent, thus, customers cannot benefit from the equipment or installation services either on their own or together with other resources that are readily available to the customer. A bundle of sales of equipment and installation services is accounted for as a single performance obligation. The performance obligation is satisfied upon the completion of equipment and installation and acceptance.

Maintenance services

Revenue from the provision of maintenance services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

	Six months ended 30 June 2019 RMB'000	Six months ended 30 June 2018 RMB'000
Other income		
Bank interest income	295,065	359,796
Interest income arising from revenue contracts	27,168	123,689
VAT refunds and other tax subsidies [#]	730,378	1,202,779
Dividend income from equity investments at fair value through profit or loss	9,972	14,460
Others ^{##}	204,730	192,786
	<u>1,267,313</u>	<u>1,893,510</u>
Gains		
Gain on disposal of financial assets at fair value through profit or loss	407,010	14,726
Gain on disposal of derivative financial instruments	49,382	169,395
Gain on disposal of equity interests	90,772	—
Wealth management products	656	6,656
Fair value gains on investment properties	3,320	6,964
	<u>551,140</u>	<u>197,741</u>
	<u><u>1,818,453</u></u>	<u><u>2,091,251</u></u>

[#] VAT refund for software products represents tax payments by subsidiaries of the Group on any effective VAT rate in excess of 3% in respect of software product sales which are immediately refundable upon payment 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.

^{##} “Others” included government grants, contract penalty gains and other miscellaneous gains.

4. PROFIT BEFORE TAX

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

	Six months ended 30 June 2019 RMB'000	Six months ended 30 June 2018 RMB'000
Cost of goods and services	24,638,913	23,631,946
Depreciation of property, plant and equipment	602,416	586,472
Depreciation of right-of-use assets	287,365	—
Amortisation of land lease payments	—	15,059
Amortisation of intangible assets other than deferred development costs	162,529	177,422
Research and development costs:		
Deferred development costs amortised	562,157	390,485
Current period expenditure	6,926,255	5,639,948
Less: deferred development costs	(1,016,546)	(969,809)
	6,471,866	5,060,624
Fair value (gains)/losses, net*:		
Derivative instruments	23,278	85,059
Investment properties	(3,320)	(6,964)
Equity investments at fair value through profit or loss	122,832	306,000
Wealth management products	(186)	(6,656)
Impairment of trade receivables/long-term trade receivables*	1,072,831	1,656,845
Impairment of contract assets*	341,058	(20,996)
Impairment of prepayments, other receivables and other assets*	2,974	—
Impairment of debt investments at fair value through other comprehensive income*	204	—
Impairment of factored trade receivables*	(778)	—
Impairment of factored long-term trade receivables*	(198)	—
Dividend income from equity investments at fair value through profit or loss/available-for-sale investments	9,972	14,460
Provision for onerous contract**	434,513	793,454
Provision for warranties**	86,132	1,041,183
Provision for legal obligation*	22,737	287,186
Write-down of inventories to net realisable value**	469,998	1,250,847

	Six months ended 30 June 2019 RMB'000	Six months ended 30 June 2018 RMB'000
Costs related to the comprehensive settlement with US authorities	—	6,416,700
Minimum lease payments under operating leases	—	327,214
Short-term operating lease charge	177,029	—
Contingent rental income in respect of operating leases	(68,691)	(3,402)
Auditors' remuneration	700	650
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	9,344,178	9,199,791
Equity-settled share option expense	150,266	78,709
Retirement benefit scheme contributions:		
Defined contribution pension schemes	614,065	691,045
	10,108,509	9,969,545
Foreign exchange loss*	59,823	82,575
Loss on disposal of items of property, plant and equipment*	16,975	9,552
(Gain)/loss on disposal of subsidiaries*	(90,772)	3,749
Gain on disposal of derivative financial instruments	(49,382)	(169,395)
Gain on disposal of financial assets at fair value through profit or loss	(407,010)	(14,726)
Loss on disposal of financial assets measured at amortised cost	84,063	99,338

* The fair value losses, impairment of trade receivables/long-term trade receivables, impairment of contract assets, impairment of prepayments, other receivables and other assets, impairment of debt investments at fair value through other comprehensive income, impairment of factored trade receivables, impairment of factored long-term trade receivables, provision for legal obligation, foreign exchange loss, loss on disposal of items of property, plant and equipment and loss on disposal of subsidiaries are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

** Provision for onerous contract, provision for warranties and write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

5. FINANCE COSTS

	Six months ended 30 June 2019	Six months ended 30 June 2018
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	<u>590,068</u>	<u>252,317</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>590,068</u>	<u>252,317</u>
Other finance costs:		
Finance costs on trade receivables factors and bills discounted	<u>232,985</u>	<u>137,894</u>
	<u>823,053</u>	<u>390,211</u>

6. INCOME TAX

	Six months ended 30 June 2019	Six months ended 30 June 2018
	RMB'000	RMB'000
The Group:		
Current — Hong Kong	2,807	5,660
Current — Mainland China	296,650	261,187
Current — Overseas	229,677	186,839
Deferred	<u>(116,220)</u>	<u>(1,018,719)</u>
Total tax charge for the period	<u>412,914</u>	<u>(565,033)</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company was subject to an enterprise income tax rate of 15% for the years 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen.

7. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2019 (Same period in 2018: nil).

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

The basic earnings per share amount is computed by dividing the profit for the period attributable to holders of ordinary shares of the Company by the weighted average number of ordinary shares in issue.

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

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

	Six months ended 30 June 2019	Six months ended 30 June 2018
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit/(loss) for the period attributable to ordinary equity holders of the parent	<u>1,470,699</u>	<u>(7,824,190)</u>

	Six months ended 30 June 2019 000 shares	Six months ended 30 June 2018 000 shares
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	4,192,672	4,192,672
Effect of dilution — weighted average number of ordinary shares:	<u>30,440</u>	<u>—</u>
Adjusted weighted average number of ordinary shares in issue	<u>4,223,112</u>	<u>4,192,672</u>

The 2017 share options granted by the Company gave rise to 30,440,000 potential dilutive ordinary shares during the reporting period.

9. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	30 June 2019 RMB'000	31 December 2018 RMB'000
Trade receivables	34,636,685	34,848,034
Impairment	<u>(12,463,495)</u>	<u>(12,412,280)</u>
	22,173,190	22,435,754
Current portion	<u>(21,465,718)</u>	<u>(21,592,325)</u>
	707,472	843,429
Long-term portion	<u>707,472</u>	<u>843,429</u>

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

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is set out as follows:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Within 6 months	17,938,429	19,058,544
6 to 12 months	2,679,187	2,117,850
1 to 2 years	1,346,847	1,126,131
2 to 3 years	208,727	133,229
	<u>22,173,190</u>	<u>22,435,754</u>
Less: Current portion of trade receivables	<u>(21,465,718)</u>	<u>(21,592,325)</u>
Long-term portion	<u>707,472</u>	<u>843,429</u>

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

	30 June 2019 RMB'000	31 December 2018 RMB'000
Opening balance	12,412,280	9,175,345
Effect of adoption of HKFRS 9	—	23,139
Opening balance post adjustment	12,412,280	9,198,484
Impairment losses, net	1,072,831	3,445,793
Amount written off as uncollectible	(1,121,598)	(419,730)
Fluctuation in exchange	99,982	187,733
	<u>12,463,495</u>	<u>12,412,280</u>
Closing balance	<u>12,463,495</u>	<u>12,412,280</u>

Impairment under HKFRS 9 for the period ended 30 June 2019

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 30 June 2019

	Within 6 months	6 to 12 months	Past due 1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	10%	22%	69%	87%	100%	36%
Gross carrying amount	19,972,156	3,418,501	4,307,512	1,659,629	5,278,887	34,636,685
Expected credit losses	2,033,727	739,314	2,960,665	1,450,902	5,278,887	12,463,495

As at 31 December 2018

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

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

	30 June 2019 RMB'000	31 December 2018 RMB'000
The controlling shareholder	36	14
Joint ventures	27,874	15,801
Associates	226,930	219,384
Other related companies	<u>12,543</u>	<u>21,447</u>
	<u>267,383</u>	<u>256,646</u>

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

10. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payable as at the end of the reporting period, based on the invoice date, is set out as follows:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Within 6 months	26,068,725	26,647,259
6 to 12 months	329,399	385,737
1 to 2 years	199,817	198,519
2 to 3 years	153,594	169,568
Over 3 years	<u>47,062</u>	<u>42,021</u>
Total	<u>26,798,597</u>	<u>27,443,104</u>

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

	30 June 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>
The controlling shareholder	7,664	8,514
Joint ventures	250	—
Associates	344,246	216,129
Other related companies	<u>68,931</u>	<u>31,028</u>
Total	<u>421,091</u>	<u>255,671</u>

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

Trade payables are non-interest-bearing and are normally settled on within 180 days.

11 EVENTS AFTER THE REPORTING PERIOD

- (a) The Company won a bid for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen on 27 June 2017. For details, please refer to the “DISCLOSEABLE TRANSACTION ACQUISITION OF LAND USE RIGHTS IN SHENZHEN” published by the Company on 27 June 2017.

In connection with matters pertaining to the development, construction, sales and operational services in respect of land site No. T208-0049 (the “Project”), the Company and Shenzhen Vanke Real Estate Co., Ltd. (深圳市萬科房地產有限公司) (now renamed Shenzhen Vanke Development Co., Ltd. (深圳市萬科發展有限公司)) (“Vanke”) entered into a Letter of Intent on 25 December 2017 and the “Framework Agreement for Entrustment of Development, Construction, Sale and Operation”, “Contract for Entrustment of Development, Construction and Sale” and “Contract for Entrustment of Operation” on 9 February 2018.

For details of the above, please refer to the “Overseas Regulatory Announcement on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd.”, “Overseas Regulatory Announcement Updates on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd.” and “DISCLOSEABLE TRANSACTION FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published on published by the Company on 26 December 2017, 25 January 2018, and 9 February 2018, respectively.

On 11 July 2019, the Company and Vanke entered into the “Supplemental Agreement to the ‘Framework Agreement for Entrustment of Development, Construction, Sale and Operation’” to amend and further define the two parties’ rights and obligations and risks under the project. The aforesaid matter was considered and approved at the Sixth Meeting of the Eighth Session of the Board of Directors and the Second Extraordinary General Meeting of 2019 of the Company. For details, please refer to the “Announcement Resolutions of the Sixth Meeting of the Eighth Session of the Board of Directors” and “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published on 11 July 2019 and the “Announcement on Resolutions of the Second Extraordinary General Meeting of 2019” published by the Company on 29 July 2019.

On 16 July 2019, Vanke completed the payment to the Company of RMB72.64 million as described in “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION”.

- (b) Anji Microelectronics Technology (Shanghai) Co., Ltd. (“Anji Technology”) in which Suzhou Zhonghe Chunsheng Investment Centre III (Limited Partnership) (“Zhonghe Chunsheng Fund III”), a company reported in the consolidated financial statements of the Company, had invested was listed on the STAR Market of the Shanghai Stock Exchange (stock code: 688019) on 22 July 2019. Anji Technology issued 13.28 million shares at an issue price of RMB39.19/share. Zhonghe Chunsheng Fund III held 2,314,500 shares in Anji Technology, accounting for 4.36% of the total share capital of Anji Technology following the issue. As at 30 June 2019, the equity investment in Anji Technology of Zhonghe Chunsheng Fund III was accounted for under “Financial assets at fair value through profit or loss” and measured at fair value by reference to comparable companies with a value of RMB42,171,000. Following the listing of Anji Technology, it has been measured at fair value based on the post-listing market price of the shares.