

ZTE 中兴通讯股份有限公司

ZTE CORPORATION

stock code : 000063.SZ 763.HK



ANNUAL
REPORT
2021

Important

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

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

This report has been considered and approved at the Forty-fifth Meeting of the Eighth Session of the Board of Directors of the Company.

The annual financial statements of the Group for the year ended 31 December 2021 have been audited by Ernst & Young Hua Ming LLP, which has issued an unqualified auditors' report.

During the year, there was no significant deficiency in internal control in relation to financial reporting of the Company, nor was any significant deficiency in internal control in relation to non-financial reporting identified.

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

In view of the state of affairs of the Company, the proposal for profit distribution for 2021 is as follows: distribution of RMB3 in cash (before tax) for every 10 shares to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. In the event of changes in the Company's total share capital after the announcement of the Company's profit distribution proposal for 2021 but before its implementation, the total amount of distribution shall be readjusted in accordance with the law on the basis of the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2021 according to the existing proportion for distribution. The aforesaid matter is subject to consideration and approval at the general meeting.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors are asked to beware of investment risks and their attention is drawn to the description of the potential risks inherent in the operations of the Company set out in the section headed "Report of the Board of Directors (V) Business outlook of 2022 and risk exposures" in this report.

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

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

Contents

2	Definitions
4	Glossary
10	Company Profile
11	Corporate Information
14	Chairman's Statement
16	Highlights of Accounting Data and Financial Indicators
19	Summary of the Company's Business
25	Report of the Board of Directors
56	Corporate Governance Report
87	Environmental and Social Responsibility
90	Material Matters
110	Changes in Shareholdings and Information of Shareholders
118	Directors, Supervisors, Senior Management and Employees
128	Information on Bonds
134	Audit Report
142	Financial Statements Prepared and Notes Thereto
320	Documents Available for Inspection

Definitions

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

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

Definitions

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

Glossary

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

5G	Fifth-generation mobile communications, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than currently available) and more connections (100 times more than currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the internet of vehicles.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
New Infrastructure	Novel infrastructure facilities such as 5G, artificial intelligence (“AI”), industrial Internet and the Internet of Things (“IOT”).
East-to-West Data Computing	An “information pipeline” analogous to the “West-to-East Gas Pipeline”, whereby data of the eastern regions are “transmitted” to the national algorithmic hubs and nodes built in western regions for storage and computing, in order to improve the imbalances of digital infrastructure facilities and realise the optimal value of data as capital.
Carbon Peak and Carbon Neutrality	Carbon peak refers to the downward cycle of carbon dioxide emission after such emission reaches its maximum volume by a certain year; carbon neutrality refers to the absorption and offsetting of carbon dioxide generated by specific entities or activities of the community as a whole over a specified period through natural processes or artificial means such as plantation and afforestation, absorption by the ocean or constructed seal-off, in order to achieve relative “zero emission” of carbon dioxide by human activities.
Cloud-net integration	A base resource layer oriented towards the cloud and the network that ultimately achieves succinct, swift, open, integrated, safe and intelligent resource supply for novel information infrastructure by implementing virtualised/cloudified technical structures.
Algorithmic network	A novel information infrastructure that allocates and flexibly modulates computing resources, storage resources and network resources among the cloud, the network and the edge on an as-needed basis according to business requirements.
Distributed database	A logically coherent database formed by the interconnection of multiple data storage units located in different physical locations using a high-speed computer network, so as to enable larger storage capacity and higher volume of simultaneous visits.
AI	Artificial Intelligence, the use of machine to aid or replace human in doing certain tasks by simulating the sight, hearing, senses and thinking of human.
PowerPilot	5G green energy efficiency solution.
Openlab	Open laboratories.
Integrated core network	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility. An integrated core network supports multi-modal core network functions on a simultaneous basis.

Glossary

5G NSA	The Non-Standalone network architecture model as defined under 3GPP, where the 4G base station is used in conjunction with the 5G base station on the wireless side, while the core network could be a 4G core network or 5G core network. As a transitional network architecture model, NSA allows full utilisation of existing 4G network resources.
5G SA	The Standalone network architecture model as defined under 3GPP, where the 5G base station is used on the wireless side and 5G core network is used. SA is the target infrastructure of 5G network evolution.
Integrated cloud-net cabinet	Integrated deployment of equipment such as edge cloud, wireline access and private wireless net through a centralised cabinet with default typical applications, supporting feature functions such as integrated wireline and wireless access, private net voice and news and capable of flexibly submerged to the access server rooms of corporate business zones or carriers.
WAN	Wide area network.
Single carrier	In a dense wavelength-division multiplexing (DWDM) system that facilitates the use of multiple wavelengths on one optical fibre, each wavelength is known as a single-carrier, the speed of which has been increasing with the evolution of optical technology such as single carrier 2.5G, 10G, 100G, 200G, 400G, 800G and 1.2T.
C+L bands	Conventional band and long-wavelength band, the two commonly used wavelength-division frequency bands in the usable wavelengths of optical fibre. In the DWDM system, the C band has already been put to wide applications, while with the increasing demand for bandwidth, the L band has now also been put to trial runs for commercial applications.
Data centre or DC	An Internet-based infrastructure centre that operates and maintains equipment for centralised collection, storage, processing and dispatch of data, and provides related services.
SRv6	SRv6 (Segment Routing IPv6), a protocol for forwarding IPv6 data packs on the network designed on the basis of the source router concept. SRv6 adopts the existing IPv6 forwarding technology and facilitates processing similar to label forwarding by expanding the header fields of the IPv6 text. SRv6 is capable of further simplifying the network protocol to allow more flexible service route planning.
CN2	ChinaNet Next Carrying Network.
SDN	Software Defined Network, a new type of innovative network architecture.
FlexE	Flex Ethernet, which facilitates flexible speed, greater bandwidth and passage separation. FlexE is one of the recognised key technologies for 5G bearer networks and the core of third-generation ethernet technologies.
OXC	Optical cross-connect, which offers the advantages of greater scalability compared to ROADM, “0” fibre jump, a high level of systems integration, easy maintenance, occupation of less server room space and lower equipment cost.

Glossary

CLOS architecture	An architecture for multi-level circuit exchange network representing an improvement to the Crossbar structure, through which unobstructed network could be provided. CLOS has the merits of cost savings and efficiency enhancement.
PON	Passive Optical Network, a network that provides optical access services to users through the use of passive optical network technology and facilitates conservation of optical fibre resources on the main line through the adoption of a point-to-multipoint topological structure. It also offers flow management and security control functions.
FTTR	FTTR (Fiber to The Room) is a networking mode connecting different indoor AP with the indoor all-optical node through optical fibre to achieve a 1,000M+ coverage throughout the house.
MEC	Mobile Edge Computing, through which services and cloud computing functions required by telecom users IT can be provided from a nearby point using wireless access networks to create a telecom service environment featuring high performance, low latency and high bandwidth, accelerating the fast download of contents, services and applications in the network to allow uninterrupted premium network experience on the part of consumers.
ONT	Optical Network Terminal.
Low bitrate HD	Reducing bandwidth and storage space for videos while providing the same quality in user experience, mainly through the application of: intelligent image segmentation, more refined and intelligent compression code technology and AI-based SR technology.
Video SR	SR (Super Resolution) involves the conversion of low resolution videos to high resolution videos with the application of AI intelligent technologies to reduce bandwidth and enhance image details. It can be applied in video communication, monitor and industrial applications.
User experience in countering weak network connection	Real-time detection of network status and dynamic adjustment of parameters such as video bandwidth, resolution and latency according to service preference during weak network connection to compensate for network packet loss, so as to enhance user experience.
Free viewpoint	Free viewpoint is a technology that allows uninterrupted capturing with precise synchronic control through multiple cameras to ensure synchronic delivery and preservation of spectacular live shots, such that users are able to watch matches with a 360° free viewpoint by clicking the live video under the interactive mode.
Machine vision	Simulation of human visual functions using computers to extract, process and understand information from images of physical objects, to be applied in four major scenarios: identification, detection, surveying and positioning, for various industries.
SLAM	Simultaneous localisation and mapping, which involves the creation of scenario models with survey data acquired through sensors, is applied mainly to solve the problem of voluntary motion of robots in an unknown environment.
Point cloud	Data on 3D coordinate points of the external surface of a target object acquired through survey instruments are collectively known as point cloud.

Glossary

Space arrangement	Also known as content space arrangement or virtual content arrangement, a process of placing the virtual object (model) into the space of the point cloud model to facilitate the design of augmented reality effect.
Spatial positioning	The process of acquiring the posing information of equipment in the current scenario through the survey data of sensors. Generally this means the repositioning process in SLAM or 3D reconstruction.
Cloud identification	The process of uploading the sensor's survey data to the cloud for target identification using identification algorithms and returning identification results.
Cloud render	The operation of 3D applications on a remote cloud server for 3D effect rendering and the transmission of the rendered image back to the user's terminal for display. The major merit of cloud render is that it could provide quality 3D rendering on any terminal (light-weight or heavy-weight).
CDN	Content Delivery Network, a network structure capable of redirecting on a real-time basis a user's request to the closest service node available to such user based on network flow and information of various service nodes such as connection, load, distance from the user and response time.
Big Video	Ultra-high-definition videos such as 4K/8K/VR/AR, as opposed to standard-definition and high-definition videos, which feature richer contents and more exacting requirements for channels, signifying the big video era for the video business. In particular, 4K is a range of resolution, namely, a display quality approximating 4,096 pixels in horizontal resolution.
Cloud base	Provision of basic virtual singular or hybrid resource services for virtual machine, bare machine and container based on the cloud infrastructure, operating on standardised hardware facilities or enhanced and customised hardware equipment. It provides technical components and network and business services on an integrated basis and is expandable as required to provide cloud-native technology stack for a range of products.
Heterogeneous acceleration	The technology of allocating processing tasks to accelerated hardware to reduce the workload of the CPU with the application of hardware modules in place of software algorithm to achieve performance enhancement and cost optimisation. A computing structure applying hardware structure is also known as heterogeneous computing.
XR	Extended Reality, a collective reference to AR (Augmented Reality), VR (Virtual Reality) and MR (Mixed Reality), which is an environment featuring the combination of reality and simulation and human-machine interaction enabled by computer technology and wearable device.
5G natural navigation	Robotic technology leveraging the characteristics of 5G network communication that facilitates the sensing of a physical environment through multi-modal sensors with the aid of intelligent algorithm analysis to allow voluntary selection of effective approaches and pathways and voluntary movement.

Glossary

Digital twin	A multi-disciplinary, multi-physical dynamic, multi-dimensional and multi-probable simulation process utilising fully data such as physical models, sensor updates and operating history that completes projection in a virtual space to reflect the full life cycle of the corresponding physical entity.
5G cloud-based PLC	A 5G-based structure that performs software-enabled PLC functions by upshifting the CPU of traditional (PLC) programmable logic controller to the cloud for deployment, utilising fully 5G MEC (mobile edge computing) to solve the issues with traditional PLC, such as relatively small algorithmic capacity, lack of scalability and difficulties in centralised management.
Intrinsic safety base station	Mine intrinsic safety base station is an Internet access device that facilitates communication at critical locations in a coal mine well. It is suitable for use at a corrosive gas scene in coal mine wells where explosive mixtures such as methane and coal dust are present but where insulation is uncompromised. It does not require the addition of metal cases or fillings to avoid explosion, and the level of energy generated from sparks or thermal effect occurring during normal use or breakdown complies with national standards applicable to mines. The device is characterised by its small size, light weight and high safety level.



Company Profile

The Company is a world-leading listed integrated telecommunications equipment manufacturer in the world market and a provider of integrated global telecommunications solutions, with dual listing on the main board of the Shenzhen Stock Exchange and the main board of the Hong Kong Stock Exchange.

In November 1997, the Company launched its initial public offering of A shares for listing on the main board of the Shenzhen Stock Exchange. In December 2004, the Company launched its public offering of H shares for listing on the main board of the Hong Kong Stock Exchange, becoming the first A-share company to be listed on the main board of the Hong Kong Stock Exchange.

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.

The Group is one of the major telecommunications equipment suppliers in the global telecommunications market with business presence in more than 160 countries and regions serving more than one quarter of the world's population. Guided by the corporate vision of "to enable connectivity and trust everywhere", the Group is taking solid steps to fulfil its role as a path-builder for the digital economy. In China, the Group has achieved a leading market position for its various telecommunications products with longstanding business ties with China's major telecommunications service providers, such as China Mobile, China Telecom and China Unicom. With respect to the international telecommunications market, the Group has provided innovative technology and product solutions to telecommunications service providers and government and corporate network clients in numerous countries and regions, facilitating comprehensive communication services via multiple means, such as voice, data, multi-media, wireless broadband and cable broadband for users all over the world.

Corporate Information

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

Corporate Information

- | | | |
|----|--|---|
| 9 | Legal advisers
<i>As to Chinese law</i> | Beijing Jun He Law Offices
20th Floor, China Resources Building, Beijing,
The People's Republic of China |
| | <i>As to Hong Kong law</i> | Paul Hastings
21-22/F, Bank of China Tower, 1 Garden Road,
Hong Kong |
| 10 | Auditor | Ernst & Young Hua Ming LLP
Level 16, Ernst & Young Tower, Oriental Plaza,
No. 1 East Chang An Avenue, Dongcheng District,
Beijing, The People's Republic of China
Signing Accountants: Li Jianguang, Zeng Cihua |
| 11 | Sponsor/financial advisor with ongoing
supervisory duties
Office | China Securities Co., Ltd.

Level 22, Block B, Rongchao Business Centre, 6003
Yitian Road, Futian District, Shenzhen, Guangdong
Province |
| | Non-public issuance of A shares | Representatives of the sponsor: Wu Chunlei, Qiu Ronghui
Period of ongoing supervision: 4 February 2020 to
31 December 2021 |
| | Share issuance for asset acquisition | Principals of the financial advisor: Wu Chunlei, Bao Antai,
Lin Jianshan
Period of ongoing supervision: 10 November 2021 to
31 December 2022 |
| 12 | Information on change in registration
Uniform social credit code | ☐ Applicable ☒ N/A
9144030027939873X7 |

There has been no material change to the principal business and controlling shareholder of the Company since its initial public offering of A shares and listing on the main board of the Shenzhen Stock Exchange.



Chairman's Statement



DEAR SHAREHOLDERS,

I hereby present the annual report of the Group for the year ended 31 December 2021, and would like to express, on behalf of the Board of Directors, our sincere gratitude to all shareholders for their concern and support for ZTE.

OPERATING RESULTS

For 2021, the Company reported operating revenue of RMB114.52 billion, representing a 12.9% growth as compared with the previous year, comprising operating revenue from the domestic market and the international market of RMB78.07 billion and RMB36.45 billion, respectively.

The Group's net profit attributable to holders of ordinary shares of the listed company for 2021 amounted to RMB6.81 billion, representing year-on-year growth of 59.9%. Basic earnings per share was RMB1.47.

BUSINESS DEVELOPMENT

Year 2021 was the closing year of the Group's strategic development period. During the year, we were deeply involved in the large-scale 5G development in China, as we reported steady enhancement of the pattern of our carriers' market, sustained stable operations in the overseas market, rapid growth in the government and corporate business, ongoing recovery of the terminal business and expedited deployment of new businesses. Meanwhile, we persisted in maintaining our leadership in technology, as we continued to increase our investment in chip, algorithm, base software and architecture to enhance our core competitiveness. The Group continued to advance internal digital transformation of the enterprise to achieve the visualisation of operating processes and facilitate better operating efficiency. We persisted in reinforcing our principal businesses and diversifying into new ones, as we attained qualitative growth and successfully accomplished all business goals for the strategic development period.

OUTLOOK

In 2022, we welcome the commencement of our outperforming period amidst increasing uncertainty in the volatile global landscape. Meanwhile, 5G development in China will advance in depth and expanse with growing sophistication in industry application. The "double carbon" economy is emerging, coupled with robust development of New Infrastructure and an irreversible trend of digitalisation.

Chairman's Statement

As a path-builder of the digital economy, we are driven and well-equipped to seize such new opportunities, as we fortify our principal businesses and explore new ventures to achieve leaping development towards the goal of "Global 500". In connection with the carrier business, we will persist in maintaining technological leadership in key segments and strive to become leaders in technical competitiveness for our principal products. Proprietary R&D on core chips will be enhanced to assure the business sustainability of our products. In the domestic market, we will embrace competition and strive for breakthroughs to challenge higher grounds in market share and procure greater profit contributions. In the overseas market, we focus on "major nations, major T and major networks" and make stronger effort in strategic breakthrough and operational stability. In the government and corporate business, we will focus on the energy, transport, government, finance, Internet and major corporation sectors and achieve leaping growth by enhancing our general competitiveness in channels and facilitating rapid replication of traditional dominant products and new products such as servers and IDC data centre. In the consumer business, we will seize opportunities presented by the development and evolution of handset and mobile Internet products to swiftly expand our scale. For new businesses, we will enhance development in the digital transformation business and digital energy business such as 5G industrial solutions and car electronics, while expanding in smart home to negotiate breakthroughs more speedily and provide new engines for growth in results.

In the meantime, the Group will continue to drive digital transformation and enhance operating efficiency at all sections. We will also continue to enhance our effort in attracting and incentivising core personnel, while making improvements to our compliance management regime to strengthen internal control governance and prevent corporate risks. We will forge a highly resilient organisation and actively implement the double carbon objective and green development principles to achieve corporate sustainability.

We stand united as we set sail to travel far and wide against all odds. As the Group takes off on an outreaching journey of conquest through the Company's strategic outperforming period, it will persist in its strategic direction and negotiate breakthroughs with boldness to generate the kind of powers and strengths needed for unfolding new horizons and ever better, brighter prospects!

Li Zixue
Chairman

Shenzhen, PRC
March 2022

Highlights of Accounting Data and Financial Indicators

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

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

(II) STATEMENT OF 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

☐ Applicable ☒ N/A

(III) FINANCIAL SUMMARY OF THE GROUP

1. Major accounting data of the Group for the past five years

Unit: RMB in millions

Item	As at the end of 2021	As at the end of 2020	Year-on-year change	As at the end of 2019	As at the end of 2018	As at the end of 2017
Total assets	168,763.4	150,634.9	12.03%	141,202.1	129,350.7	143,962.2
Total liabilities	115,475.8	104,512.4	10.49%	103,247.8	96,390.1	98,582.1
Owners' equity attributable to holders of ordinary shares of the listed company	51,482.1	43,296.8	18.91%	28,826.9	22,897.6	31,646.9
Share capital (million shares) ^{Note 1}	4,730.8	4,613.4	2.54%	4,227.5	4,192.7	4,192.7
Net asset per share attributable to holders of ordinary shares of the listed company (RMB/share) ^{Note 2}	10.88	9.39	15.87%	6.82	5.46	7.55
Gearing ratio	68.42%	69.38%	Decreased by 0.96 percentage point	73.12%	74.52%	68.48%

Unit: RMB in millions

Item	2021	2020	Year-on-year change	2019	2018	2017 (Restated)
Operating revenue	114,521.6	101,450.7	12.88%	90,736.6	85,513.2	108,815.3
Operating profit	8,676.1	5,470.7	58.59%	7,552.2	(612.0)	6,781.0
Total profit	8,498.9	5,064.2	67.82%	7,161.7	(7,350.2)	6,718.9
Net profit attributable to holders of ordinary shares of the listed company	6,812.9	4,259.8	59.93%	5,147.9	(6,983.7)	4,568.2
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	3,305.9	1,035.6	219.23%	484.7	(3,395.5)	903.4

Highlights of Accounting Data and Financial Indicators

Item	2021	2020	Year-on-year change	2019	2018	2017 (Restated)
Basic earnings per share (RMB/share) ^{Note 3}	1.47	0.92	59.78%	1.22	(1.67)	1.09
Diluted earnings per share (RMB/share) ^{Note 4}	1.47	0.92	59.78%	1.22	(1.67)	1.08
Basic earnings per share after extraordinary items (RMB/share) ^{Note 3}	0.71	0.22	222.73%	0.12	(0.81)	0.22
Weighted average return on net assets	14.49%	10.18%	Increased by 4.31 percentage points	19.96%	(26.10%)	15.74%
Weighted average return on net assets after extraordinary items	7.03%	2.47%	Increased by 4.56 percentage points	1.88%	(12.69%)	3.11%
Net cash flows from operating activities	15,723.5	10,232.7	53.66%	7,446.6	(9,215.4)	7,220.0
Net cash flows from operating activities per share (RMB/share) ^{Note 2}	3.32	2.22	49.55%	1.76	(2.20)	1.72

Note 1: The total share capital of the Company increased from 4,613,434,898 shares to 4,730,795,972 shares following the addition of 85,321,143 new A shares under the share issuance for asset acquisition, the exercise of a total of 32,033,154 A share options by the participants under the 2017 Share Option Incentive Scheme and the exercise of a total of 6,777 A share options by the participants under the initial grant of the 2020 Share Option Incentive Scheme during the year.

Note 2: Net cash flows from operating activities per share and net assets per share attributable to holders of ordinary shares of the listed company have been calculated on the basis of the total share capital as at the end of the respective periods.

Note 3: Basic earnings per share and basic earnings per share after extraordinary items 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 4: As share options granted by the Company have given rise to 2,568,160, 21,153,000, 18,349,000, 0 and 30,243,000 potentially dilutive ordinary shares for 2021, 2020, 2019, 2018 and 2017, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

2. The Group's major financial indicators for the year analysed by quarter

Unit: RMB in millions

Item	Three months ended 31 March 2021	Three months ended 30 June 2021	Three months ended 30 September 2021	Three months ended 31 December 2021
Operating revenue	26,241.6	26,829.3	30,754.2	30,696.5
Net profit attributable to holders of ordinary shares of the listed company	2,181.6	1,897.0	1,774.3	960.0
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company (Restated)	899.2	1,347.2	1,327.7	(268.2)
Net cash flows from operating activities	2,388.2	4,640.2	4,142.7	4,552.4

Based on assessment of the effectiveness of hedge, the Company included the gain/loss of hedging instruments such as forward exchange contracts in recurring gain/loss to the extent of the exchange gain/loss of the hedged items. The effective value protection hedge relating to the Company's ordinary business operations included in recurring gain/loss for the year amounted to RMB371.6 million. The Company conducted retrospective adjustments to the non-recurring gain/loss for each quarter of the year.

Save as aforesaid, the accounting data set out above and their aggregation do not differ significantly from the relevant accounting data disclosed by the Group in its quarterly and interim reports.

Highlights of Accounting Data and Financial Indicators

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

Unit: RMB in millions

Item	2021	2020	2019
Gain from disposal of non-current assets	231.7	—	2,688.0
Investment gain from disposal of long-term equity investment	1,251.7	955.2	126.7
Gain/loss from fair-value change of derivative financial assets and derivative financial liabilities held and investment gain from disposal of derivative financial assets and derivative financial liabilities, excluding the effective value protection hedge business relating to the Company's ordinary business ^{Note 2}	53.9	(199.8)	(125.7)
Write-back of provision for individually tested receivable impairment	295.0	127.6	67.2
Gain/loss from fair-value change of investment properties	(2.6)	1.8	7.2
Impairment of long-term equity investment	—	(7.7)	(20.2)
Other gains other than income from software VAT rebate and income from handling charge for withholding personal tax	681.7	613.9	437.9
Net of other non-operating income and expenditure other than the above	(177.2)	(406.6)	(390.5)
Other gains/losses falling under the definition of extraordinary gain/loss	1,781.3	2,760.7	2,713.5
Less: Effect of income tax	617.3	576.8	825.6
Effect of non-controlling interest (after tax)	(8.8)	44.1	15.3
Total	3,507.0	3,224.2	4,663.2

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

Item	Amount for 2021 (RMB million)	Reasons
Income from VAT rebate for software products	1,238.1	In compliance with national policies and occurring on an ongoing basis
Income from handling charge for withholding personal tax	21.6	In compliance with national policies and occurring on an ongoing basis
Gain from disposal of equity interests in ZTE Capital and gain/loss from fair-value change	1,169.8	Business with the scope of operation of ZTE Capital

Note 2: The Company has entered into a series of forward exchange contracts. Subject to compliance with conditions for hedge accounting, the Company has elected not to apply hedge accounting. The gain/loss of hedging instruments was included in recurring gain/loss to the extent of the exchange gain/loss of the hedged items. The effective value protection hedge relating to the Company's ordinary business operations included in recurring gain/loss for the year amounted to RMB371.6 million.

(IV) DIFFERENCE BETWEEN ACCOUNTING DATA CALCULATED IN ACCORDANCE WITH PRC ASBEs AND WITH THOSE CALCULATED UNDER INTERNATIONAL ACCOUNTING STANDARDS

☐ Applicable ☒ N/A

Summary of the Company's Business

I. PRINCIPAL BUSINESSES

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

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

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

The consumer business is engaged in 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, with a focus on bringing experience in smart devices to customers.

II. THE INDUSTRY IN WHICH WE OPERATE

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

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

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

III. TECHNOLOGICAL INNOVATION

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

According to data published by IDC, the volume of global data flow in the past decade was growing at a average compound annual growth rate (CAGR) of close to 50%. With the dawning of the era of Internet of Everything, the growth curve is expected to get steeper. Meanwhile, the Moore's Law and Nielsen's Law remain relevant, though heading in opposition directions. In other words, the growth rate for Internet bandwidth has exceeded that of CPU speed. The overwhelming impact of data on terminal, edge and cloud has given rise the distributed computing and heterogeneous computing. Under this technological trend, algorithm is more

Summary of the Company's Business

closely associated with network and software with hardware, with boundaries more blurred than ever. The integration and evolution of multiple technologies will be critical to the enhancement of service quality and efficiency for the overall optimisation of benefits.

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

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

In the chip sector, the Group has continued to increase investment in advanced processes, core IP, seal packaging and architectural innovation and efficient digitalised development on the back of more than 26 years’ effort in the R&D of chips. We are an industry leader in terms of the ability to design the end-to-end process of chip production, and the competitiveness and leading position of our products have been effectively supported by the ongoing generational upgrades of our process techniques, chips and products.

In connection with database, the GoldenDB (distributed database) developed by the Group on a proprietary basis has been commissioned as the first distributed database operating at domestic banks and securities houses for their core businesses and has been in stable commercial operation for more than 3 years as a core business system and it has been commissioned for the core business of major State-owned banks. In 2021, GoldenDB was exclusively selected as an “Exemplary Trustworthy and Innovative Solution” named by the Ministry of Industry and Information Technology, whilst becoming one of the first products to have passed the accreditation test of the National Financial Technology Accreditation Centre in Beijing with top scores. In addition, GoldenDB has been actively establishing its presence in the carriers’ market, as it has been commissioned for the family net service of China Mobile’s general network customer centre to assist in the building of exemplary cases for database autonomy and innovation by carriers.

In connection with operating systems, the Group has achieved a range of results in core technologies such as internal core, virtualisation and R&D tools, on the back of close to 20 years of proprietary R&D effort. Systems developed by us are at the forefront of the world market in terms of real-time performance, reliability and security, with a complete range of solutions for operating systems of equipment types such as built-in device, server, desk-top system and terminal. The products have been extensively used in the communication, automobile, electricity and railway transportation sectors, as more than 200 million sets have been delivered globally by far, providing solid and reliable base software platforms with robust functions to global customers. Our products have won the Class I Science and Technology Award of China Institute of Communications and the Fourth China Industry Award. In December 2021, the Group’s automobile operating system products received the ISO 26262 ASIL-D product certification, the highest level of accreditation for electronic functional safety of automobiles.

Summary of the Company's Business

In connection with wireless products, the Group is committed to creating green and intelligent wireless communication networks catered to carrier customers and industry customers. In particular, our 5G networks of excellence have improved users' senses, lowered network construction and increased the efficiency of frequency spectrum on the network side by employing innovative technologies such as the novel three-dimensional 5G coverage plan, enhanced distributed antenna system and FAST. The Group's wireless intelligent scheduling scheme is capable of increasing the average speed by more than three times for 5G network edge users. The first 5G ATG ground-to-air inter-connection scheme in the industry launched by the Group won the "Ground-to-Air Communication Vanguard Award" presented at the Third China Civil Airline Aircraft Internet Connection Conference. PowerPilot, the Group's network energy conservation scheme built upon AI technology has provided in-depth coordination of networks of multiple frequencies and protocols to further enable energy conservation, offering energy conservation effects twice as much as those offered by the usual smart power conservation schemes currently adopted. It has been put to large-scale commercial application at more than 900,000 stations of over 30 networks around the world and has won the "Mobile Technology Innovation and Breakthrough Award" at the GTI Forum. The Common Core full-integration core network solution launched by the Group supports full 2G/3G/4G/5G NSA/5G SA access and reduced network construction cost by more than 40% by simplifying network sophistication through a brand new design of architecture, while improving network delivery rate of 30% to facilitate smooth network evolution for carriers.

For industry clients, the 5G private network solution offered by the Group matches the different requirements of large, medium, small and micro businesses with a light-weight private core business net, one-stop integrated cloud-net cabinet, and base station edge algorithm engine to facilitate faster, more flexible and safer 5G private net deployment.

In the IP segment, the Group provides WAN (city area + backbone)/DC end-to-end SRv6 programmable solution to assist carriers' creation of ultra-wide, minimal and intelligent IP networks. T8000, our flagship core router, served the super core nodes of the 163 backbone network of China Telecom for large-scale deployment in the CN2-DC1 network and also won the bid for China Mobile's high-end router procurement (2021). Our IP products won a 70% share for the SDN sections in China Mobile's phase III network cloud. Through the built-in FlexE network processor and switch triplet chip, our 5G bearer supporting ultra-low latency has outstanding performance in power consumption tests and an approximately 30% domestic market share.

In connection with optical transmission, the new optical network with intelligent features and wide bandwidth has provided an ultra-wide, flexible and intelligent high-speed information passage for the interconnection among clouds. The single carrier 1.2T system solution, the first of its kind among peers, allows the doubling of single-fibre capacity to 96T+ when applied in connection with C+L bands, which would meet the business requirement for optical network bandwidth in the next 5-8 years. Our exclusive Flex Shaping technology has facilitated a 30% improvement in 100G+ transmission distance, making 100G+ deployment substantially easier and upgrade substantially cheaper. Our smart OXC system has been named for the 2021 Lightwave Optical Transmission Core Sector Award. Our domestic market share for 200G+ optical transmission was well within the top two ranking, as OXC has been put to commercial application in the provincial backbone transmission network of China Mobile and large-scale deployment in the provincial backbone and local networks of more than ten provinces, including Zhejiang, Guangdong, Jiangsu, Yunnan and others.

In fixed-line access, we introduced the first high-end router platform based on CLOS distributed architecture for OLT (Optical Line Terminal). TITAN, our flagship product in optical access, was given a Leader rating by GlobalData, as it claims the largest capacity and highest level of integration among peers, with a five-in-one multi-module PON card single chip supporting 16-port PON access and providing a level of integration twice as much as our peers do. Our optical access technology has twice won the National Class II Scientific and Technological Progress Award. Our unique built-in blade server enabling integration of edge computing and access equipment completed the verification process for OLT built-in MEC on-site network with China Unicom

Summary of the Company's Business

Shandong as the first of its kind in the industry to do so, while also receiving the Lay123 Global Assembly Innovation Award and BBWF Innovation Award. We completed trial operation and started commercial application of our FTTR (Home Optical LAN) in more than 20 provinces across the country.

In the video business, the Group has developed general competitiveness in video through ongoing investment in multiple aspects such as platform, terminal, CDN and VR/AR new technologies to enhance our competence in servicing technology. The video-enabled cloud platform integrates multiple businesses and achieves functional upgrade of existing businesses and new business incubation through a micro-service framework with an ongoing focus on technologies such as ultra-low latency, low bitrate HD, video SR, user experience in countering weak network connection, free viewpoint, machine vision and SLAM/point cloud, in a bid to consistently improve users' experience. We have won exclusively the bid for China Mobile's video relay project and become China Mobile major partner for its integrated big video service. Our vSTB (cloudified set-top box) solution, the first of its kind in the industry, has won the BBWF "Annual Home Customer Experience Award" in recognition of the enhanced user experience through the cloudification of end services. On the back of its competitive edge in integrated CDN products and its consistent leading position in the progress of commercial application, as well as more than 150 bureau outlets deployed globally with over 200 million users for the Big Video system. Our fully proprietary VR/AR platform developed a range of leading application cases in 2021 for sectors such as integrated business complex, new media and industry, including a new format of integrated communication through livestream programmes created in association with Xinhua News Agency, on the back of its core abilities in point cloud graphics, spatial arrangement, spatial positioning, cloud identification and ultra-low latency cloud render. It has won the Sixth Golden Spin-top Award at the 2021 Future Business Ecology Connection (FBEC).

In the smart home segment, the Group adopted a two-pronged approach to target both carriers and consumers. In the carriers' market, we reported leaping growth for home information terminal and ranked first globally in terms of PON CPE dispatch volume and sales. Our Wi-Fi6 products were put to large-scale commercial application in Italy, Spain, Japan and Thailand. Our home media terminal achieved growth in scale with a year-on-year growth of over 60% in dispatch volume and sustained leadership in market shares for set-top boxes, ranking first globally for IP set-top boxes. In the international market, we completed large-scale dispatch of Android TV set-top box products to carriers of major nations in the Asia Pacific, Europe and South America and negotiated breakthroughs in South America and Africa. Active investigation into the new business of household-wide video were made, underpinned by the full-scenario retiree platform created in a joint effort with carriers, communities and institutions which became a new highlight in the smart home business in addition to IPTV and handset TV. In the consumer market, the AX5400 Pro home wireless router featuring our proprietary 12-core main chip was a top selling new router product on JD during the November 11th promotion. In connection with home safety scenario products, we continued to market the Xiao Xing Kan Kan camera products, while launching the third generation smart screen speaker Tmall Jing Ling V10 in a cross-sector collaboration with Ali.

In the terminal segment, the Group continued to register breakthrough in frontier technologies. As a pioneer in camera under display, we launched the under display version of Axon 30 5G which offers 100% full screen with ongoing upgrade in core abilities such as screen pixels, an independent screen display chip and algorithm. We were the first among our peers to adopt the integrated computer vision technology with the launch of ZTE Axon 30 Ultra 5G equipped with three main cameras and four arrays using integrated computer vision to enable the capture of moving images through multiple main cameras. Efforts were also made to explore innovations for the automobile sector, the terminal market with the greatest potential next to the handset market, in a bid to drive developments in the Internet of vehicles and smart transportation sectors.

In connection with cloud infrastructure, the Group has continued to enhance the research and development of basic software and hardware for cloud platform infrastructure. In connection with server and storage products, serialised products have been launched to provide strong algorithmic support for the digital transformation of sectors across the board. Global dispatch in 2021 exceeded 150,000 units, increasing by 70% compared to the previous year. The distributed precision cloud base designed for ICT integration supports deployment in a

Summary of the Company's Business

full range of scenarios and fulfils the requirement for centralised cloud management and edge operation and maintenance. Through heterogeneous hardware acceleration and software and hardware coordination, diversified cloud resource services offering low latency, high bandwidth and high algorithmic capacity have been provided to match the requirements of customers' differentiated businesses with precision. In connection with switch products, a new generation of large-capacity, high-performance and highly-reliable core switch products have been launched, offering ultra-large switch capacity and high-density, large-capacity ports to support the operation of a comprehensive data centre and assist the construction of a large-scale, highly flexible data centre network catered to cloud computation. In 2021, our core switch products topped the market for domestic carriers' 5G core network telecommunication cloud scenarios in terms of overall market share. In connection with data centre, as a leader in full-module data centre, we have creatively constructed a solution for prefabricated data centres which shortens the turnover period for delivery by 40% and reduces initial investment by 30%, heralding the construction of novel data centre infrastructure facilities which are eco-friendly, reliable, fast and intelligent. In 2021, we won the bid for 47% of Tencent's T-Block procurement project. As at 31 December 2021, the Group's data centre products had more than 330 project cases globally, with over 140,000 racks deployed in server rooms with an aggregate GFA of more than 1.50 million square metres.

In the energy sector, driven by the New Infrastructure and double carbon economy, the Group has created new digital energy solutions covering multiple servicing scenarios such as power generation, power grids and customers with the aid of new technologies in digitalisation and intelligentisation, in a bid to assist in the revolution of traditional energy sectors and the expansion of new energy application sectors in association with its partners across all industries. Digital energy covers three principal segments: the communication energy (Power) segment that provides base station power source, main power source for server rooms, green hybrid power supply, intelligent lithium battery and energy cloud management to carriers and tower operator customers; the data centre energy (DC) segment that provides solutions including prefabricated full-module data centre, mirco-module data centre, container data centre as well as core systems for power supply and distribution, heat and ventilation and management to government and corporate customers such as carriers, Internet service providers and financial institutions; and the new energy (RE) segment that provides green power generation, smart power storage, smart power consumption and energy management to government and corporate customers.

In connection with industrial digitalisation, Group became one of the first companies to pass the "Trusted Digitalisation Service Assessment" of CAICT and received the certificate of "Competence in Digital Infrastructure Integrated Cloud Platform Service" in 2021, as we published the "Sophistication model for competence and operational effect in corporate IT digitalisation", "Requirements for trusted digitalisation service competence" and "Digital transformation solution" to provide specific standards and solutions for digital transformation of industries. We also teamed up with 500+ partners to engage in extensive innovative practices in 15 sectors, including electronic manufacturing, steel and metallurgy, mining, electric power, rail transportation, port, government affairs, new media and cultural tourism, establishing a series of benchmark projects.

On the industrial front, the Group implemented the concept of "manufacturing 5G with 5G" through the building of a pilot 5G intelligent manufacturing base in Binjiang, Nanjing and continued to deliver value to customers through products and solutions such as 5G natural navigation AGV, 5G+MEC machine vision testing, digital twin smart industrial park platform and 5G cloud-based PLC, as pilot projects built for sector leaders such as Baosteel Zhanjiang Iron & Steel, Wuhan Iron and Steel Company Limited, Ansteel Group, Zhengzhou Gree and Yunnan Shenhua all received national first class awards in the "Blooming Cup". On the energy front, the Group published the 5G smart mining network solution and presented the first mine in China with sophisticated integration of 4/5G private net data, voice and modulation to ensure general business communication in the mining area. We worked with China Coal Technology Engineering Group to complete the first 700M+2.6G hybrid network verification in the coal industry and published the industry's first 700M intrinsically safe base station. The 5G power private network solution was put to extensive application at State Grid and Southern Power Grid, while the largest general pilot zone for the 5G intelligent power network was

Summary of the Company's Business

created in Guangzhou in collaboration with Southern Power Grid and China Mobile. In connection with transportation, the Group launched the industry's first city railway 5G train-ground wireless communication solution for implementation with Guangzhou Metro and Fuzhou Metro. We teamed up with China Unicom at Tianjin Port to create the world's first 5G smart port, with successful commercial application of 5G quayside gantry remote control and 5G smart cargo handling. Our smart port solution won the gold award in the benchmarking tournament of "Blooming Cup" 2021 and was shortlisted for the ICT China Outstanding Cases 2021 — Best Solution. Meanwhile, we worked with China Telecom to conduct 7*24 trial runs for the 5G remote control operation of gantry crane at Yantian International Container Terminal. Regarding new media and cultural tourism projects, the 5G Cloud XR digital twin business solution developed in collaboration with China Telecom was put to application at approximately 1,000 business complexes in the country and during numerous cultural tourism projects, such as Shanghai Tourism Festival and Zigong Lantern Festival, Sichuan. In connection with cyber security, the "Project for testing and defending against advanced attacks with continuous threats" developed under the leadership of the Group won the UN WSIS Champion Award, making us the only Chinese company receiving this honour in the information security sector. Our "Cloudified quantum security service intermediary ware", the first of its kind in the industry, was officially adopted for commercial application in a number of projects and won the 2021 ICT China Innovation Award. The "5G network threat analytical model", another industry debut, completed successful trial runs of the 5G asset management system with existing networks.

The Group is positioned within the first quadrant in terms of global patents and a major contributor and participant in the technology research and standard formulation for global 5G. As at 31 December 2021, the Group had filed applications for approximately 84,000 patents globally, among which approximately 42,000 patents had been licensed. According to the report published by international patent data company IPlytics in November 2021, ZTE ranked fourth globally in terms of the number of declared 5G SEP (standard essential patents) disclosed to ETSI. In 2021, one patent of the Group won the 22nd China Patent Gold Award as the only gold awardee in the communication industry. The Group has by far garnered 9 gold awards, 2 silver awards and 36 excellence awards in the China Patent Awards and 22 awards in the Guangdong Provincial Patent Awards.

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

Report of the Board of Directors

BUSINESS OF THE GROUP

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.

FINANCIAL RESULTS

Please refer to pages 145–146 of this report for the results of the Group for the year ended 31 December 2021.

FINANCIAL SUMMARY

Set out on pages 16–17 of this report are the results and financial position of the Group for the five financial years ended 31 December 2021.

(I) Business Review for 2021

1. Overview of the domestic telecommunications industry for 2021

The domestic telecommunication industry experienced rapid development during 2021. The construction, coverage and popular application of novel information infrastructure facilities such as 5G networks and GB-grade optical networks was accelerating at full speed, underpinned sustained rapid growth in data flow over the mobile Internet. According to the data published by the Ministry of Industry and Information Technology of the PRC ("MIIT"), the domestic telecommunications sector reported revenue of RMB1,470 billion for 2021, representing year-on-year growth of 8.0%. Mobile Internet access traffic flow for the year reached 221.6 billion GB, increasing by 33.9% compared to the previous year, while the average mobile Internet access traffic volume (DOU) reached 13.36 GB per user per month, with a record-high DOU of 14.72 GB reported for December.

As at the end of 2021, a total of 1,425,000 5G base stations had been constructed and come into operation, covering all cities in the nation at the prefecture level or above, more than 98% of the county-level cities and 80% of the rural townships with the world's largest 5G network, while also advancing construction in a progressive manner in farming villages that were ready and in need for such networks. In 2021, 266 million 5G handsets were dispatched in the domestic market, representing a 63.5% year-on-year growth. More than 300 cities across the country commenced construction of GB-grade optical broadband networks, with 34.56 million users registered for fixed-line Internet broadband access at GB-grade or above. According to the statistics of MIIT, there were more than 10,000 cases of innovative 5G industrial applications, covering more than 20 sectors in the national economy such as industrial manufacturing and medical care. The application scenario extended from auxiliary production processes to core processes, as more than 1,600 "5G+ industry Internet" projects were under construction, playing an important role in the digital, Internet-based and intelligent transformation and upgrade of the physical economy.

Source: MIIT

2. Overview of the global telecommunications industry for 2021

Global telecommunication investment was generally stable, with ongoing growth in the number of carriers investing in 5G networks. According to the statistics of Global mobile Suppliers Association (GSA), 200 carriers in 78 countries or regions across the globe had launched 5G services compliant with 3GPP (3rd Generation Partnership Project) standards as at the end of 2021. Meanwhile, GSA data indicated that 1,257 models of 5G equipment have currently been launched, including 614 smart phone models, increasing by 125% and 120%, respectively, compared to that as at the end of 2020.

The rate of global smartphone penetration rose further, as mobile applications (including video, social media, online shopping, mobile payment and online education) became vastly popular. Digital transformation became increasingly important for corporations, which sought to improve corporate operating efficiency, bolster innovative ability and enhance user experience by optimising business processes and management with the aid of information technology.

Source: GSA

Report of the Board of Directors

3. Operating results of the Group for 2021

For 2021, the Group reported operating revenue of RMB114.52 billion, representing a year-on-year increase of 12.9%, as it persisted in strengthening its principal businesses and expanding into new areas as well as reinforcing its operational stability to achieve continuous optimisation in market pattern, amidst challenges posed by the COVID-19 pandemic and other external conditions. Year-on-year growth in operating revenue was reported for both the domestic market and the international market, as well as for the three principal business segments of carriers' networks, government and corporate business and consumer business. Net profit attributable to holders of ordinary shares of the listed company for 2021 amounted to RMB6.81 billion, increasing by 59.9%, year-on-year. Basic earnings per share amounted to RMB1.47.

(1) By market

The domestic market

For the reporting period, the Group's operating revenue from the domestic market amounted to RMB78.07 billion, representing year-on-year growth of 14.7% and accounting for 68.2% of the Group's overall operating revenue. During 2021, the Group achieved growth in both market pattern and market share, as it was deeply involved in large-scale 5G construction in China and seized opportunities for development in New Infrastructure to empower digital transformation in various industries. Strongly focused on digital reform in industries concerning the essential livelihood of people, we explored opportunities for in-depth cooperation with carriers and clients in vertical sectors in key areas, such as manufacturing, medical care, energy and mining, transportation, convergence media, livestreaming of major events and tournaments and education, among others, and produced close to a hundred showcasing innovative applications based on different scenarios.

The international market

For the reporting period, the Group's operating revenue from the international market amounted to RMB36.45 billion, representing year-on-year growth of 9.1% and accounting for 31.8% of the Group's overall operating revenue. During 2021 uncertainties prevailed in the epidemic situation in overseas countries, posing considerable pressure and challenge for overseas telecommunication network investment, 5G progress and network construction in the short term. However, the pandemic has also driven the demand for communication as it has changed the ways in which people used to work, live and learn. The Group reported sound operations as it continued to optimise the market pattern for its products, riding on market opportunities presented by 4G modernisation conversion, new 5G construction and optical conversion of fixed-line networks, while mitigating the impact of overseas epidemic through the employment of ICT technologies, staff localisation and efficient industry chain coordination.

(2) By business segment

For the reporting period, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB75.71 billion, RMB13.08 billion and RMB25.73 billion, respectively.

Carriers' networks

The Group has been focused on customer value with ongoing effort in innovative breakthrough. In connection with wireless products, the Group was actively involved in global 5G construction and committed to creating premium customer experience, enhancing network efficiency and building the most cost-efficient 5G networks with its serialised innovative products and solutions. Our QCell Series small station product ranked first with full scores across the board in the Small-Cell rating conducted by GlobalData in August 2021. In connection with wireline products, our technological edge was becoming apparent with further optimisation in our domestic and international market patterns, as our full range of end-to-end 5G bearer products were deployed in large-scale, while we continued to maintain a leading position in the optical network carriers' market. Our end-to-end FTTP solution continued to receive the highest "Leader" rating by GlobalData. We won the bids for the supply of core routers to China Telecom's CN2 backbone network and China Mobile's centralised procurement for high-end routers. For video products, the total number of video system users exceeded 200 million, as we continued to gain in market share. The Group actively implemented the "double carbon" strategy to help carriers in the building of end-to-end low-carbon green networks and consistently empowered energy conservation and emission reduction for vertical sectors.

Report of the Board of Directors

Government and corporate business

During 2021, the Group's government and corporate business was focused on the energy, transport, government, finance, Internet and major corporation sectors. We actively deployed our business in New Infrastructure, 5G industry application and corporate digital transformation and upgrade on the back of the "precision cloud network" and "empowering platform". Our servers and storage products were put to extensive applications in leading sectors such as finance, Internet and energy. The GoldenDB distributed database was named the premier brand in domestic database products for the financial industry, having offered stable operation in commercial application for the core systems of major commercial banks for over three years and making inroads into other industries and sectors. In connection with 5G industry application, the Group has rolled out innovative business practices with 5G applications in collaboration with more than 500 partners and implemented close to one hundred innovative 5G application scenarios.

Consumer business

During 2021, the Group sustained rapid year-on-year growth as it continued to develop its products, brands and channels in the consumer business. The global debut of the Axon 30 5G Series, a new-generation product featuring camera under display, heralded the generational upgrade of the camera under display technology. We introduced the first integrated computer vision camera with Axon 30 Ultra 5G, our flagship product equipped with three main cameras and four arrays. Our 5G mobile Internet products have established their presence in more than 30 countries and regions, while our home information terminal products achieved strong growth in scale with shipment volume increasing by 50% year-on-year to 580 million units as it retained its global leading position in the industry.

For the Group's analysis of the year using major financial performance indicators and the Company's environmental policy and performance of social responsibility, please refer to the section headed "(II) Management discussion and analysis" in this chapter and the section headed "7. Environmental and Social Responsibility", respectively.

(II) Management discussion and analysis

The financial data below are extracted from the Group's audited financial statements. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young Hua Ming LLP and the accompanying notes thereto set out in this report.

Report of the Board of Directors

1. Breakdown of indicators by industry, business segment, region and mode of sales as compared to the previous year

Unit: RMB in millions

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	114,521.6	100%	74,159.8	35.24%	12.88%	6.89%	3.63
Total	114,521.6	100%	74,159.8	35.24%	12.88%	6.89%	3.63
II. By business segment							
Carriers' networks	75,711.6	66.11%	43,571.7	42.45%	2.29%	(11.09%)	8.66
Government and corporate business	13,079.2	11.42%	9,541.1	27.05%	16.03%	18.91%	(1.77)
Consumer business	25,730.8	22.47%	21,047.0	18.20%	59.22%	70.42%	(5.38)
Total	114,521.6	100%	74,159.8	35.24%	12.88%	6.89%	3.63
III. By region							
The PRC	78,066.5	68.17%	48,894.0	37.37%	14.72%	0.99%	8.51
Asia (excluding the PRC)	14,379.5	12.56%	9,318.1	35.20%	(2.37%)	11.62%	(8.12)
Africa	4,937.8	4.31%	2,643.7	46.46%	2.39%	6.09%	(1.87)
Europe, Americas and Oceania	17,137.8	14.96%	13,304.0	22.37%	23.76%	31.41%	(4.52)
Total	114,521.6	100%	74,159.8	35.24%	12.88%	6.89%	3.63
IV. Analysed by mode of sales							
Direct marketing	84,763.9	74.02%	51,058.7	39.76%	2.94%	(8.98%)	7.89
Distribution	29,757.7	25.98%	23,101.1	22.37%	55.74%	73.89%	(8.10)
Total	114,521.6	100%	74,159.8	35.24%	12.88%	6.89%	3.63

(1) Analysis of change in revenue

The Group reported RMB114,521.6 million in operating revenue for 2021, increasing by 12.9% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB78,066.5 million, increasing by 14.7%, while operating revenue generated from the international business increased by 9.1% to RMB36,455.1 million, as compared with the same period last year.

Analysed by business segment, the carriers' networks business reported 2.3% year-on-year increase in operating revenue, reflecting mainly the year-on-year increase in operating revenue from 5G wireless and servers as compared to the same period last year; the government and corporate business reported 16.0% year-on-year increase in operating revenue, reflecting mainly the year-on-year increase in operating revenue from servers and domestic subsidiaries as compared to the same period last year; the consumer business reported 59.2% year-on-year increase in operating revenue, reflecting mainly the year-on-year increase in operating revenue from handset and home information terminals as compared to the same period last year.

Report of the Board of Directors

(2) Analysis of operating cost and gross profit

Operating cost of the Group for 2021 increased by 6.9%, year-on-year, to RMB74,159.8 million, reflecting mainly the year-on-year growth in the cost of consumer business and government and corporate business.

The Group's overall gross profit margin increased by 3.63 percentage points, year-on-year, to 35.24% for 2021, which was attributable mainly to the growth in gross profit margin for carriers' networks. Gross profit margin for carriers' networks increased by 8.66 percentage points to 42.45%, compared to 33.79% for the same period last year, attributable mainly to the Group's continuously optimize the cost structure. The gross profit margin for government and corporate business decreased by 1.77 percentage points to 27.05%, compared to 28.82% for the same period last year, attributable mainly to the decrease in gross profit margin for international government and corporate business. The gross profit margin for consumer business was 18.20%, decreasing by 5.38 percentage points compared to 23.58% for the same period last year, attributable mainly to the decrease in gross profit margin for handset and international home information terminals.

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

Unit: RMB in millions

2021			2020 Note					
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
114,521.6	74,159.8	35.24%	101,201.7	69,196.2	31.63%	13.16%	7.17%	3.61

Note: Figures of operating revenue and operating costs for 2020 have excluded operating revenue and operating costs of subsidiaries deconsolidated in 2021.

Xi'an Zhongxing Jingcheng Technology Company Limited, ZTE Switzerland AG, Xiamen Zhenkun NEV Company Limited, ZTE Luxembourg, Nubia (Indonesia) Limited, Chengdu Xingxin NEV Company Limited and Wuhan Baicheng Shun'an Auto Sales Company Limited completed deregistration with the industrial and commercial administration authorities in February 2021, March 2021, June 2021, November 2021, November 2021, December 2021 and December 2021, respectively. The aforesaid companies 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.

In March 2021, the Company completed disposal of 90% equity interest in subsidiary Caltta Technologies Co., Ltd. ("Caltta Technologies") and Netas Bilisim Teknolojileri AnonimSirketi, a subsidiary of the Company, completed disposal of 100% equity interest in NetRD Bilgi Teknolojilerive Telekomunikasyon A.S. In October 2021, the Company completed disposal of 5.1% equity interest in subsidiary ZTE (Wenzhou) Railway Communication Technology Limited. In December 2021, the Company completed 90% equity interest in Shenzhen Zhongxing SI Technology Company Limited. The aforesaid companies had been excluded from the consolidated financial statements of the Group as from the date of completion of equity disposal.

In December 2021, Wuhan Xihu District People's Court of Wuhan granted approval for the commencement of bankruptcy procedure of Zhongxing Gaoneng Technology Company Limited, a subsidiary of the Company. Zhongxing Gaoneng Technology Company Limited had been excluded from the consolidated financial statements of the Group as from December 2021.

(4) Performance during the reporting period of material sales contracts or material purchase contracts entered into by the Company

☐ Applicable ☒ N/A

Report of the Board of Directors

2. Breakdown of the Group's costs by principal items

Unit: RMB in millions

Industry	Item	2021		2020		Year-on-year increase/decrease
		Amount	As a percentage of operating costs	Amount	As a percentage of operating costs	
Manufacturing of communication equipment	Raw materials	57,618.9	77.70%	53,147.4	76.60%	8.41%
	Engineering costs	13,170.6	17.76%	12,799.0	18.45%	2.90%
	Total	70,789.5	95.46%	65,946.4	95.05%	7.34%

3. Research and development expense of the Group

(1) R&D personnel

Item	2021	2020	Year-on-year increase/decrease
Headcount of R&D personnel	33,422	31,747	5.28%
R&D personnel as a percentage of total headcount of the Group	46.0%	43.1%	Increased by 2.9 percentage points
Academic qualification profile of R&D personnel	—	—	—
Doctorate degree	325	287	13.24%
Master's degree	20,235	19,120	5.83%
Bachelor's degree	11,618	11,034	5.29%
Others	1,244	1,306	(4.75%)
Age profile of R&D personnel	—	—	—
Under 30	12,103	11,059	9.44%
30~40	14,208	15,021	(5.41%)
40~50	6,483	5,226	24.05%
Over 50	628	441	42.40%

(2) R&D expense

Item	2021	2020	Year-on-year increase/decrease
Amount of R&D expense (RMB in million)	18,804.0	14,797.0	27.08%
R&D expense as a percentage of operating revenue	16.42%	14.59%	Increased by 1.83 percentage points
Amount of capitalised R&D expense (RMB in million)	1,806.5	2,242.4	(19.44%)
Capitalised R&D expense as a percentage of R&D expense	9.61%	15.15%	Decreased by 5.54 percentage points

The year-on-year growth in the Group's research and development expense for 2021 was attributable mainly to the lower expenses for the same period last year owing to the epidemic, increase in share incentive expenses for the period and the Group's continuous investment in technologies such as 5G wireless, core network, bearer, access, chips, servers and storage, car electronics, industrial digitalisation, digital energy and terminals.

Report of the Board of Directors

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

Unit: RMB in million

Item	2021	2020	Year-on-year increase/decrease	Reasons for changes
Selling and distribution expenses	8,733.2	7,578.8	15.23%	Attributable mainly to the increase in advertising expenses for the period
Administrative expenses	5,444.6	4,995.0	9.00%	Attributable mainly to the lower expenses for the same period last year owing to the epidemic and increase in share incentive expenses for the period
Finance expenses	962.9	420.5	128.99%	Attributable mainly to exchange loss for the period versus exchange gain for the same period last year arising from exchange rate volatility
Income tax	1,463.0	342.5	327.15%	Attributable mainly to the increase in profit for the period

5. Other components in the Company's profit mix

Unit: RMB in million

Item	2021	2020	Year-on-year increase/decrease	Reasons for changes
Other gains	1,941.4	1,572.7	23.44%	Attributable mainly to the increase in income from software VAT rebate for the period
Investment returns	1,564.2	906.4	72.57%	Attributable mainly to the increase in gain from investment in associates and increase in gain from derivative investment for the period
Gains and losses from changes in fair value	1,099.4	39.0	2,718.97%	Attributable mainly to the increase in gain from fair-value change in listed equity held by subsidiary fund partnership enterprises of ZTE Capital for the period, as well as gain for the period versus loss for the same period last year from fair-value revaluation of derivative investment at the end of period.
Credit impairment loss (loss indicated as a negative value)	(268.9)	(433.1)	(37.91%)	Attributable mainly to the decrease in long-term receivable and other receivables impairment provision
Asset impairment loss (loss indicated as a negative value)	(1,521.3)	(209.7)	625.46%	Attributable mainly to the increase in inventory impairment provision, intangible assets and goodwill impairment provision

Report of the Board of Directors

6. Breakdown of the Group's cash flow

Unit: RMB in million

Item	2021	2020	Year-on-year increase/decrease	Reasons for changes
Sub-total of cash inflows from operating activities	130,218.5	125,472.2	3.78%	
Sub-total of cash outflows from operating activities	114,495.0	115,239.6	(0.65%)	
Net cash flows from operating activities	15,723.5	10,232.7	53.66%	Attributable mainly to the combined effect of the increase in cash received for the sales of goods and services and decrease in cash paid for the purchase of goods and services for the period
Sub-total of cash inflows from investing activities	12,201.4	7,044.8	73.20%	
Sub-total of cash outflows from investing activities	22,793.8	14,126.9	61.35%	
Net cash flows from investing activities	(10,592.4)	(7,082.1)	(49.57%)	Attributable mainly to the increase in cash paid for investment for the period
Sub-total of cash inflows from financing activities	67,398.2	62,334.1	8.12%	
Sub-total of cash outflows from financing activities	64,619.7	62,624.0	3.19%	
Net cash flows from financing activities	2,778.5	(289.9)	1,058.43%	Attributable mainly to the net inflow of cash for the period versus net outflow of cash for the same period last year
Net increase in cash and cash equivalents	7,667.5	2,897.3	164.64%	

For the reasons underlying the difference between the net cash flow and net profit generated by the Group's operating activities during the year, please refer to the section headed Supplemental information on cash flow statement under Note V. 56 to the financial statements.

Cash and cash equivalents of the Group as of 31 December 2021 amounted to RMB39,070.6 million held mainly in RMB, with the remaining held in USD, EUR, JPY and other currencies.

7. Analysis of non-principal business

☐ Applicable ☒ N/A

Report of the Board of Directors

8. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in million

Item	As at 31 December 2021		As at 31 December 2020		Year-on-year increase/decrease in percentage of total assets (percentage points)
	Amount	As a percentage of total assets	Amount	As a percentage of total assets	
Total assets	168,763.4	100.00%	150,634.9	100.00%	—
Cash	50,713.3	30.05%	35,659.8	23.67%	6.38
Trade receivables	17,509.1	10.37%	15,891.0	10.55%	(0.18)
Contract assets	6,585.3	3.90%	8,926.4	5.93%	(2.03)
Inventories	36,316.8	21.52%	33,689.3	22.36%	(0.84)
Investment properties	2,013.9	1.19%	2,035.2	1.35%	(0.16)
Long-term equity investments	1,684.9	1.00%	1,713.8	1.14%	(0.14)
Fixed assets	11,437.0	6.78%	11,913.9	7.91%	(1.13)
Construction in progress	1,372.9	0.81%	1,039.9	0.69%	0.12
Right-of-use assets	815.3	0.48%	1,047.2	0.70%	(0.22)
Short-term loans	8,946.9	5.30%	10,559.2	7.01%	(1.71)
Contract liabilities	16,101.7	9.54%	14,998.2	9.96%	(0.42)
Long-term loans due within one year	977.3	0.58%	2,104.7	1.40%	(0.82)
Long-term loans	29,908.4	17.72%	22,614.3	15.01%	2.71
Lease liabilities	532.0	0.32%	718.2	0.48%	(0.16)

(2) Major overseas assets

☐ Applicable ☒ N/A

Report of the Board of Directors

(3) Assets and liabilities at fair value

Unit: RMB in million

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased during the period	Amount disposed of during the period	Other change	Closing balance
Financial assets								
Including:								
1. Trading financial assets (excluding derivative financial assets)	1,036.9	742.0	—	—	194.0	1,108.2	166.1	1,360.7
2. Derivative financial assets	36.1	173.3	—	—	—	—	—	209.4
3. Receivable financing	1,970.6	—	—	1.9	15,450.0	12,222.2	—	5,196.5
4. Other non-current financial assets	1,536.7	60.3	—	—	—	258.7	(166.0)	1,175.2
Sub-total of financial assets	4,580.3	975.6	—	1.9	15,644.0	13,589.1	0.1	7,941.8
Investment properties	2,035.2	(2.6)	—	—	—	—	(18.7)	2,013.9
Productive living assets	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
Total	6,615.5	973.0	—	1.9	15,644.0	13,589.1	(18.6)	9,955.7
Financial liabilities ^{Note}	154.0	(126.3)	—	—	—	—	—	27.7

Note: Financial liabilities comprise derivative financial liabilities.

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

There was no material change to the measurement attributes of the principal assets of the Company during the year.

(4) For details of assets of the Company subject to restrictions in ownership or use as at the end of the year, please refer to Note V. 57 to the financial report.

9. Major customers and suppliers

The Company provides comprehensive services to mainstream carriers and government and corporate clients around the world. Through the provision of innovative technology and product solutions to telecommunications carriers and government and corporate clients in numerous countries and regions, the Company facilitates comprehensive communication services via multiple means, such as voice, data, multi-media, wireless broadband and cable broadband for users all over the world. The handset terminal products of the Group are marketed to mainstream populations.

Suppliers of the Group include suppliers of raw materials and outsourcing manufacturers. The Group sources from different suppliers around the world, which have established stable business relationships with the Group.

Sales by the Group in 2021 to its largest customer amounted to RMB36,409.8 million, accounting for 31.8% of the total sales of the Group for the year, while sales to its top five customers amounted to RMB69,165.9 million, accounting for 60.4% of the total sales of the Group for the year. The top five customers were not connected to the Company in any way. None of the Directors or Supervisors of the Company or their close associates, senior management, key technical personnel, or to the knowledge of the Board of Directors, any of the shareholders holding 5% or more of the shares of the Company or other connected parties had any direct or indirect interest in any of the aforesaid five largest customers of the Group.

Report of the Board of Directors

Purchases by the Group in 2021 from its largest supplier amounted to RMB4,229.0 million, accounting for 6.6% of the total purchases of the Group for the year, while the purchases made from its top five suppliers amounted to RMB13,475.2 million, accounting for 21.0% of the total purchases of the Group for the year. The top five suppliers were not connected to the Company in any way. None of the Directors or Supervisors of the Company or their close associates, senior management, key technical personnel, or to the knowledge of the Board of Directors, any of the shareholders holding 5% or more of the shares of the Company or other connected parties had any direct or indirect interest in any of the aforesaid top five suppliers of the Group.

10. Analysis of investment

(1) Overview

The Company's long-term equity investments as at the end of the year under review amounted to approximately RMB1,684,909,000, representing decrease of 1.69% compared to approximately RMB1,713,803,000 as at 31 December 2020. Other third-party investments amounted to approximately RMB2,535,946,000, representing decrease of 1.46% compared to approximately RMB2,573,647,000 as at 31 December 2020.

(2) Please refer to the section headed "Material Matters" in this report for details of equity investment acquired by the Group during the year.

(3) The Company did not conduct any material non-equity investments during the year.

Report of the Board of Directors

(4) Financial assets at fair value

① Investment in securities

A. Investment in securities as at the end of the year

Unit: RMB in ten thousand

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/losses arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed of during the period	Gains/losses for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	002579	China Eagle Electronic ^{Note 1}	1,382.31	Fair-value measurement	1,208.08	112.58	—	—	324.64	58.04	936.71	Trading financial assets	issue funds
Stock	688639	Huaheng Biotech ^{Note 1}	2,396.88	Fair-value measurement	9,545.46	60,384.42	—	—	—	60,587.01	69,929.88	Trading financial assets	issue funds
Stock	688019	Anji Technology ^{Note 2}	1,679.35	Fair-value measurement	26,609.50	(4,753.25)	—	—	3,633.59	(1,486.34)	21,667.49	Trading financial assets	issue funds
Stock	688300	NOVORAY ^{Note 2}	1,000.83	Fair-value measurement	4,683.00	(3,682.18)	—	—	6,190.92	1,311.97	—	Trading financial assets	issue funds
Stock	688595	Chipsea Technologies ^{Note 2}	1,955.00	Fair-value measurement	11,422.78	(9,467.78)	—	—	19,791.78	7,456.02	—	Trading financial assets	issue funds
Stock	688135	Leadyo ^{Note 2}	1,999.78	Fair-value measurement	6,858.73	(4,858.96)	—	—	8,574.77	1,414.61	—	Trading financial assets	issue funds
Stock	688630	Circuit Fabology ^{Note 2}	2,000.00	Fair-value measurement	3,781.41	28,181.98	—	—	—	28,181.98	31,963.38	Trading financial assets	issue funds
Stock	301000	Hajime ^{Note 3}	3,037.50	Fair-value measurement	3,279.11	8,293.09	—	—	—	8,533.09	11,572.20	Trading financial assets	issue funds
Stock	ENA:TSV	Enablence Technologies ^{Note 4}	3,583.26	Fair-value measurement	714.87	(300.87)	—	—	—	(300.87)	414.00	Other non-current financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
Total			19,034.91	—	68,102.94	73,909.03	—	—	38,515.70	105,755.51	136,483.66	—	—

Note 1: The Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaying Fund, a partnership reported in the consolidated financial statements of the Company. Figures corresponding to China Eagle Electronic and Huaheng Biotech are provided with Jiaying Fund as the accounting subject.

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

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

Note 4: The initial investment for the acquisition of Enablence Technologies shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the year was approximately HKD5,065,100, equivalent to approximately RMB4,140,000 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.81736) on 31 December 2021.

Report of the Board of Directors

B. Details in investment in securities during the reporting period

a. Shareholdings in China Eagle Electronic

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

b. Shareholdings in Huaheng Biotech

As at the end of the year, Jiaxing Fund held 6,011,600 shares in Huaheng Biotech (a company listed on the STAR Market of the Shanghai Stock Exchange) accounting for 5.57% of the total share capital of Huaheng Biotech.

c. Shareholdings in Anji Technology

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

d. Shareholdings in NOVORAY

In 2021, Zhonghe Chunsheng Fund III transferred 1,000,000 shares in NOVORAY (a company listed on the STAR Market of the Shanghai Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund III ceased to hold any shares in NOVORAY.

e. Shareholdings in Chipsea Technologies

In 2021, Zhonghe Chunsheng Fund III transferred 1,956,500 shares in Chipsea Technologies (a company listed on the STAR Market of the Shanghai Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund III ceased to hold any shares in Chipsea Technologies.

f. Shareholdings in Leadyo

In 2021, Zhonghe Chunsheng Fund III transferred 1,776,000 shares in Leadyo (a company listed on the STAR Market of the Shanghai Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund III ceased to hold any shares in Leadyo.

g. Shareholdings in Circuit Fabology

As at the end of the year, Zhonghe Chunsheng Fund III held 4,999,900 shares in Circuit Fabology (a company listed on the STAR Market of the Shanghai Stock Exchange), accounting for 4.14% of the total share capital of Circuit Fabology.

h. Shareholdings in Hajime

As at the end of the year, Jiaxing Fund and Zhonghe Chunsheng Fund III held 2,000,000 shares in Hajime (a company listed on the GEM of the Shenzhen Stock Exchange), accounting for 3.75% of the total share capital of Hajime.

i. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total investment of CAD2.70 million. ZTE HK entered into a Subscription Agreement with Enablence Technologies on 27 January 2016. On 2 February 2016, ZTE HK subscribed for 77 million shares issued by Enablence Technologies for a total investment of CAD4.62 million. In 2021, Enablence Technologies underwent an asset reorganisation, including share consolidation (120 shares into 1 share), debt-to-share conversion, additional share issue and issue of options. As at the end of the year, ZTE HK held 791,700 shares (following share consolidation under the asset reorganisation of Enablence Technologies) in Enablence Technologies, accounting for 4.26% of its total share capital.

Report of the Board of Directors

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

② Entrusted fund management

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

Unit: RMB ten thousand

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

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

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

☐ Applicable ☒ N/A

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

☐ Applicable ☒ N/A

③ Derivative investments

Unit: RMB in ten thousand

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment ^{Note 1}	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount ^{Note 2}	Amount purchased during the period	Amount disposed of during the period	Impairment provision (if any)	Closing balance of investment	Closing balance of assets ^{Note 3} of the Company at the end of the period (%)	Actual profit or loss for the reporting period
Financial institution	N/A	No	Foreign exchange derivative	—	2021/1/28	2022/12/30	671,521.51	2,658,942.97	2,601,474.45	—	728,890.03	14.17%	42,549.43
Financial institution	N/A	No	Interest rate derivative	—	2021/12/26	2022/12/26	2,914.29	—	1,457.15	—	1,457.14	0.03%	5.04
Total				—	—	—	674,435.80	2,658,942.97	2,602,931.60	—	730,447.17	14.20%	42,554.47

Report of the Board of Directors

Source of funds for derivative investment	Internal funds
Litigation (if applicable)	Not involved in any litigation
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)	“Announcement Resolutions of the Fifteenth Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2020,” both dated 27 March 2020, “Announcement Resolutions of the Thirty-third Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2021,” both dated 16 March 2021.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	“Announcement on Resolutions of the 2019 Annual General Meeting” dated 19 June 2020 and “Announcement on Resolutions of the 2020 Annual General Meeting” dated 25 June 2021.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Value-protection derivative investments were conducted by the Company during 2021. The major risks and control measures are analysed and discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the cumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company’s current assets was insignificant; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks; 5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.

Report of the Board of Directors

Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The Company has recognised gains/losses from investments in derivatives during the reporting period. Total gains recognised for the reporting period amounted to RMB426 million, comprising gains from fair-value change of RMB300 million and recognised investment gains of RMB126 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.
Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control	Independent Non-executive Directors' Opinion: The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedures performed have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association.
Note 1: Derivative investments are classified according to the types of derivative investment. Foreign exchange derivatives include exchange forwards and exchange swaps. Interest rate derivatives are interest rate swap contracts; Note 2: The investment amount at the beginning of the period represented the amount denominated in the original currency translated at the exchange rate prevailing as at the end of the reporting period; Note 3: Net assets as at the end of the reporting period represented net assets attributable to holders of ordinary shares of the listed company as at the end of the reporting period.	

Report of the Board of Directors

(5) Use of Issue Proceeds

① Overall application of issue proceeds:

√ Applicable □ N/A

Unit: RMB ten thousand

Year	Mode	Total amount of issue proceeds	Total amount of issue proceeds utilised during the period	Cumulative total amount of issue proceeds utilised	Total amount of issue proceeds applied to changed purposes during the reporting period	Cumulative total amount of issue proceeds applied to changed purposes	Percentage of cumulative total amount of issue proceeds applied to changed purposes	Total amount of unutilised issue proceed	Purposes and status of unutilised issue proceeds	Amount of issue proceeds unutilised for more than two years
2020	Non-public issuance	1,145,941.87 ^{Note}	—	1,132,429.46	—	—	—	—	—	—
Total		1,145,941.87	—	1,132,429.46	—	—	—	—	—	—

Overall application of issue proceeds

The total amount of the Company's issue proceeds was RMB11,512,999,800 and the net amount after deduction of issue expenses was RMB11,459,418,700. As at the end of 2020, the total amount of issue proceeds utilised was RMB11,324,294,600. At the board meeting convened by the Company on 29 January 2021, the closing of investment projects utilising proceeds from the non-public issuance of A shares and allocation of surplus proceeds amounting to RMB138 million (including interest income and after deduction of related expenses, the exact sum being the amount in the designated account for issue proceeds on the date on which the funds are transferred out) as supplementary working capital on a permanent basis was considered and approved. At the time of the cancellation of the designated account for issue proceeds in February 2021, the exact amount of surplus issue proceeds was RMB138,160,600. The surplus proceeds was applied as supplementary working capital on a permanent basis.

Note: The gross amount of the Company's issue proceeds was RMB11,512,999,800, and the net amount after deduction of issue expenses was RMB11,459,418,700.

Report of the Board of Directors

② Projects to which issue proceeds were committed

√ Applicable □ N/A

Unit: RMB ten thousand

Projects under investment commitment and application of issue proceeds from over-subscription	Any change to projects (including partial changes)	Total amount of issue proceeds committed to investment	Adjusted total amount of investment (1)	Amount invested during the reporting period	Cumulative investment amount as at the end of the period (2)	Progress of investment as at the end of the period (3) = (2)/(1)	Date on which the project reaches the expected state of usefulness	Benefit realised during the reporting period	Whether expected benefits are achieved	Any material change to project feasibility
Projects under investment commitment										
Technological research and product development projects relating to 5G network evolution	No	755,941.87	755,941.87	—	742,429.46	98.21%	—	N/A	N/A	No
Replenishment of working capital	No	390,000.00	390,000.00	—	390,000.00	100.00%	—	N/A	N/A	No
Subtotal of projects under investment commitment	—	1,145,941.87	1,145,941.87	—	1,132,429.46	—	—	—	—	—
Application of issue proceeds from over-subscription										
Repayment of bank loans (if any)	—	—	—	—	—	—	—	—	—	—
Replenishment of working capital (if any)	—	—	—	—	—	—	—	—	—	—
Subtotal of application of issue proceeds from over-subscription	—	—	—	—	—	—	—	—	—	—
Total	—	1,145,941.87	1,145,941.87	—	1,132,429.46	—	—	—	—	—

Non-fulfillment of scheduled progress or anticipated earnings and reasons (by specific project) N/A

Material change to project feasibility N/A

Amount, purposes and progress of application of intended use and progress of application of issue proceeds from over-subscription N/A

Change to implementation location of investment projects using issue proceeds N/A

Change to implementation method of investment projects using issue proceeds N/A

Report of the Board of Directors

Initial investments and fund replacements in investment projects using issue proceeds

Pursuant to the “Resolution on the Application of Issue Proceeds in Replacement of Internal Funds Previously Invested in Projects for which the Issue Proceeds are Intended” considered and approved at the Fourteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 14 February 2020, the Company’s application of issue proceeds in replacement of internal funds previously invested in projects for which the issue proceeds are intended with a total fund replacement amount of RMB4,972 million was approved. The aforesaid amount has been verified and confirmed by Ernst & Young Hua Ming LLP with the “Special authentication report on the advanced application of internal funds in projects to be funded by issue proceeds by ZTE Corporation” (Ernst & Young Hua Ming (2020) Zhuang Zi No. 60438556_H01). The Supervisory Committee, Independent Non-executive Directors and sponsor of the Company have furnished opinion of unequivocal consent. Subsequently, the Company replaced the funds with the issue proceeds.

The investment in projects funded by issue proceeds and the approach of “consolidation and audit before transfer to issue proceeds” are explained as follows: among the projects to be funded by issue proceeds raised from the non-public issuance of shares, “technological research and product development projects relating to 5G network evolution” represents primarily the capitalisation of R&D expenses and purchase of R&D equipment and software for technological research and product development projects relating to 5G network evolution. Capitalisation of R&D expenses included R&D staff cost and R&D materials consumed during the R&D process which cannot be paid for in advance directly from the issue proceed account, as these items have to be examined as to whether they qualify for capitalisation, and the relevant amount could only be ascertained after the relevant capitalisation item expenses are accurately consolidated and calculated. Regarding the purchase of R&D equipment and software, for the purposes of supply-chain efficiency, the Company typically purchases similar equipment or software through centralised procurement. The specific uses of the equipment/software are then distinguished when they are collected by different departments, and expenses attributed to projects funded by issue proceeds are subsequently identified. The Company may only replace internal funds invested in projects funded by issue proceeds with issue proceeds based on the amount authenticated by an accountant firm regularly appointed by the Company after such authentication, consideration and approval by the Board and the Supervisory Committee, furnishing of an unequivocal opinion of approval by the Independent Non-executive Directors and Supervisory Committee and an examination opinion by the sponsor.

Report of the Board of Directors

Pursuant to the “Resolution on the Application of Issue Proceeds in Replacement of Internal Funds Previously Invested in Projects for which the Issue Proceeds are Intended and Utilised for the Payment of Issue Expenses” considered and approved at the Twentieth Meeting of the Eighth Session of the Board of Directors of the Company held on 28 July 2020 and the Thirty-first Meeting of the Eighth Session of the Board of Directors of the Company held on 29 January 2021, the applications of issue proceeds with the amounts of RMB1,357 million and RMB1,095 million in replacement of internal funds previously invested in projects for which the issue proceeds are intended during the period from 1 January 2020 to 30 June 2020 and during the period from 1 July 2020 to 31 December 2020 was considered, respectively. The aforesaid amount has been verified and confirmed by Ernst & Young Hua Ming LLP with the “Special authentication report on the advanced application of internal funds in projects to be funded by issue proceeds by ZTE Corporation and Issue Expenses Paid” (Ernst & Young Hua Ming (2020) Zhuang Zi No. 60438556_H05) and the “Special authentication report on the advanced application of internal funds in projects to be funded by issue proceeds by ZTE Corporation” (Ernst & Young Hua Ming (2021) Zhuang Zi No. 60438556_H01). The Supervisory Committee, Independent Non-executive Directors and sponsor of the Company have furnished opinion of unequivocal consent. Subsequently, the Company replaced the funds already invested in the projects funded by issue proceeds as authenticated by the accounting firm with the issue proceeds.

Application of unutilised issue proceeds as interim working capital replenishment

Pursuant to the “Resolution on the Partial Application of Unused Issue Proceeds as Interim Working Capital Replenishment” considered and approved at the Fourteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 14 February 2020, the application of unused issue proceeds amounting to not more than RMB2,500 million as interim working capital replenishment to be utilised over a term of not more than 12 months from the date of approval by the Board of Directors. The Supervisory Committee, Independent Non-executive Directors and sponsor of the Company have furnished opinion of unequivocal consent.

According to the “Overseas Regulatory Announcement Announcement on early partial repayment of unutilised issue proceeds applied as interim working capital replenishment” published by the Company on 28 July 2020, the Company had applied unutilised issue proceeds of RMB2,500 million as interim working capital replenishment. As at 28 July 2020, the Company had made an early repayment of RMB1,280 million out of the aforesaid unutilised issue proceeds applied as interim working capital replenishment to the designated account for issue proceeds.

According to the “Overseas Regulatory Announcement Announcement on early repayment of unutilised issue proceeds applied as interim working capital replenishment” published by the Company on 29 January 2021, the Company made repayment of the remaining RMB1,220 million of unutilised issue proceeds applied as interim working capital replenishment to the designated account for issue proceeds on 28 January 2021, upon which the unutilised issue proceeds of RMB2,500 million applied as interim working capital replenishment by the Company had been repaid in full to the designated account for issue proceeds and the duration of application had not exceeded 12 months.

Report of the Board of Directors

Amount of issue proceeds in surplus of requirements in project implementation and reasons

Pursuant to the “Resolution on the closing of investment projects utilising proceeds from the non-public issuance of A shares and allocation of the surplus proceeds as supplementary working capital on a permanent basis” considered and approved at the Thirty-first Meeting of the Eighth Session of the Board of Directors of the Company held on 29 January 2021, the closing of investment projects utilising proceeds from the non-public issuance of A shares and allocation of surplus proceeds amounting to RMB138 million (including interest income and after deduction of relevant expenses, the exact sum being the amount in the designated account for issue proceeds on the date on which the funds are transferred out) as supplementary working capital on a permanent basis was approved. The Supervisory Committee, Independent Non-executive Directors and sponsor of the Company have furnished opinion of unequivocal consent.

The surplus in issue proceeds was primarily attributable to: (1) the Company’s prudent application of issue proceeds in strict accordance with relevant regulations governing the use of issue proceeds in the implementation of the projects, with enhanced control, supervision and management of project construction costs without compromising the quality of the projects, resulting in reasonable reduction in project cost investment and savings in the expenditure of issue proceeds; (2) interest income accrued on the unutilised issue proceeds of the Company.

At the time of the cancellation of the designated account for issue proceeds in February 2021, the exact amount of surplus issue proceeds was RMB138,160,600. The surplus proceeds was applied as supplementary working on a permanent basis.

Application and status of unutilised issue proceeds

At the time of the cancellation of the designated account for issue proceeds in February 2021, the exact amount of surplus issue proceeds was RMB138,160,600. The surplus proceeds was applied as supplementary working on a permanent basis.

Any issues and other information relating to the application of issue proceeds and disclosure thereof

N/A

③ There was no change to projects utilising issue proceeds of the Company during the reporting period.

11. Material asset and equity disposal by the Group

For details of asset and equity transactions by the Group during the year, please refer to the section headed “Material Matters” in this report.

Report of the Board of Directors

12. Analysis of principal subsidiaries and investee companies

- (1) For the reporting period, there were 4 subsidiaries whose net profit accounted for more than 10% of the net profit reported in the Group's consolidated statements, among which ZTE Capital and ZTE Microelectronics reported a year-on-year increase in net profit by more than 30%, attributable mainly to the increase in gain from change of fair value of listed equities held by subsidiary fund partnership enterprises of ZTE Capital in the case of ZTE Capital and the increase in gross profit in the case of ZTE Microelectronics.

Unit: RMB in millions

Name of company	Corporate type	Principal operations	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	RMB51.08 million	12,772.5	1,783.3	18,301.5	1,538.3	1,438.9
ZTE Capital	Subsidiary	Entrusted management of venture investment funds	RMB30 million	2,066.3	1,951.4	—	1,066.2	1,057.2
ZTE Microelectronics	Subsidiary	Design, production and sales of integrated circuits	RMB131,578,947	8,202.6	5,896.7	9,730.5	926.2	846.3
ZTE (Nanjing) Company Limited	Subsidiary	Production of mobile communication system equipment	RMB1,000 million	13,844.8	2,975.8	33,113.9	970.7	707.8

- (2) For information of other subsidiaries and principal investee companies, please refer to Note XV.4 and Note VII to the financial statements.
- (3) For details of acquisitions and disposals of subsidiaries acquired during the reporting period and their impact, please refer to Note VI to the financial statements.

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

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

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

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

The Group's debt-equity ratio for 2021 was 43.4%, decreasing by 0.8 percentage points as compared to 44.2% for 2020, attributable mainly to the increase in the Group's profit for the period.

(2) Source and application of capital

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

(3) Capital expenditure

The Group's capital expenditure for 2021 amounted to RMB4,982.0 million, compared to RMB8,471.3 million for 2020, which was mainly applied in the Nanjing Project, Shanghai R&D Phase III, purchase of equipment assets and internal R&D investment, among others.

Report of the Board of Directors

(4) Indebtedness

The Group's bank loans were mainly settled in RMB, USD and EUR. As at 31 December 2021, the Group's bank loans amounted to RMB39,443.5 million in aggregate, and were applied mainly as working capital. Bank loans subject to interests at fixed rates amounted to approximately RMB7,980.9 million, while the remaining portion was subject to floating interest rates, the details of which are as follows:

① Analysed by maturity profile

Unit: RMB in million

Item	31 December	
	2021	2020
Short-term bank loans	9,535.1	12,210.7
Long-term bank loans	29,908.4	22,614.3
Total	39,443.5	34,825.0

② Analysed by security

Unit: RMB in million

Item	31 December	
	2021	2020
Secured bank loans	75.5	452.4
Unsecured bank loans	39,368.0	34,372.6
Total	39,443.5	34,825.0

(5) Foreign exchange risks and related hedging

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. Based on end-to-end exchange risk management throughout its business processes, the Group seeks to reduce the impact of exchange rate volatility on the Group's operations at source through the use of measures such as business strategic guidance, internal settlement management, financing mix optimisation and value-protected derivative products on exchange rates. The Group also strengthens liquidity risk management in countries practicing exchange control and facilitates RMB pricing and settlement for overseas projects to lower its exchange risks in the long term. For details, please refer to the section headed "Report of the Board of Directors (II) 8. Analysis of investment — Derivative investments" in this report.

(6) Contractual obligations

Unit: RMB in million

Item	Total	31 December 2021		
		Less than 1 year	2-5 years	More than 5 years
Bank loans	39,443.5	9,535.1	29,852.4	56.0

The Group's bank loans as at the end of 2021 increased by RMB4,618.5 million compared to the end of 2020, which was mainly attributable to the Company's supplementary working capital.

Report of the Board of Directors

(7) Contingent liabilities

Unit: RMB in millions

Item	31 December 2021	2020
Guarantees given to banks in connection with borrowings to customers	—	—
Guarantees given to banks in respect of performance bonds	12,974.1	12,832.3
Total	12,974.1	12,832.3

(8) Capital commitments

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

Unit: RMB in million

Item	31 December 2021	2020
Land and buildings:		
Contracted, but not provided for	2,534.0	2,837.2
Investment in associates:		
Contracted, but not provided for	13.0	13.0

(9) Prospects for new business

Details of the prospects for new business of the Group are set out in the section headed “Chairman’s Statement — Future Prospects” and “Report of the Board of Directors — (V) Business outlook of 2022 and risk exposures” in this report.

(10) Employees

Details of the number of employees, training programmes, remuneration, remuneration policy, bonus and the share option scheme of the Group as at 31 December 2021 are set out in the sections headed “Directors, Supervisors, Senior Management and Employees” and “Corporate Governance Report — (X) Implementation and Impact of the Company’s Share Option Incentive Scheme and Management Stock Ownership Scheme” in this report.

(11) Charges on assets

Details of the Group’s charges on assets as at 31 December 2021 are set out in Note V.21 and 30 to the financial statements.

(12) Plans for investments or acquisition of capital assets

Details of the Group’s investments and their performance and prospects as at 31 December 2021 are set out in the sections headed “Report of the Board of Directors — (II) 10. Analysis of Investments” and “Material Matters — (IV) and (VII)” in this report.

The Group will arrange future plans for investments or acquisition of capital assets in accordance with strategic plans and actual operation conditions.

(13) Market risks

For details of the Group’s exposure to market risks, please refer to the section headed “Report of the Board of Directors — (V) Business outlook for 2022 and risk exposures.”

(14) Fixed assets

Details of changes in fixed assets of the Group for the year are set out in Note V.13 to the financial statements.

Report of the Board of Directors

(15) Bank loans and other borrowings

Details of bank loans and other borrowings of the Group as at 31 December 2021 are set out in Note V.21 and 30 to the financial statements.

(16) Reserves

Details of the reserves and changes in the reserves of the Group and the Company for the year are set out in Consolidated Statement of Changes in Equity.

(17) Pre-emptive rights

There is no provision under the Company Law or the Articles of Association regarding pre-emptive rights that requires the Company to offer new shares to its existing shareholders on a pro-rata basis.

(18) Share capital

Details of the share capital of the Company, together with movements in such share capital and the reasons therefor, are set out in Note V.33 to the financial statements and the section headed “Changes in Shareholdings and Information of Shareholders – (I) Changes in Share Capital during the Year” in this report.

(19) Competing interest

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

(20) List of Directors

The list of Directors of the Company is set out in the section headed “Directors, Supervisors, Senior Management and Employees – (I) Changes in the Shareholdings and Share Options of and Annual Remuneration of the Company’s Directors, Supervisors, Senior Management” in this report.

(21) Approved indemnity clause

The Company has made proper insurance arrangements for the office of its Directors, Supervisors and senior management personnel to ensure that timely and comprehensive compensation may be made in respect of economic losses incurred by third parties as a result of the discharge of duties by such Directors, Supervisors and senior management personnel. In accordance with the provisions of Section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the aforesaid approved indemnity clause for the benefit of the Directors was effective during the financial year ended 31 December 2021 and at the time when the report of the Board of Directors prepared by the Directors was adopted in accordance with Section 391(1) (a) of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

(22) Taxation

In accordance with the Individual Income Tax Law of China and its implementation provisions, dividends in respect of shares received from China by overseas non-resident individual H shareholders shall be subject to an individual income tax based on “interest, dividend and bonus” items deductible and payable by the party responsible for such deduction and payment on behalf of such shareholders in accordance with the law. The Company shall deduct and make payment of such tax amounts on behalf of the said shareholders in accordance with the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993] 045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011] 348號)), State Administration of Taxation Announcement on Measures Governing Non-resident Taxpayers’ Access to Tax Treaty Treatments (SAT Announcement [2019] No. 35) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》(國家稅務總局公告2019年第35號)) and provisions under pertinent laws and regulations. In accordance with the Enterprise Income Tax Law of the People’s Republic of China and the Notice of the State Administration of Taxation on Issues relating to Source-based Withholding of Enterprise Income Tax on Non-resident Enterprises, overseas non-resident corporate H shareholders should pay the enterprise income tax on income sourced in China, and the payer shall serve as the withholding agent to implement source-based withholding. The Company will withhold the relevant taxes in accordance with the Notice of the State Administration of Taxation on Issues

Report of the Board of Directors

Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Resident Enterprises to Offshore Non-resident Enterprise Holders of H Shares” (Guoshuihan [2008] No. 897). Shareholders are advised to consult their tax advisors on the tax implications in the PRC, Hong Kong or otherwise of owning and disposing of the Company’s shares.

(23) Stakeholders

The Company respects the rights of its stakeholders, such as banks and other creditors, employees, consumers, suppliers and the community, among others, and actively works with the stakeholders in a joint effort to drive the Company’s ongoing sound development.

(24) Others

As at the date of the publication of this report, so far as known to the Company, the Group’s financial conditions and operating results will not be materially and adversely affected by the COVID-19 epidemic.

(25) Post-balance sheet date events

Details of post-balance sheet date events of the Company are set out in Note XIII to the financial statements.

(III) Compliance with laws and regulations

The Group is one of the world’s leading listed manufacturers of integrated communications equipment and providers of global integrated communications and information solutions. The laws and regulations which have a material impact on the business and operations of the Group include, but are not limited to, those pertaining to corporations, contracts, product safety, privacy and data protection, intellectual property laws and other pertinent laws and regulations of relevant countries and regions and trade rules of relevant international organisations, countries and regions. The Group is committed to ensuring compliance of its businesses and operations with applicable domestic and international laws and regulations.

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

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

During the year, so far as known to the Company, the Group complied in material respects with laws and regulations having a significant impact on the Group’s business and operations.

Report of the Board of Directors

(IV) Records of reception of investors, communications and press interviews during the year

√ Applicable □ N/A

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
Results presentation	March 2021	Shenzhen	Live Internet video broadcast	Investors and securities houses including UBS, Lombarda China Fund, New China Assets, China Merchants Securities, Tianfeng Securities, Haitong Securities, CSC, Changjiang Securities, Nomura Securities and GF Fund.	Day-to-day operations of the Company	Published announcements and regular reports
Results presentation	May 2021	Shenzhen	Telephone conference	100 investors, for details please refer to the Investor Relations Activity Record published by the Company on 12 May 2021.	Day-to-day operations of the Company	Published announcements and regular reports
Results presentation	August 2021	Shenzhen	Telephone conference	152 investors, for details please refer to the Investor Relations Activity Record published by the Company on 1 September 2021.	Day-to-day operations of the Company	Published announcements and regular reports
External meeting	January to December 2021	Shenzhen	Essence Securities investors' telephone conference	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
		Shenzhen	Haitong Securities investors' conference	Customers of Haitong Securities		
		Shenzhen	CMB International investors' telephone conference	Customers of CMB International		
		Shenzhen	Soochow Securities investors' telephone conference	Customers of Soochow Securities		
		Shenzhen	Sinolink Securities investors' conference	Customers of Sinolink Securities		
		Shenzhen	USB investors' telephone conference	Customers of USB		
		Shenzhen	Southwest Securities investors' telephone conference	Customers of Southwest Securities		
		Shenzhen	Haitong Securities investors' telephone conference	Customers of Haitong Securities		
		Shenzhen	Everbright Securities investors' telephone conference	Customers of Everbright Securities		
		Shenzhen	Zheshang Securities investors' conference	Customers of Zheshang Securities		
		Shenzhen	BofA Securities investors' telephone conference	Customers of BofA Securities		
		Xiamen	Industrial Securities investors' conference	Customers of Industrial Securities		

Report of the Board of Directors

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
		Shenzhen	China Securities investors' conference	Customers of China Securities		
		Hangzhou	China Merchants Securities investors' conference	Customers of China Merchants Securities		
		Shenzhen	Credit Suisse investors' telephone conference	Customers of Credit Suisse		
		Shenzhen	Morgan Stanley investors' telephone conference	Customers of Morgan Stanley		
		Shenzhen	Nomura investors' telephone conference	Customers of Nomura		
		Shenzhen	Jefferies investors' telephone conference	Customers of Jefferies		
		Shenzhen	CICC investors' telephone conference	Customers of CICC		
		Shenzhen	Guosheng Securities investors' telephone conference	Customers of Guosheng Securities		
		Shenzhen	Hua Chuang Securities investors' telephone conference	Customers of Hua Chuang Securities		
		Shenzhen	Tianfeng Securities investors' telephone conference	Customers of Tianfeng Securities		
		Shenzhen	Citi investors' telephone conference	Customers of Citi		
		Shenzhen	Kaiyuan Securities investors' conference	Customers of Kaiyuan Securities		
		Shenzhen	CITIC Securities investors' conference	Customers of CITIC Securities		
		Shenzhen	Huatai Securities investors' telephone conference	Customers of Huatai Securities		
		Shenzhen	Guotai Jun'an Securities investors' telephone conference	Customers of Guotai Jun'an Securities		

Report of the Board of Directors

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
		Shenzhen	Huaxi Securities investors' telephone conference	Customers of Huaxi Securities		
		Shenzhen	Guoyuan Securities investors' telephone conference	Customers of Guoyuan Securities		
		Shenzhen	Shenwan Hongyuan Securities investors' telephone conference	Customers of Shenwan Hongyuan Securities		
		Shenzhen	Pacific Securities investors' telephone conference	Customers of Pacific Securities		

(V) Business outlook of 2022 and risk exposures

1. Business outlook of 2022

In 2022, the global landscape will remain subject to significant uncertainty. Meanwhile, 5G development in China will advance in depth and expanse with growing sophistication in industry application. The “double carbon” economy is emerging, coupled with robust development of New Infrastructure and an irreversible trend of digitalisation. The application of 5G will accelerate the digitalisation process, while digitalisation will in turn drive the further integration of 5G and other ICT technologies with traditional industries. The process of digitalisation empowerment for industries has brought about new growth opportunities for ICT technologies.

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

In connection with the government and corporate business, increased investment in New Infrastructure and acceleration of digital transformation across various industries will result in new development opportunities in the government and corporate market. The Group is committed to serving as the “path-builder for digital economy” by empowering sectors across the board with ICT technologies. We will continue to investment in resources for the government and corporate business and step up with development in key sectors, while enhancing our general competitiveness in channels to seize opportunities for rapid growth.

In connection with the consumer business, the Group is progressively integrating handset, broadband Internet, terminal chip module and eco-competence to form a “big terminal” and create a full-scenario smart ecosystem. Meanwhile, we will continue to drive sales growth on the back of our product and technical capabilities and with the support of brand, channels and market strategies.

Report of the Board of Directors

In connection with new business, the Group will accelerate its effort in IT, digital energy and smart home and build them into new engines driving growth in the Company's results. In the IT business, the Group will focus on forging competitiveness in servers and other base IT hardware to swiftly create new 10-billion level products; business expansion in car electronics will be enhanced on the back of our integrate strengths in ICT technology software and hardware to seize opportunities arising from the intelligentisation and Internet-driven revolution of the automobile sector; Special task forces will be set up for the two major sub-segments of mining and iron and steel metallurgy to assist in the digital transformation of the industries with the aid of 5G applications, IT and big data. In connection with digital energy, the Group will consolidate and establish a digital energy product department to enhance the operation of products such as power source and IDC data centre and actively develop the new energy business. In connection with smart home, the Group will establish a smart home product line to leverage the strength of its existing home information terminal products, in a major effort to develop consumer-oriented home intelligent products.

In the meantime, the Group will continue to drive digital transformation and enhance operating efficiency at all sections. We will also continue to enhance our effort in attracting and incentivising core personnel, while making improvements to our compliance management regime to strengthen internal control governance and prevent corporate risks. We will forge a highly resilient organisation and actively implement the double carbon objective and green development principles to achieve corporate sustainability.

2. Risk exposures

(1) Country risks

Given the complex nature of international economic and political conditions and the presence of the Group's business and branch organisations in over 100 countries with differences in macro-economy, policy and regulation and political and social backgrounds, the Group will continue to be exposed to risks relating to legal compliance, taxation, exchange rates and political developments (such as war and domestic unrest), which might affect the operations of the Group. For the possible impact of risks relating to compliance on the operation of the Group, please refer to Note XII. 2.5 to the financial statements. 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 address country risks. We take out necessary export insurance for businesses in regions with higher evaluated risks, and we also resort to financing to avoid possible losses.

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risks

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

Report of the Board of Directors

(4) Interest rate risk

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

(5) Customer credit risk

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

Corporate Governance Report

(I) CORPORATE GOVERNANCE OVERVIEW

The Company improves its corporate governance systems and regimes, regulates operations and optimises internal control regimes on an ongoing basis in accordance with requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies, Shenzhen Listing Rules, Hong Kong Listing Rules and regulations of CSRC pertaining to the governance of listed companies.

As at the end of the year, the status of corporate governance of the Company was in compliance with provisions of the laws, administrative regulations and regulations relating to the governance of listed companies published by the CSRC. The Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules.

- 1 **Shareholders and general meetings:** The general meeting of shareholders is the highest authority of the Company and an important channel for shareholders' participation in corporate governance. The Company has established a corporate governance structure to ensure that all shareholders, minority shareholders in particular, can fully exercise their rights and enjoy equal status. In accordance with the Rules for General Meetings of Listed Companies, the Company has introduced a combination of on-site and online voting to afford convenience to shareholders participating in its general meetings, as well as the practice of separately disclosing the votes of minority shareholders in announcements of resolutions of general meetings to give an adequate account of the views of minority shareholders.
- 2 **Controlling shareholder and the listed company:** The Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without compromising the lawful rights and interests of the Company and other shareholders. The assets, staffing, financial affairs, organisation and business of the controlling shareholder of the Company are independent from those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder of the Company was not engaged in any direct or indirect interference with the decision-making and business activities of the Company in circumvention of the general meeting.
- 3 **Directors and the Board:** The Company appoints directors in strict compliance with the criteria and procedures set out its Articles of Association, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Company has formulated the Rules of Procedure of the Board Meetings, and board meetings are convened and held in strict compliance with the Articles of Association and Rules of Procedure of the Board Meetings. The Board is responsible for convening the general meeting, report its work to the general meeting and implement the resolutions of the general meeting in a timely manner; it also determines the operational plans and investment plans of the Company and supervises and provides guidance to the Company's management. To optimise the corporate governance structure, four specialised committees — the Nomination Committee, Audit Committee, Remuneration and Evaluation Committee and Export Compliance Committee — have been established by the Board of Directors. The majority of members and the respective convenors of these committees are Independent Non-executive Directors, providing scientific and professional opinions for reference by the Board of Directors in its decision-making.

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

- 4 **Supervisors and the Supervisory Committee:** The Supervisors of the Company offer expertise and experience in management, finance and other areas and Shareholders' Representative Supervisors of the Company are elected by way of cumulative voting. The Supervisory Committee is accountable to the general meeting. It monitors the financial affairs of the Company and inspect and supervise legal compliance in the performance of duties by the Company's Directors, the President and other members of the senior management to safeguard the legal rights and interests of the Company and shareholders. The Company has formulated the Rules of Procedure for Supervisory Committee Meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles of Association and the Rules of Procedure for Supervisory Committee Meetings.

Corporate Governance Report

- 5 **Performance appraisal and incentive mechanism:** The Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and their personal performances in accordance with the Scheme for the Administration of Senior Management's Performance. Senior management personnel are recruited and appointed in strict accordance with relevant rules, regulations and the Articles of Association. We have established a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy and optimised the overall remuneration structure to create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's business results.
- 6 **Stakeholders:** The Company respects the legal rights of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.
- 7 **Information disclosure and transparency:** The Secretary to the Board of Directors and dedicated officers are responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. The Company procures true, accurate, complete and timely disclosure of relevant information in compliance with relevant PRC laws and regulations and the Articles of Association, ensuring that all shareholders have equal access to information. There were no instances of controlling shareholders owning information otherwise not publicly disclosed or other non-compliances with corporate governance regulations during the year.

(II) THE COMPANY'S INDEPENDENCE FROM ITS CONTROLLING SHAREHOLDER AND INTEGRITY IN ASSETS, STAFFING, FINANCE, BUSINESS AND ORGANISATION

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

With respect to assets, the Company's assets are fully independent with unequivocal ownership. The Company has independent production systems, supplementary production systems and purchase and sales systems. Intangible assets such as industrial property rights, trademarks, and non-patentable technologies are owned by the Company. The Company's procurement and sales systems are independently owned by the Company.

With respect to staffing, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company. They do not receive any remuneration from, nor have they taken up other major positions (other than as directors and supervisors) with, the controlling shareholder and other companies under its control.

With respect to finance, the Company has an independent financial department with an independent accounting and audit system and a financial management system, and maintains an independent bank account.

With respect to organisation, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence. There is no reporting relationship between the controlling shareholder (and its functional departments) and the Company (and its functional departments).

With respect to business, the Company's business is fully independent from the controlling shareholder. The controlling shareholder and other units controlled by it were not engaged in competition in the same business with the Company.

Corporate Governance Report

(III) SHAREHOLDERS AND GENERAL MEETINGS

1. General meetings convened

The Company's 2020 Annual General Meeting (the "AGM") was held on 25 June 2021 by way of a combination of on-site voting and online voting. Shareholders (or proxies) holding 28.83% of the total number of shares carrying voting rights at the AGM of the Company attended the AGM, at which 18 resolutions, including but not limited to the 2020 Annual Report, 2020 Report of the Board of Directors, 2020 Report of the Supervisory Committee and Proposal for Profit Distribution for 2020, were considered and approved. For relevant details, please refer to the "Announcement on Resolutions of the 2020 Annual General Meeting" published on 25 June 2021.

2. Extraordinary general meetings convened at the request of preferential shareholders with reinstated voting rights

☐ Applicable ☒ N/A

3. Shareholders' rights

The Company adopts relevant measures to actively facilitate and ensure the smooth exercise of shareholders' rights in strict compliance with the Company Law, Securities Law, Hong Kong Listing Rules and other relevant laws and regulations and in accordance with pertinent requirements under the Articles of Association.

Details of the shareholding structure of the Company are set out in the section of this report headed "Changes in Shareholdings and Information of Shareholders — (1) CHANGES IN SHAREHOLDINGS DURING THE YEAR".

The Company has maintained effective communications with its shareholders by reporting the Group's results and operations to shareholders through numerous official channels, such as the publication of annual reports, interim reports and quarterly reports. Shareholders can also express their views or exercise their rights through communication channels set up by the Company, such as the shareholders' hotline and e-mail contacts. The Company's website is updated regularly to provide investors and the public with timely information of the Company's latest developments. Shareholders can also submit their enquiries and questions to the Board of Directors in writing through the Company Secretary, whose contact details are set out in the section headed "Corporate Information" in this report.

The circular and the notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in terms of dates, details, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings. Shareholders holding 10% of above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting. For details, please refer to Articles 74, 75 and 76 of the Articles of Association. Shareholders holding 3% of above of the shares of the Company alone or in aggregate shall be entitled to propose ex tempore motions 10 days prior to the convening of the general meeting and submit the same in writing to the convener of the general meeting. For details, please refer to Article 78 of the Articles of Association. In accordance with Article 100 of the Articles of Association, the Directors, Supervisors and senior management of the Company are obliged to give explanations in response to queries and suggestions of shareholders.

During the year, the Company made amendments to Articles 14, 24, 27, 100, 102, 109, 115, 127, 132, 143, 152, 160, 162, 163, 190, 193, 196, 226, 227 and 264 of the Articles of Association based on the conditions of the Company and pertinent laws and regulations. The latest updated version of the Articles of Association is available for inspection on www.cninfo.com.cn and the respective websites of Hong Kong Stock Exchange and the Company.

Corporate Governance Report

4. Investor relations

The Company is committed to the development of investors' relations programmes and sound communications with investors are being maintained via our investor relations hotline, e-mail, the investors' relations interactive platform of the Shenzhen Stock Exchange and investor receptions. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and key senior management members attend the meeting on a best effort basis and are engaged in direct dialogue with the shareholders during the arranged Q&A sessions. Details of the Company's reception of investors during 2021 are set out in the section of this report headed "Report of the Board of Directors (IV) Records of reception of investors, communications and press interviews during the year".

In the coming year, the Company will further enhance communications with investors with the hope that they will offer more support and concern for the Company on the back of better understanding.

5. Profit distribution

(1) Proposal for profit distribution of 2021

Audited net profit attributable to holders of ordinary shares of the Company for the year 2021 amounted to approximately RMB8,270,187,000. Together with undistributed profit of approximately RMB5,816,798,000 carried forward at the beginning of the year, dividend distribution to shareholders for 2020 of approximately RMB927,542,000 and after provision for statutory surplus reserves of approximately RMB58,681,000, profit available for distribution to shareholders amounted to approximately RMB13,100,762,000.

The profit distribution proposal for 2021 recommended by the Board of the Company: distribution of RMB3 in cash (before tax) for every 10 shares to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. In the event of changes in the Company's total share capital after the announcement of the Company's profit distribution proposal for 2021 but before its implementation, the total amount of distribution shall be readjusted in accordance with the law on the basis of the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2021 according to the existing proportion for distribution. The Company's total share capital was 4,731,665,005 shares as at 8 March 2022. There are 4,447,503 outstanding options exercisable in the third exercise period under the 2017 A share option incentive scheme of the Company and the third exercise period is the dates on which the share options are exercisable during the period from 14 July 2021 to 5 July 2022. There are 51,375,352 outstanding options exercisable in the first exercise period of the first grant under the 2020 A share option incentive scheme of the Company and the first exercise period is the dates on which the share options are exercisable during the period from 17 November 2021 to 5 November 2022. Assuming the said options are fully exercised prior to the A share record date of dividend distribution, 4,787,487,860 shares in the Company will be entitled to dividend payment, which will result in a total dividend amount of not more than RMB1.44 billion. The aforesaid matter is subject to consideration and approval at the General Meeting.

The exact timing of payment of the Company's 2021 dividend is dependent on when the general meeting will be held and the progress of working relating to dividend distribution, provided that the distribution will be completed no later than before 31 August 2022.

(2) Formulation, implementation and adjustment of profit distribution policies

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

Corporate Governance Report

According to the “Profit Distribution Proposal for 2020” considered and approved at the Company’s Thirty-third Meeting of the Eighth Session of the Board of Directors held on 16 March 2021 and 2020 Annual General Meeting held on 25 June 2021: a dividend of RMB2 in cash (before tax) for every 10 shares shall be distributed to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. The Company’s total share capital was 4,637,709,675 shares (comprising 3,882,207,141 A shares and 755,502,534 H shares) as at the record date. Profit distribution for 2020 was completed on 20 August 2021 and a cash dividend amounting to RMB928 million in aggregate was distributed.

The aggregate profit distribution of the Company in the form of cash in 2019–2021 accounted for 62.6% of the annual average profit available for distribution in the past three years, in compliance with Article 232 of the Articles of Association which states that “the aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years”.

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

(IV) BOARD OF DIRECTORS

1. Functions of the Board of Directors

The Board of Directors is responsible for convening general meetings, reporting its work to the general meeting and implementing resolutions of the general meeting in a timely manner; monitoring the development of the overall operational strategy of the Company, deciding on the operational plans and investment proposals of the Company, as well as providing supervision over and guidance to the management team of the Company. The Board of Directors is also responsible for monitoring the business and financial performance of the Company.

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group’s conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2021. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

2. Composition of the Board of Directors

The Eighth Session of the Board of Directors of the Company comprised 9 Directors, including 3 Executive Directors, namely, Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying, with Mr. Li Zixue as Chairman of the Company, who have extensive experience in the electronics/communications industries as well as experience in management and operations; 3 Independent Non-executive Directors, namely Ms. Cai Manli, Mr. Gordon Ng and Zhuang Jiansheng, who performed their duties in a proactive manner with the benefit of their professional qualifications and substantial experience as influential members respectively of the monetary, financial, legal and compliance sectors; and 3 Non-executive Directors, namely Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong, who had extensive business and management experience. The composition of the Board of the Company has enabled stringent review and control of the management procedures and safeguards the interests of shareholders as a whole, including minority shareholders. The profiles and terms of office of the Directors are set out in the section of this report headed “Directors, Supervisors, Senior Management and Employees (I)–(IV)”. The composition of the Board of Directors was in compliance with the provisions of Rule 3.10(1) and (2) and Rule 3.10(A) of the Hong Kong Listing Rules.

The Company confirms that it has received annual written confirmations of independence from all the Independent Non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules. In accordance with the guidelines on independence set out in the Hong Kong Listing Rules, the Company is of the opinion that all the Independent Non-executive Directors are independent persons.

There were no financial, business, family or other material/relevant connections among members of the Board of Directors of the Company.

Corporate Governance Report

3. Term of office, appointment and removal of Directors

A Director (including Non-executive Director) of the Company is appointed for a term of 3 years and is eligible for re-election upon conclusion of each term. An Independent Non-executive Director can hold office for a maximum of 6 years. Other than Mr. Zhuang Jiansheng, current Independent Non-executive Director of the Company, who serves a term commencing on 19 June 2020 and ending on 29 March 2022, all current Directors of the Company serve a term commencing on 30 March 2019 and ending on 29 March 2022.

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

4. Board Meetings

(1) The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2021, the Board of Directors of the Company convened 14 meetings and the general meeting convened 1 meeting.

① Attendance of Directors at the meetings of the Board of Directors and the general meetings during the year was set out in the following:

Number of meetings	Board meeting 14				General meeting 1	
	Attendance in person			Attendance	Attendance in person	Attendance
	Voting on site	Voting via telecommunication	Attendance by proxy			
Directors						
Chairman and Executive Director						
Li Zixue	7	7	0	14/14	1	1/1
Executive Director						
Xu Ziyang	5	7	2	12/14 ^{Note}	1	1/1
Gu Junying	7	7	0	14/14	1	1/1
Non-executive Director						
Li Buqing	6	7	1	13/14 ^{Note}	1	1/1
Zhu Weimin	7	7	0	14/14	1	1/1
Fang Rong	7	7	0	14/14	1	1/1
Independent Non-executive Director						
Cai Manli	7	7	0	14/14	1	1/1
Gordon Ng	7	7	0	14/14	1	1/1
Zhuang Jiansheng	7	7	0	14/14	1	1/1

Note: attendance by proxy is not counted in attendance rate.

No Director of the Company reported absence from Board meetings or failed to attend in person at two consecutive Board meetings during the year.

Corporate Governance Report

② Information of Board meetings convened during the year is as follows:

Session	Date of meeting	Date of publication of announcement of resolutions
Thirtieth Meeting of the Eighth Session of the Board	11 January 2021	11 January 2021
Thirty-first Meeting of the Eighth Session of the Board of Directors	29 January 2021	29 January 2021
Thirty-second Meeting of the Eighth Session of the Board of Directors	10 February 2021	18 February 2021
Thirty-third Meeting of the Eighth Session of the Board of Directors	16 March 2021	16 March 2021
Thirty-fourth Meeting of the Eighth Session of the Board of Directors	28 April 2021	28 April 2021
Thirty-fifth Meeting of the Eighth Session of the Board of Directors	25 May 2021	25 May 2021
Thirty-sixth Meeting of the Eighth Session of the Board of Directors	29 June 2021	29 June 2021
Thirty-seventh Meeting of the Eighth Session of the Board of Directors	2 August 2021	2 August 2021
Thirty-eighth Meeting of the Eighth Session of the Board of Directors	24 August 2021	24 August 2021
Thirty-ninth Meeting of the Eighth Session of the Board of Directors	27 August 2021	27 August 2021
Fortieth Meeting of the Eighth Session of the Board of Directors	23 September 2021	23 September 2021
Forty-first Meeting of the Eighth Session of the Board of Directors	25 October 2021	25 October 2021
Forty-second Meeting of the Eighth Session of the Board of Directors	4 November 2021	4 November 2021
Forty-third Meeting of the Eighth Session of the Board of Directors	16 December 2021	16 December 2021

For resolutions of the meetings please refer to the Overseas Regulatory Announcement published on 8 March 2022.

- ③ During the year, the Directors did not raise any dissent in respect of relevant matters.
- (2) Notices of regular Board meetings and interim Board meetings of the Company were given 14 days and 3 days (or such other period as might be agreed), respectively, prior to the convening of the meetings. The Secretary to the Board of Directors should provide details of regular and interim Board meetings (including information in relation to each of the meetings of specialised committees of the Board of Directors) not later than 3 days (or other agreed periods) prior to the commencement of the meeting. The Company Secretary would respond to questions raised by the Directors and take appropriate action in a timely manner to help ensure that the procedures of the Board of Directors are in compliance with the Company Law, the Articles of Association, the Hong Kong Listing Rules and other applicable regulations.
- (3) Minutes of each Board of Directors meetings should be signed by the attending Directors and minute-takers, during which the minutes are available for Directors' inspection from time to time upon their request.
- (4) Where any matters (including connected transactions) to be considered by the Board of Directors of the Company are deemed by the Board of Directors to involve a material conflict of interest, abstention measures are adopted and the Directors who are by any means connected with such transactions would abstain from voting.

Corporate Governance Report

5. Respective scopes of delegation and duties of the Board of Directors and the management

The scopes of delegation and duties of the Board of Directors and the management have been clearly defined. Duties of the Board of Directors are set forth in Article 158 of the Articles of Association, a summary of which can be found in the section headed “(IV) 1. Functions of the Board of Directors” in this chapter. The management should be responsible for the day-to-day operation and management and be accountable to the Board of Directors by furnishing sufficient information to the Board of Directors and the specialised committees in a timely manner to enable them to make informed decisions. All Directors are entitled to obtain further information from the management of the Company.

6. Chairman and the President

The roles of Chairman and President of the Company are two distinctly separate positions. Mr. Li Zixue is Chairman, while Mr. Xu Ziyang is President. Their respective roles have been clearly defined in the Articles of Association, and the duties of the Chairman and those of the President are set out in Article 162 and Article 179, respectively, of the Articles of Association.

The President maintains close liaison with the Chairman and all Directors and reports his work to the Board on a regular basis to ensure that all Directors are sufficiently informed of all significant business developments.

7. Measures Taken to Ensure the Performance of Duties by Directors

- (1) The Company would provide the Directors with all the relevant and necessary information when they take office, and thereafter provide, on a regular basis and from time to time, information that would help the Directors understand the business and operating conditions of the Company. Updated information such as newly promulgated laws and regulations and internal publications are sent to the Directors from time to time and arrangements are made for the Directors to attend relevant continuing professional training courses at the cost of the Company, in order to assist them to fully understand their duties as a director under the requirements of the Shenzhen Listing Rules, Hong Kong Listing Rules and other relevant laws and regulations, as well as to gain comprehensive insight in the Company's operation in a timely manner. To ensure adequate performance of duties by the Independent Non-executive Directors, the Company will organise on-site visits for the Independent Non-executive Directors and facilitate close communication with the Chief Financial Officer and the auditor.
- (2) Current Directors of the Company received the following training focused on the roles, functions and duties of directors of listed companies in 2021:

Contents	Laws, regulations and rules	
	Reading materials	Attendance at talks or seminars
Board members		
Chairman and Executive Director		
Li Zixue	√	—
Executive Director		
Xu Ziyang	√	—
Gu Junying	√	—
Non-executive Director		
Li Buqing	√	√
Zhu Weimin	√	—
Fang Rong	√	—
Independent Non-executive Director		
Cai Manli	√	√
Gordon Ng	√	—
Zhuang Jiansheng	√	—

- (3) Whenever the Directors of the Company are required to provide an opinion in relation to matters including the provision of third-party guarantees, appropriation of funds, connected transactions, share option incentive schemes and Management Stock Ownership Scheme, the Company would engage relevant independent professional bodies, such as auditors or lawyers, to provide independent professional advice so as to assist the Directors in performing their duties.

Corporate Governance Report

- (4) In connection with potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management, the “Resolution on Authorisation for the Purchase of Directors’, Supervisors’ and Senior Management’s Liability Insurance” was considered and passed at the First Extraordinary General Meeting of 2019 held on 20 March 2019. With the mandate of the general meeting, the “Resolution on Renewal of Directors’, Supervisors’ and Senior Management’s Liability Insurance” was considered and passed at the Fortieth Meeting of the Eighth Session of the Board of Directors held on 23 September 2021.

(V) SPECIALISED COMMITTEES UNDER THE BOARD OF DIRECTORS

There are 4 specialised committees under the Board of Directors of the Company, namely the Remuneration and Evaluation Committee, Nomination Committee, Audit Committee and Export Compliance Committee. Specific working rules have been formulated for each of the specialised committees, stipulating, among other things, the duties and powers of these committees. The working rules of each of the specialised committees have been posted on www.cninfo.com.cn, the website of the Hong Kong Stock Exchange and the website of the Company. The order of meeting for the specialised committees is conducted in accordance with their respective working rules, and is implemented by reference to the statutory procedures for meetings of the Board of Directors.

1. The Remuneration and Evaluation Committee

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

The Remuneration and Evaluation Committee is primarily responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management of the Company based on the policies and structures for the management of remuneration and performance of Directors and senior management laid down by the Board of Directors, and conducting appraisal of the performance of Executive Directors.

(2) Members and Meetings of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee of the Eighth Session of the Board of Directors of the Company comprised 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Directors and 1 Executive Director. The convenor of the Remuneration and Evaluation Committee of the Eighth Session of the Board of Directors was Ms. Cai Manli, Independent Non-executive Director. Members of the committee included Mr. Gu Junying, Mr. Zhu Weimin, Mr. Gordon Ng and Mr. Zhuang Jiansheng.

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

The Remuneration and Evaluation Committee held 6 meetings in 2021 on 16 March 2021, 28 April 2021, 29 June 2021, 2 August 2021, 23 September 2021 and 4 November 2021, respectively, to consider and approve, among others, the performance of and annual bonus amount for senior management personnel for 2020, implementation of remuneration in 2020, the 2021 Measures for the Administration of Senior Management’s Performance, principles for determining bonuses for the Chairman of the Board of Directors and Chairman of the Supervisory Committee, remuneration budget for 2021, 2017 Share Option Incentive Scheme and 2020 Share Option Incentive Scheme. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in Person	Attendance by Proxy
Cai Manli	6/6	0/6
Gu Junying	6/6	0/6
Zhu Weimin	6/6	0/6
Gordon Ng	6/6	0/6
Zhuang Jiansheng	6/6	0/6

The Remuneration and Evaluation Committee convened meetings and performed its duties in strict accordance with the provisions and requirements of the Articles of Association, Rules of Procedure of the Board Meetings and the Working Rules of the Remuneration and Evaluation Committee. The Remuneration and Evaluation Committee made recommendations to the remuneration packages and performances of the Directors and senior management of the Company, share option incentive scheme and other businesses, which played an

Corporate Governance Report

important role in ensuring scientific decision making for the Board of Directors. Members of the Remuneration and Evaluation Committee have not expressed any dissent to the aforesaid businesses under consideration at the meetings.

(4) The decision-making process and criteria for determining remuneration for Directors and senior management

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the allowances for Directors by reference to the actual conditions of the Company and the work performance of the Directors. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meeting, namely in the manner set out in Code B.1.2(c)(ii) of Appendix 14 to the Hong Kong Listing Rules.

The Remuneration and Evaluation Committee conducts annual performance appraisals of the senior management personnel of the Company and determines the remuneration of such senior management personnel based on the results of such appraisals for implementation after consideration and approval by the Board of Directors.

2. The Nomination Committee

(1) Roles and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles of Association, taking into account the actual conditions of the Company. The Nomination Committee then submits a proposal to the Board of Directors and general meetings (if applicable) for approval, and implements accordingly.

(2) Members of the Nomination Committee

The Nomination Committee of the Eighth Session of the Board of Directors of the Company comprises 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Directors and 1 Executive Director. The convener of the Nomination Committee of the Eighth Session of the Board of Directors was Mr. Gordon Ng, Independent Non-executive Director. Members of the committee included Mr. Li Zixue, Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Zhuang Jiansheng.

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

In 2021, the Nomination Committee held 1 meeting on 31 December 2021 to discuss the structure, size and composition of the Board. The Nomination Committee convened the meeting and performed its duties in strict accordance with the provisions and requirements of the Articles of Association, Rules of Procedure of the Board Meetings and the Working Rules of the Nomination Committee. Members of the Nomination Committee discharged their duties with due diligence and performed the duties of directors in a proactive, professional and efficient manner, giving detailed reviews of meeting documents and related materials, furnishing analyses and judgements on various issues in an objective and impartial manner and making recommendations based on the actual conditions of the Company. Members of the Nomination Committee have not expressed any dissent to the aforesaid businesses under consideration at the meeting. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in Person	Attendance by Proxy
Gordon Ng	1/1	0/1
Li Zixue	1/1	0/1
Fang Rong	1/1	0/1
Cai Manli	1/1	0/1
Zhuang Jiansheng	1/1	0/1

Corporate Governance Report

(4) The criteria and procedures for the nomination, selection and recommendation of Directors and senior management and the board diversity policy

- ① The Nomination Committee conducts extensive searches for candidates for Directors and senior management both internally in the Company, its subsidiaries or associate companies and externally in the open market after considering the Company's requirements for new Directors and senior management. With the consent of the nominees, a meeting of the Nomination Committee will be convened to examine the qualifications of the shortlisted nominees based on the terms for appointment of Directors and senior management. Prior to the election of new Directors, the Nomination Committee will propose candidates for Directors to the Board of Directors and furnish the Board of Directors with relevant information. Prior to the appointment of new senior management personnel, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management personnel and furnish the Board of Directors with relevant information.
- ② The Nomination Committee shall recommend candidates for Directors and new senior management appointments to the Board of the Directors in accordance with qualifications for directors and senior management set out in, among others, the Company Law, Rules Governing Independent Directors of Listed Companies, Shenzhen Stock Exchange Self-discipline Regulatory Guide for Listed Companies No. 1 – Regulated Operation of Companies Listed on the Main Board, the Hong Kong Listing Rules, the Articles of Association and the Rules of Procedures of the Board of Directors.
- ③ The Nomination Committee has formulated a Board Diversity Policy, which has been set out in the Working Rules of the Nomination Committee of the Board of Directors. The Board Diversity Policy primarily states that the Company considers board diversity in a range of aspects when determining the composition of the Board, including but not limited to age, cultural and education background, professional experience, skills and know-how. All appointments of the Board of Directors are based solely on meritocracy, and the benefits of board diversity are weighted under objective conditions when considering candidates.

The Company is a world-leading provider of integrated communication and information solutions. In determining the membership of its Board, the Company has taken into full consideration of its business model and sought to appoint directors with backgrounds in expertise such as management, communications, finance, law and compliance, among others. The Company has basically achieved diversity in the composition of its Board. For details, please refer to the section headed “Directors, Supervisors and Senior Management and Employees – (I) BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY” in this report.

3. The Audit Committee

(1) Roles and functions of the Audit Committee

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

(2) Members of the Audit Committee

The Audit Committee of the Eighth Session of the Board of Directors of the Company comprised 5 members, including 3 Independent Non-executive Directors and 2 Non-executive Directors. The convenor of the Audit Committee of the Eighth Session of the Board of Directors was Ms. Cai Manli, Independent Non-executive Director. Members of the committee included Mr. Li Buqing, Mr. Zhu Weimin, Mr. Gordon Ng and Mr. Zhuang Jiansheng. The composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Listing Rules.

Corporate Governance Report

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

In 2021, the Audit Committee held 7 meetings on 22 January 2021, 5 March 2021, 16 March 2021, 28 April 2021, 27 August 2021, 25 October 2021 and 16 December 2021, respectively, to consider and approve audit arrangements, regular financial reports, appointment of reporting accountants, investment in derivatives, connected transactions and the internal control audit report of the Company, and maintained close liaison with the auditors. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Cai Manli	7/7	0/7
Li Buqing	6/7	1/7
Zhu Weimin	7/7	0/7
Gordon Ng	7/7	0/7
Zhuang Jiansheng	7/7	0/7

The Audit Committee convened meetings and performed its duties in strict accordance with the provisions and requirements of the Articles of Association, Rules of Procedure of the Board Meetings and the Working Rules of the Audit Committee, playing an important role in ensuring scientific decision making at the Board of Directors by furnishing advice and recommendations in respect of matters such as the Company's financial information and its disclosure, internal audit system and its implementation, internal control system and risk management system. Members of the Audit Committee have not expressed any dissent to the aforesaid businesses under consideration at the meetings.

Apart from the aforesaid matters, the Audit Committee diligently performed its duties in accordance with the Working Rules of the Audit Committee and Working Rules of the Audit Committee for Annual Report and conducted the following important tasks in respect of the Company's 2021 annual audit and internal control development and improvement:

① Issuance of three review opinions on the 2021 annual financial report of the Company

Members of the Audit Committee boast rich expertise and experience in financial operations. The Audit Committee issued three review opinions on the 2021 annual financial report in accordance with relevant requirements of the CSRC.

First, the Audit Committee examined the unaudited financial statements and issued an opinion in writing. The Audit Committee was of the view that: the unaudited financial statements for 2021 were basically in compliance with requirements of the ASBEs and their practice notes and currently no matters having a material impact on the fair reflection in all aspects of the Company's financial conditions as at the end of 2021 and the operating results and cash flow for 2021 have been identified. The passing of the unaudited financial statements to the auditors for auditing was approved.

Second, the Audit Committee conducted timely review of the preliminary opinion of the audit report and discussions with the auditors, and was of the view that the preliminary audit results of the 2021 financial report was in compliance with the ASBEs and their practice notes in material aspects such as assets, liabilities, income, cost and expenditure, among others.

Finally, the Audit Committee reviewed the audit opinion of the auditors and the audited financial report of the Company for 2021 and approved the submission of the report for consideration by the Board of Directors.

② Supervision of the audit work of the accounting firm

To ensure the conduct of auditing work in an orderly manner given the complex nature of the Company's business, the auditors of the Company had finalised the audit timetable for the year ahead of schedule. In accordance with "Guidelines for Work of the Audit Committee relating to the Annual Report", the Company arranged the timely report of such audit timetable to the Audit Committee. Following discussion with the accounting firm, the Audit Committee was of the view that the annual audit timetable scheduled by the Company according to actual circumstances was appropriate, and the Audit Committee concurred with the annual audit plan arranged by the accounting firm. During the course of audit, members of the Audit Committee held discussions with principal officers in charge of the assignment to inform themselves of the progress of audit and concerns of the auditors. Such concerns were then communicated to relevant

Corporate Governance Report

departments of the Company in a timely manner. The Audit Committee also issued two letters to the accounting firm procuring auditors in charge of the assignment to expedite their work in accordance with the original timetable.

③ *Summary report on the 2021 audit work performed by the accounting firm*

The auditors of the Company performed auditing on the Company's annual report and financial report during the period from September 2021 to March 2022. During such period, the auditors of the Company were engaged in full communication with the Audit Committee in respect of issues encountered in the annual audit plan and audit process and conducted enquiry, testing and evaluation in respect of our internal control and completed the full audit process and acquired sufficient and appropriate audit evidence. An audit report on the Company and internal control audit report in respect of financing reporting with unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the auditors of the Company, and also examined the annual audit report furnished by the auditors. The Audit Committee was of the view that the auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable in a timely manner. The auditors maintained their independence and their prudent approach in the course of audit and completed the audit of the Company's 2021 financial report and its internal control audit in a satisfactory manner.

④ *Supervision of measures to improve the Company's internal control system*

The Audit Committee is highly concerned with the establishment of a department with appropriate staffing for the inspection and supervision of the Company's internal control. The Internal Control and Audit Department serves as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of internal controls on behalf of the Audit Committee. The Audit Committee supports the performance of audit functions by the Internal Control and Audit Department in accordance with the law and assumes a supervisory role over the audit function. During the year, the Audit Committee received the report of the Internal Control and Audit Department on internal control and audit and furnished relevant opinion.

For details of work conducted by the Audit Committee of the Company in fulfilment of its duties for reviewing the risk management and internal control systems of the Company during 2021, please refer to "(XV) Internal Control and Risk Management" in this chapter.

4. Export Compliance Committee

(1) *Roles and functions of the Export Compliance Committee*

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

(2) *Members of the Export Compliance Committee*

The Export Compliance Committee of the Eighth Session of the Board of Directors of the Company comprises 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Director and 1 Executive Director. The convenor of the Export Compliance Committee of the Eighth Session of the Board of Directors was Mr. Zhuang Jiansheng, Independent Non-executive Director, and its members included Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Gordon Ng.

Corporate Governance Report

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

The Export Compliance Committee held 4 meetings during 2021 on 31 March 2021, 25 June 2021, 29 September 2021 and 16 December 2021. The Export Compliance Committee convened meetings and performed its duties in strict accordance with the provisions and requirements of the Articles of Association, Rules of Procedure of the Board Meetings and the Working Rules of the Export Compliance Committee. Members of the Export Compliance Committee discharged their duties with due diligence and performed the duties of directors in a proactive, professional and efficient manner, giving detailed reviews of meeting documents and related materials, furnishing analyses and judgements on various issues in an objective and impartial manner and making recommendations based on the actual conditions of the Company. Members of the Export Compliance Committee have not expressed any dissent to the aforesaid businesses under consideration at the meetings. Attendance at the meetings was as follows:

Export Compliance Committee	Attendance in person	Attendance by proxy
Zhuang Jiansheng	4/4	0/4
Li Zixue	4/4	0/4
Fang Rong	3/4	1/4
Cai Manli	4/4	0/4
Gordon Ng	4/4	0/4

5. Corporate governance functions

The Board of Directors is charged with duties in corporate governance, procuring the management to establish a compliant organisational structure and regime and to abide by the Corporate Governance Code and other laws and regulations relevant to corporate governance in day-to-day management. During the year, the Board of Directors examined the Company's compliance with corporate governance policies and codes. In accordance with the Articles of Association and Rules of Procedure of the Board Meetings, the Board of Directors is responsible for the following corporate governance functions:

- (1) Formulating and reviewing the corporate governance policies and practices of the Company;
- (2) Reviewing and monitoring training and continuous professional development of the Directors and senior management;
- (3) Reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory provisions;
- (4) Formulating, reviewing and monitoring the code of conduct and compliance guide for employees and Directors (if any); and
- (5) Reviewing the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures in its corporate governance report.

(VI) SUPERVISORY COMMITTEE

Having conducted diligent supervision and inspection in relation to matters such as proper operation, financial conditions, use of proceeds, share option incentive schemes, connected transactions and performance of duties by Directors and senior management of the Company during the year in accordance with the provisions of pertinent PRC laws and regulations and the Articles of Association, the Supervisory Committee of the Company has not expressed any dissent during the course of its supervision over these matters.

(VII) COMPANY SECRETARY

The Company Secretary (Mr. Ding Jianzhong) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management. A brief biography of the Company Secretary is set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees – (I) BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY". In 2021, the Company Secretary received more than 15 hours of training to update his professional skills and expertise.

Corporate Governance Report

(VIII) INFORMATION, REMUNERATION AND INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors, Supervisors and Senior Management

Please refer to the section of this report headed “Directors, Supervisors, Senior Management and Employees – (I), (III) and (IV)” for brief biographies of the Directors, Supervisors and senior management of the Company.

2. Remuneration

Please refer to the section of this report headed “Directors, Supervisors, Senior Management and Employees – (II) CHANGES IN THE SHAREHOLDINGS AND SHARE OPTIONS OF AND ANNUAL REMUNERATION OF THE COMPANY’S DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT” for details of the annual remuneration of the Directors, Supervisors and senior management of the Company.

Further details of the remuneration of Directors and Supervisors for 2021 are set out in Note XIV.3 to the financial statements.

3. Interests

(1) *Service contracts and contractual interests of Directors and Supervisors*

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

(2) *Interests of Directors and Supervisors or entities which are connected to the Directors and Supervisors in transactions, arrangements and contracts*

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2021.

(3) *Interests of Directors, Supervisors and Chief Executive Officer in shares or debentures*

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2021 are set out in the section of this report headed “Directors, Supervisors, Senior Management and Employees – (II) CHANGES IN THE SHAREHOLDINGS AND SHARE OPTIONS OF AND ANNUAL REMUNERATION OF THE COMPANY’S DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT”.

Save as disclosed above, as at 31 December 2021, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 31 December 2021, 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.

(4) *Securities transactions by Directors and Supervisors*

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

Corporate Governance Report

(IX) EMPLOYEES

Details of the number of employees, remuneration policy, training programmes are set out in the sections headed “Directors, Supervisors, Senior Management and Employees — (VI) INFORMATION ON GROUP EMPLOYEES” in this report.

(X) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME AND MANAGEMENT STOCK OWNERSHIP SCHEME

1. The 2017 Share Option Incentive Scheme

(1) Summary of the 2017 Share Option Incentive Scheme

① Objective

The 2017 Share Option Incentive Scheme has been implemented by the Company to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibility of the management and key personnel of the Company and retain talent, so as to facilitate sustainable development of the Company and ensure the realisation of its development targets.

② Adjustments to participants, number of share options, exercise price and adjustments thereto

Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to, the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members).

Pursuant to the “2017 Share Option Incentive Scheme (Draft) of ZTE Corporation” (the “2017 Share Option Incentive Scheme (Draft)”) considered and approved by the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017, a total of 150 million share options shall be granted to the Directors, senior management and key employees of the Company.

As considered and approved at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company held on 6 July 2017, the number of participants was adjusted from 2,013 to 1,996 and the number of share options to be granted was adjusted from 150 million to 149,601,200 under the share option incentive scheme. The date of grant was set for 6 July 2017 (Thursday). The Company granted 149,601,200 share options to 1,996 scheme participants. The initial exercise price of the share options granted shall be RMB17.06 per A share.

As considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 1 July 2019, the number of participants under the 2017 Share Option Incentive Scheme was adjusted from 1,996 to 1,687, and the volume of share options granted was adjusted from 149,601,200 to 119,115,591; the number of participants for the first exercise period was adjusted from 1,996 to 1,684, and the volume of exercisable share options was adjusted from 49,866,471 to 39,664,153; fulfillment of exercise conditions for the first exercise period and non-fulfillment of exercise conditions for the second exercise period was confirmed; a total of 70,210,561 share options, comprising share options previously granted to original participants who no longer qualified as participants, share options previously granted to participants who did not qualify for exercise in the first exercise period under the share option incentive scheme and share options not exercisable as a result of the non-fulfillment of exercise conditions for the second exercise period under the share option incentive scheme, were cancelled. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Adjustment of Participants and Number of Share Options under the 2017 Share Option Incentive Scheme”, “Overseas Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the First Exercise Period under the 2017 Share Option Incentive Scheme”, “Overseas Regulatory Announcement Announcement Non-fulfillment of Exercise Conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme” and “Overseas Regulatory Announcement Announcement on the Cancellation of Certain Share Options” published by the Company on 1 July 2019.

Corporate Governance Report

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

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

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

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

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

As considered and approved at the Thirty-eighth Meeting of the Eighth Session of the Board of Directors of the Company held on 24 August 2021, in view of the implementation of the 2020 profit distribution plan was completed, the exercise price of share options under the 2017 Share Option Incentive Scheme was adjusted to RMB16.66. For details, please refer to the “Overseas Regulatory Announcement Announcement on the adjustment of the exercise price under the 2017 Share Option Incentive Scheme in accordance with the rules” published by the Company on 24 August 2021.

③ *Maximum share options that may be granted to scheme participants*

Each share option granted shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the share option incentive scheme at the exercise price and subject to the conditions of exercise. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing.

Unless approved by the shareholders in a general meeting, the aggregate number of A shares to be issued to a scheme participant upon exercise of his share options under the 2017 Share Option Incentive Scheme and other effective share option incentive schemes of the Company (if any) at any time must not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

Corporate Governance Report

④ Date of grant, validity period, vesting period, exercise period and exercisable percentage

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

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

As considered and approved at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 1 July 2019, the fulfillment of exercise conditions for the first exercise period and the non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme was confirmed. The first exercise period under the 2017 Share Option Incentive Scheme of the Company shall comprise the exercise dates within the period from 16 July 2019 to 5 July 2020. There were 1,684 participants entitled to exercise a total of 39,664,153 exercisable share options. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Commencement of the First Exercise Period under the 2017 Share Option Incentive Scheme" published by the Company on 14 July 2019.

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

⑤ Exercise price and basis of determination

The exercise price of the 2017 share options shall be RMB17.06 per A share. The initial exercise price for the aforesaid is the higher of the following:

- the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the draft and summary of the 2017 Share Option Incentive Scheme (i.e. 24 April 2017); and
- the average trading price of the A Shares quoted on the Shenzhen Stock Exchange for the 120 trading days immediately preceding the announcement of the draft and summary of the 2017 Share Option Incentive Scheme.

Based on the aforesaid principle, the initial exercise price of the share options granted under the 2017 Share Option Incentive Scheme is RMB17.06 per A share.

Corporate Governance Report

During the validity period of the 2017 Share Option Incentive Scheme, in the event of any dividend distribution, capitalisation through conversion of capital reserves, bonus issue, sub-division, rights issue or consolidation of shares in relation to the A shares of the Company before the exercise of the share options, an adjustment to the exercise price shall be made accordingly.

Following the implementation of the 2019 and 2020 profit distribution plans of the Company, the exercise price under the 2017 Share Option Incentive Scheme was adjusted to RMB16.66. For details, please refer to the section “(2) Adjustments to participants, number of share options, exercise price and adjustments thereto” above.

(2) Details of share options held by the participants and their exercise during the year

The share options under the 2017 Share Option Incentive Scheme of the Company shall be exercised on a voluntary basis. During the year, a total of 32,033,154 share options were exercised and the number of the Company's A shares increased by 32,033,154 shares accordingly, and the proceeds received were placed in a designated account of the Company. The exercise prices prior to and after the implementation of 2020 profit distribution were RMB16.86 and RMB16.66, respectively. The proceeds were deposited in the Company's dedicated account. The closing price of the A shares as at the end of the year was RMB33.50. As considered and approved at the Thirty-sixth Meeting of the Eighth Session of the Board of Directors of the Company, a total of 2,437,430 share options, comprising share options previously granted to participants who no longer qualified as such or share options for which exercise conditions were not fulfilled, were cancelled.

Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period	Number of options granted during the reporting period	Number of options exercisable during the reporting period	Number of options exercised during the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Number of outstanding options at the end of the reporting period	Weighted average closing price (RMB/share)
									Note 1
Xu Ziyang	Director and President	84,000	0	84,000	0	0	0	84,000	N/A
Sub-total of Directors ^{Note 2}		84,000	0	84,000	0	0	0	84,000	N/A
Wang Xiyu	Executive Vice President	87,468	0	87,468	0	0	0	87,468	N/A
Li Ying	Executive Vice President and Chief Financial Officer	52,800	0	52,800	0	0	0	52,800	N/A
Xie Junshi	Executive Vice President	112,468	0	112,468	30,000	0	0	82,468	30.96
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	33,160	0	33,160	0	0	0	33,160	N/A
Sub-total of senior management		285,896	0	285,896	30,000	0	0	255,896	30.96
Other key personnel		39,356,590	0	36,919,160	32,003,154	2,437,430	0	4,916,006	35.42
Total		39,726,486	0	37,289,056	32,033,154	2,437,430	0	5,255,902	35.42

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

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

During the period after the end of the reporting period up to the date of the publication of this report, a total of 808,399 share options were exercised in the third exercise period under the 2017 Share Option Incentive Scheme of the Company. As at the date of publication of this report, a total of 4,447,503 A share options were outstanding under the 2017 Share Option Incentive Scheme of the Company, accounting for approximately 0.09% of the Company's total share capital in issue and 0.11% of the Company's A shares in issue.

Corporate Governance Report

(3) Valuation and accounting policies relating to the share options and impact on the financial conditions and operating results of the Company

① Valuation of the share options

The Company has adopted the Binomial Tree model to calculate the value of the 2017 share options. The date of grant (6 July 2017) has been adopted as the measurement date and the estimated value of the 2017 share options is RMB10.40 per A share, representing 44.73% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Initial exercise price	RMB17.06 per A share
Market price	RMB23.25 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first, second and third exercise period within the 3rd, 4th and 5th year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first, second and third exercise period being 43.35%, 42.20% and 42.90%, respectively.
Expected dividend (Note 1)	RMB0.18 per share
Risk-free interest rate (Note 2)	The risk-free interest rate for the first, second and third exercise period shall be 3.50%, 3.51% and 3.52%, respectively.
Value of share options per A share	RMB10.40

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

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

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

② Accounting policies relating to the share options and impact on the financial conditions and operating results of the Company

In accordance with “ASBEs No. 11 – Share-based Payment”, services rendered by participants during the period may be charged to relevant costs or expenses and the capital reserve at fair value on the date of grant based on the Company's best estimates of exercisable share options. Costs and expenses which have been recognised will not be adjusted during the exercise period of the share options. At each balance sheet date, exercised share options are recognised in the capital reserve according to the status of exercise. Specific accounting treatments of share options and the impact on the Company's financial conditions and operating results for the year and in future are set out in Note XI to the financial statements.

2. The 2020 Share Option Incentive Scheme

(1) Summary of the 2020 Share Option Incentive Scheme

① Objective

The 2020 Share Option Incentive Scheme adopted by the Company is aimed at further refining the corporate governance structure and improving the incentive systems of the Company, enhance the sense of responsibility and mission of the management and key business personnel of the Company for the sound and sustainable development of the Company and safeguard the realisation of development targets of the Company.

② Participants and adjustments thereto

The proposed participants of the 2020 Share Option Incentive Scheme include Directors, senior management and key business personnel (excluding any independent non-executive Directors, Supervisors, substantial Shareholders or de facto controllers which individually or together hold Shares representing 5% voting rights of the Company or above, and their spouses, parents and children).

Corporate Governance Report

Pursuant to the “2020 Share Option Incentive Scheme (Draft) of ZTE Corporation” (“2020 Share Option Incentive Scheme (Draft)”) considered and approved at the Second Extraordinary General Meeting of 2020 of the Company, a total of not more than 163,492,000 share options, including 158,492,000 share options under the initial grant and 5,000,000 reserved share options as reserved entitlements may be granted to the Directors, senior management and key business personnel of the Company.

A. Share options under the initial grant

As considered and passed at the Twenty-seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 6 November 2020, the number of participants was adjusted from not more than 6,124 to 6,123, the number of share options to be granted was adjusted from not more than 163,492,000 to 163,472,000, of which the number of share options to be granted initially was adjusted from not more than 158,492,000 to 158,472,000 and the number of reserved share options remained 5,000,000 under the share option incentive scheme. The date of initial grant under 2020 Share Option Incentive Scheme was set for 6 November 2020 (Friday). The Company granted 158,472,000 share options to 6,123 scheme participants. The exercise price of the share options under the initial grant shall be RMB34.47 per A share.

As considered and approved at the Thirty-seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 2 August 2021, the Company shall disqualify 1 participant who had waived participation in the 2020 Share Option Incentive Scheme due to personal reasons from participation in the 2020 Share Option Incentive Scheme and a total of 26,000 share options granted to but unexercised by the aforesaid person shall be withdrawn and cancelled by the Company without compensation. The number of participants under the initial grant was adjusted to 6,122 and the number of share options under the initial grant was adjusted to 158,446,000. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Adjustment of Participants and Number of Share Options under the 2020 Share Option Incentive Scheme” and “Overseas Regulatory Announcement Announcement on the Cancellation of Certain Share Options” published by the Company on 2 August 2021.

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

As considered and approved at the Forty-second Meeting of the Eighth Session of the Board of Directors of the Company held on 4 November 2021, the number of participants for the initial grant under the 2020 Share Option Incentive Scheme was adjusted from 6,122 to 5,971 and the volume of share options granted was adjusted from 158,446,000 to 154,675,339; the number of participants for the first exercise period was adjusted from 6,122 to 5,956 and the volume of exercisable share options was adjusted from 52,812,695 to 51,442,763; the fulfilment of the exercise conditions for the first exercise period for share options under the initial grant of the 2020 Share Option Incentive Scheme of the Company was confirmed; a total of 3,770,661 share options previously granted to participants who were no longer qualified for the first exercise period of the share option incentive scheme were cancelled. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Adjustment of Participants and Number of Share Options of the First Grant under the 2020 Share Option Incentive Scheme”, “Overseas Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the First Exercise Period of the First Grant under the 2020 Share Option Incentive Scheme” and “Overseas Regulatory Announcement Announcement on the Cancellation of Certain Share Options” published by the Company on 4 November 2021.

On 10 November 2021, as examined and confirmed by China Securities Depository and Clearing Company Limited Shenzhen Branch, the Company has completed procedures for the cancellation of 3,770,661 granted but unexercised share options. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Completion of Cancellation of Certain Share Options” published by the Company on 10 November 2021.

Corporate Governance Report

B. Reserved share options

As considered and passed at the Fortieth Meeting of the Eighth Session of the Board of Directors of the Company held on 23 September 2021, the date of grant for reserved share options under 2020 Share Option Incentive Scheme was set for 23 September 2021 (Thursday) and 5,000,000 reserved share options were granted to 410 scheme participants. The exercise price of the reserved share option shall be RMB34.92 per A share.

③ Maximum share options that may be granted to scheme participants

Each share option granted shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the share option incentive scheme at the exercise price and subject to the conditions of exercise. The source of shares under the 2020 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing.

Unless approved by the shareholders in a general meeting, the aggregate number of A shares to be issued to a scheme participant upon exercise of his share options under the 2020 Share Option Incentive Scheme and other effective share option incentive schemes of the Company (if any) at any time must not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

④ Date of grant, validity period, vesting period, exercise period and exercisable percentage

A. Share options under the initial grant

The share options under the initial grant of the 2020 Share Option Incentive Scheme of the Company shall remain in force for 4 years from the date of grant (i.e. 6 November 2020). The closing price of the Company's A shares on the trading date which is 1 day prior to the date of grant was RMB34.80/share. There shall be a vesting period of 1 year from the date of grant, after which share options can be exercised according to the following proportion, subject to the fulfillment of the exercise conditions:

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

As considered and approved at the Forty-second Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 4 November 2021, the fulfillment of exercise conditions of the first exercise period for share options under the initial grant of the 2020 Share Option Incentive Scheme was confirmed. The first exercise period for the share options under the initial grant of the 2020 Share Option Incentive Scheme shall comprise the exercise dates within the period from 17 November 2021 to 5 November 2022. There were 5,956 participants entitled to exercise a total of 51,442,763 exercisable share options. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the First Exercise Period of the First Grant under the 2020 Share Option Incentive Scheme" published by the Company on 4 November 2021.

Corporate Governance Report

B. Reserved share options

The reserved share options of the 2020 Share Option Incentive Scheme of the Company shall remain in force for 3 years from the date of grant (i.e. 23 September 2021). The closing price of the Company's A shares on the trading date which is 1 day prior to the date of grant was RMB33.80/share. There shall be a vesting period of 1 year from the date of grant, after which share options can be exercised according to the following proportion, subject to the fulfillment of the exercise conditions:

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

⑤ Exercise price and basis of determination

A. Share options under the initial grant

The initial exercise price of the share options under the initial grant of the 2020 Share Option Incentive Scheme shall be RMB34.47 per A share. The initial exercise price for the aforesaid is the higher of the following:

- the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the draft and summary of the 2020 Share Option Incentive Scheme (i.e. 12 October 2020); and
- the average trading price of the A Shares quoted on the Shenzhen Stock Exchange for the 20 trading days immediately preceding the announcement of the draft and summary of the 2020 Share Option Incentive Scheme.

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

B. Reserved share options

The initial exercise price of the reserved share options under the 2020 Share Option Incentive Scheme shall be RMB34.92 per A share. The initial exercise price for the aforesaid is the higher of the following:

- the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the Board resolution approving the grant of reserved share options (i.e. 23 September 2021); and
- the average trading price of the Company's A Shares for the 20, 60 or 120 trading days immediately preceding the announcement of the Board resolution approving the grant of reserved share options.

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

During the validity period of the 2020 Share Option Incentive Scheme, in the event of any capitalisation through conversion of capital reserves, dividend distribution, bonus issue, sub-division or consolidation, or rights issue of shares before the exercise of the share options, an adjustment to the exercise price shall be made in accordance with pertinent provisions.

Corporate Governance Report

(2) Share options held and exercised by participants during the year

The share options under the 2020 Share Option Incentive Scheme of the Company shall be exercised on a voluntary basis. During the year, a total of 6,777 share options under the initial grant of the 2020 Share Option Incentive Scheme were exercised and the number of the Company's A shares increased by 6,777 shares. The exercise price was RMB34.47, and the proceeds received were placed in a designated account of the Company. The closing price of the Company's A shares as at the end of the year was RMB33.50/share. As considered and approved at the Forty-second Meeting of the Eighth Session of the Board of Directors of the Company, a total of 3,770,661 share options under the initial grant, comprising share options previously granted to participants who no longer qualified as such or share options for which exercise conditions were not fulfilled, were cancelled.

During the year, 5,000,000 reserved share options were granted under the 2020 Share Option Incentive Scheme.

Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period	Number of options granted during the reporting period	Number of options exercisable during the reporting period	Number of options exercised during the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Number of outstanding options at the end of the reporting period	Weighted average closing price (RMB/share) Note 1
1. Share options under the initial grant									
Li Zixue	Chairman	180,000	0	60,000	0	0	0	180,000	N/A
Xu Ziyang	Director and President	180,000	0	60,000	0	0	0	180,000	N/A
Li Buqing	Director	50,000	0	16,666	0	0	0	50,000	N/A
Gu Junying	Director and Executive Vice President	180,000	0	60,000	0	0	0	180,000	N/A
Zhu Weimin	Director	50,000	0	16,666	0	0	0	50,000	N/A
Fang Rong	Director	50,000	0	16,666	0	0	0	50,000	N/A
Sub-total of Directors Note 2		690,000	0	229,998	0	0	0	690,000	N/A
Wang Xiyu	Executive Vice President	180,000	0	60,000	0	0	0	180,000	N/A
Li Ying	Executive Vice President and Chief Financial Officer	180,000	0	60,000	0	0	0	180,000	N/A
Xie Junshi	Executive Vice President	180,000	0	60,000	0	0	0	180,000	N/A
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	120,000	0	40,000	0	0	0	120,000	N/A
Sub-total of senior management		660,000	0	220,000	0	0	0	660,000	N/A
Other key personnel		157,122,000	0	50,992,765	6,777	3,796,661	0	153,318,562	31.72
Total		158,472,000	0	51,442,763	6,777	3,796,661	0	154,668,562	31.72
2. Reserved share options									
Other key personnel		0	5,000,000	0	0	0	0	5,000,000	N/A
Total		0	5,000,000	0	0	0	0	5,000,000	N/A

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

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

Corporate Governance Report

During the period after the end of the reporting period up to the date of the publication of this report, a total of 60,634 share options were exercised in the first exercise period under the 2020 Share Option Incentive Scheme of the Company. As at the date of publication of this report, a total of 154,607,928 A share options were outstanding under the initial grant of the 2020 Share Option Incentive Scheme of the Company, accounting for approximately 3.27% of the Company's total share capital in issue and 3.89% of the Company's A shares in issue. A total of 5,000,000 A share options were outstanding under the reserved grant, accounting for approximately 0.11% of the Company's total share capital in issue and 0.13% of the Company's A shares in issue.

For details of the date of grant, validity period, vesting period, exercise period and exercise price under the 2020 Share Option Incentive Scheme in respect of the share options set out above, please refer to the section headed "Summary of the 2020 Share Option Incentive Scheme" above.

(3) *Valuation and accounting policies relating to the share options and impact on the financial conditions and operating results of the Company*

① *Valuation of the share options*

A. *Share options under the initial grant*

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

Factors	Amount of factors and description
Initial exercise price	RMB34.47 per A share
Market price	RMB35.80 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first, second and third exercise period within the 2nd, 3rd and 4th year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first, second and third exercise period being 34.40%, 33.57% and 30.33%, respectively.
Expected dividend (Note 1)	RMB0.20 per share
Risk-free interest rate (Note 2)	The risk-free interest rate for the first, second and third exercise period shall be 2.78%, 2.85% and 2.91%, respectively.
Value of share options per A share	RMB9.12

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

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

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

Corporate Governance Report

B. Reserved share options

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

Factors	Amount of factors and description
Initial exercise price	RMB34.92 per A share
Market price	RMB35.03 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first and second exercise periods within the 2nd and 3rd year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first and second exercise periods being 29.53%, and 31.46%, respectively.
Expected dividend (Note 1)	RMB0.20 per share
Risk-free interest rate (Note 2)	The risk-free interest rate for the first and second exercise periods shall be 2.39% and 2.50%, respectively.
Value of share options per A share	RMB7.22

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

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

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

② Accounting policies relating to the share options and impact on the financial conditions and operating results of the Company

In accordance with “ASBEs No. 11 — Share-based Payment”, services rendered by participants during the period may be charged to relevant costs or expenses and the capital reserve at fair value on the date of grant based on the Company’s best estimates of exercisable share options. Costs and expenses which have been recognised will not be adjusted during the exercise period of the share options. At each balance sheet date, exercised share options are recognised in the capital reserve according to the status of exercise. Specific accounting treatments of share options and the impact on the Company’s financial conditions and operating results for the year and in future are set out in Note XI to the financial statements.

As at the date of the publication of this report, there’s no share options pending to be granted by the Company.

3. Management Stock Ownership Scheme of the Company

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

The total amount of funds paid for the Management Stock Ownership Scheme was RMB114,765,557.00 and the total number of units was 114,766,000 at RMB1.00 each, The Directors, Supervisors and senior management of the Company subscribed for a total of 62,606,000 units (with Chairman Mr. Li Zixue subscribing for 12,000,000 units, President Mr. Xu Ziyang subscribing for 12,000,000 units, Executive Vice President Mr. Gu Junying subscribing for 9,000,000 units, Supervisory Committee Chairman Mr. Xie Daxiong subscribing for 3,026,000

Corporate Governance Report

unit, Executive Vice President Mr. Wang Xiyu subscribing for 10,000,000 units, Executive Vice President and Chief Financial Officer Ms. Li Ying subscribing for 8,000,000 units, Executive Vice President Mr. Xie Junshi subscribing for 7,000,000 units, Secretary to the Board of Directors Mr. Ding Jianzhong subscribing for 1,580,000 units), and other participants subscribed for a total of 52,160,000 units. The non-trading transfer of Company shares held in the Company's designated securities repurchase account to the securities account titled "ZTE Corporation — Tranche I Employee Stock Ownership Scheme" was conducted on 16 December 2020, with 2,973,900 shares transferred. The lock-up period for Company shares transferred to the Management Stock Ownership Scheme shall be from 18 December 2020 to 17 December 2021.

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

On 18 December 2021, the lock-up period for shares under the Management Stock Ownership Scheme expired. For details, please refer to the "Overseas Regulatory Announcement Indicative Announcement on the Expiration of the Lock-up Period of the Management Stock Ownership Scheme" published by the Company on 19 December 2021.

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

(XI) ESTABLISHMENT AND IMPLEMENTATION OF THE APPRAISAL AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT

The Company has established a performance appraisal system for senior management and an incentive mechanism linking remuneration to the Company's results and the individual staff member's performance. The Remuneration and Evaluation Committee is principally responsible for formulating and examining proposals for the management of remuneration and performance of the senior management of the Company, conducting annual performance appraisals for the senior management of the Company and determining the remuneration of the senior management based on the results of such appraisals for implementation after consideration and approval by the Board of Directors.

(XII) REMUNERATION PACKAGE AND RETIREMENT BENEFITS FOR EMPLOYEES

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees are also entitled to accident insurance, business travel insurance, housing allowance, retirement and other benefits. In accordance with relevant regulations of countries where the employees are located, the Group also participates in social insurance plans organised by the relevant government authorities, under which the Group makes contributions towards each employee's social insurance fund in an amount equivalent to a specified percentage of his/her monthly salaries. For details of the five highest-paid employees of the Company in 2021, please refer to Note XIV.4 to the financial statements.

Details of staff retirement benefits provided by the Company are set out in Note V.25 to the financial statements.

Corporate Governance Report

(XIII) THE COMPANY'S MANAGEMENT CONTROL OVER SUBSIDIARIES DURING THE REPORTING PERIOD

In accordance with pertinent laws and regulations and relevant requirements for the regulated operation of listed companies, the Company has instructed its subsidiaries to establish proper corporate governance structures and improve their modern corporate systems; management control has been implemented in respect of material matters of subsidiaries such as material investments, asset acquisition and disposal and third-party guarantee and their regulated operation; the reporting system and review procedure for material businesses of subsidiaries have been clearly stipulated and material matters of subsidiaries such as their financial conditions and production operation have been tracked in a timely manner and information disclosure obligations have been fulfilled in a timely manner.

(XIV) AUDIT

1. Auditors

Ernst & Young Hua Ming LLP ("Ernst & Young Hua Ming") acted as the Company's auditor.

Ernst & Young Hua Ming has been appointed the Company's auditor for 17 consecutive years since 2005. The undersigning accountants of Ernst & Young Hua Ming are Mr. Li Jianguang and Ms. Zeng Cihua. Mr. Li Jianguang has been providing audit services to the Company for two years and the year under review was the second year for which he acted in the capacity of undersigning accountant. Ms. Zeng Cihua has been providing audit services to the Company for six years and the year under review was the first year for which she acted in the capacity of undersigning accountant.

Financial report audit fees payable to Ernst & Young Hua Ming for 2021 amounted to RMB7.90 million. Internal control audit fees payable to Ernst & Young Hua Ming for 2021 amounted to RMB1.20 million.

In 2021, Ernst & Young provided audit services to ZTE HK for a fee of RMB580,000; Ernst & Young Hua Ming provided audit services to other subsidiaries of the Company for an audit fee of RMB618,000.

In 2021, Ernst & Young Hua Ming provided authentication services for the Company's share issuance for asset acquisition and raising of ancillary funds for an authentication fee of RMB1 million and authentication services for the deposit and application of Company's non-public issuance of A shares for an authentication fee of RMB100,000. Ernst & Young provided tax return and taxation advisory services to the Company and ZTE HK for a service fee of HKD111,500.

Item	Amount	Auditor
Audit fees 2021	RMB7.90 million	Ernst & Young Hua Ming
Internal control audit fees 2021	RMB1.20 million	Ernst & Young Hua Ming
Audit fees 2021 for ZTE HK	RMB580,000	Ernst & Young
Audit fees 2021 for other subsidiaries of the Group	RMB618,000	Ernst & Young Hua Ming
Authentication fee for the Company's share issuance for asset acquisition and raising of ancillary funds 2021	RMB1 million	Ernst & Young Hua Ming
Authentication fee for the deposit and application of the non-public issuance of A shares	RMB100,000	Ernst & Young Hua Ming
Fees for tax return and tax advisory services 2021	HKD111,500	Ernst & Young

2. Accountability and Audit

The Directors of the Company confirm that they are responsible for preparing the financial statements and providing objective and clear assessments in the consolidated financial statements of the annual reports, interim reports and quarterly reports, other inside information announcements and other financial disclosures required under the Hong Kong Listing Rules, and disclosing information to regulatory authorities in accordance with statutory requirements.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, they were not aware or discover any major uncertain events or situations that may have a material impact on the sustainable operation capability of the Company as at the date of the publication of this report.

Corporate Governance Report

A statement of the Company's Hong Kong auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2021 is set out in the Auditors' Report on pages 134–141 of this report.

(XV) INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors of the Company is responsible for reviewing the Company's risk management and internal control systems to ensure their effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the risk management and internal control systems of the Company and its subsidiaries. The Board of Directors shall ensure the adequacy of resources, staff qualifications and experience for accounting, internal audit and financial reporting functions, and of the training and budget for staff training.

During the year, the Audit Committee under the Board of Directors of the Company held four meetings to review controls over financial, operational and compliance matters of the Company and its subsidiaries and to consider whether the risk management and internal control systems had been operating effectively and what further improvements could be made, and reported their findings to the Board of Directors of the Company, in accordance with relevant laws and regulations.

1. Establishment of internal control departments

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

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

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

2. Establishment and implementation of internal control system

The Company's internal control establishment has basically covered all operating segments of the Company, including production operations, financial management, organisation, personnel management, and information disclosure, etc. The Company has, taking into account its specific conditions, developed a comprehensive internal control system.

The Company has formulated and implemented the ZTE Corporation Internal Control System to define the functional institutions of the Company's internal control and their powers, stipulate principles for internal control and key internal control factors and methods. The Company has formulated and put into implementation the ZTE Corporate Risk Management Regulations to define risk management organisation and duties at various levels and regulate the risk evaluation standards and risk management processes of the Company. The Company has formulated and put into implementation the ZTE Administrative Measures for Driving Rectifications of Internal Control Deficiencies to regulate the entire process covering the confirmation of internal control deficiencies, control over rectification plans, tracking of rectification processes and closing of rectification results. Each year, the Company will review the effectiveness of its risk management and internal control systems and the implementation processes and outcomes of the annual risk management and internal control action plans based on the ZTE Corporation Internal Control System and ZTE Risk Management Regulations with reference to the Internal Control Handbook.

Corporate Governance Report

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

In 2021, the Company internal control efforts were focused on the following:

1. The Company was engaged in ongoing intensive development of our internal control regime to further strengthen the development of internal control organisation at primary level, with a special focus on improvements to abilities in key areas. We completed amendments to the internal control system and optimised our internal control white paper in accordance with the Basic Rules for Corporate Internal Control, its supplementary guidelines and other systems and regulations of the Company.
2. More intensive efforts in business audit and self-rectification were made, underpinned by amendments to the audit system to enhance audit on all business segments and strengthen the accountability management mechanism.
3. Inspection of the Company's derivative investment and securities investment was conducted and support was given to Ernst & Young Hua Ming LLP for its audit of the Company's internal control.
4. Risk evaluation methods were optimised and risk classification and hierarchy was advanced to strengthen duties of risk management units at all levels, while standardising the risk control process for identifying, assessing and addressing risks with in-depth implementation of risk control practices at primary levels.
5. Key internal control tasks for various critical segments, such as corporate contract management, procurement management, subsidiary management, file management and real estate management, were launched and the operating model of the internal control system was optimised to facilitate digitalisation of various business processes; internal control assessment and management for special areas such as supply chain production management, corporate budget management and brand management were completed; review of the Company's deficiencies were completed with further improvements to the administrative measures for the rectification of internal control deficiencies to clarify the responsibility of management units and enhance accountability.
6. Internal control responsibility and awareness for management officers was enhanced with the propagation of internal control among management officers to foster a culture of internal control emphasising compliance with regulations and punishment for violations. Activities for the promotion of internal control among all employees, such as lectures on internal control, seminars on internal control in business operations, sharing of internal control cases, internal control knowledge quizzes and a new round of internal control manager accreditation were organised on a continuous basis.

The risk management and internal control systems of the Company have been designed to provide reasonable but not absolute assurance against material misstatements or losses and to manage but not eliminate risks associated with the malfunctioning of operating systems or failure to attain the Company's objectives. The Board of Directors of the Company has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries and is of the view that the risk management and internal control systems had been effective and adequate throughout the financial year ended 31 December 2021.

3. The 2021 Internal Control Assessment Report published by the Company

The Company has conducted an assessment on the effectiveness of its internal control as at 31 December 2021 (being the record date for the internal control assessment report) in accordance with the Basic Rules for Corporate Internal Control, its supplementary guidelines and other internal control regulatory requirements and taking into account its internal control system and assessment methods, based on general as well as specific supervision of internal control. Based on the work of identifying significant deficiencies in the Company's internal control in relation to financial reporting and non-financial reporting, as at the record date for the

Corporate Governance Report

internal control assessment report, the Company was not subject to any significant deficiency in internal control in relation to financial reporting, nor was any significant deficiency identified in internal control in relation to non-financial reporting.

Total assets of units being assessed accounted for more than 90.22% of the total assets as recorded in the consolidated financial statements of the Company, while the aggregate operating revenue of such units also accounted for more than 98.66% of the total operating revenue recorded in the consolidated financial statements of the Company. For the principal units under assessment and standards for assessing deficiencies in financial reports and non-financial reports and other details of the Company's internal control, please refer to the "2021 Internal Control Assessment Report of ZTE Corporation" published by the Company on 8 March 2022.

4. Internal control audit report furnished by the audit firm

Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2021 in accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the Practicing Guidelines for Chinese Certified Public Accountants and is of the view that the Company has maintained effective internal control in financial reporting in all material aspects in accordance with the Basic Rules for Corporate Internal Control and pertinent provisions.

For the internal control audit report of the Company, please refer to the "The Internal Control Audit Report of ZTE Corporation" published by the Company on 8 March 2022.

Environmental and Social Responsibility

(I) ENVIRONMENTAL INFORMATION OF THE GROUP

1 Development of the Group's environmental initiatives

As a company actively practising green development, the Group takes heed of the impact of its operations on the environment and has streamlined and improved the environmental management system in relation to its production and operation that seeks to procure environmental protection at the source of product manufacturing, endeavouring to reduce the full-cycle environmental impact of our products to a minimum. In active fulfillment of its environmental duties, we give full consideration to the environmental effect of all operating segments. We also give thorough consideration to the environmental concerns arising throughout the life cycle of our products, such that a green strategy is underpinning all business segments of the Company. Meanwhile, as a path-builder for the digital economy, the Group seeks to lay a broad pathway for digital economy and contribute to the fulfillment of the "Double Carbon" goal through four dimensions: green enterprise operation, green supply chain, green digital base and green industry empowerment.

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

(1) Pollution discharge

Name of company or subsidiary	Name of major pollutants and typical pollutants	Mode of discharge	Number of discharge outlets	Distribution of discharge outlets	Concentration of discharge	Applicable pollutant discharge standards	Total volume of discharge	Approved total discharge volume	Excessive discharge
ZTE Smart Auto Company Limited	Total VOCs	Organised discharge	8	Coating workshop, completion inspection workshop	0.56-30.9mg/m ³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	0.00768t	9.44t/a	Compliant
	Particulates	Organised discharge	21	Coating workshop	<20mg/m ³	"Atmospheric Pollutant Emission Limits" (DB44/27-2001) Time Band II, Class II Standards	0.017991t	/	Compliant
					4.9-6.7mg/m ³	"Atmospheric Pollutant Emission Limits for Boilers" (DB44/765-2019)			
	Benzene	Organised discharge	3	Coating workshop, completion inspection workshop	0.02-0.03mg/m ³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	0.001484t	/	Compliant
	Toluene + xylene	Organised discharge	3	Coating workshop, completion inspection workshop	0.13-0.25mg/m ³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	0.009295t	/	Compliant
	Nitrogen oxides	Organised discharge	13	Coating workshop, completion inspection workshop	9-83mg/m ³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	0.032984t	/	Compliant
				Coating workshop	53-58mg/m ³	"Atmospheric Pollutant Emission Limits for Boilers" (DB44/765-2019)			
	Sulphur dioxide	Organised discharge	13	Coating workshop	/	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	/	/	Compliant
	Fume	Organised discharge	2	Cafeteria	0.3mg/m ³	"Fuel Emission Standards for Catering Industry (Trial)" (GB 18483-20021)	0.209898t	/	Compliant

Environmental and Social Responsibility

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

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

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

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

(4) Contingency plans for unforeseen environmental incidents

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

(5) Environmental self-monitoring plan

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

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

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

(II) DETAILS OF SOCIAL RESPONSIBILITY

For details of social charity (including donations) and details of the Company’s performance of social responsibility, please refer to the “2021 Sustainability Report” published by the Company on 8 March 2022.

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

In adherence to its fundamental objectives of “championing the spirit of community welfare, fulfilling corporate responsibility and promoting public welfare development”, ZTE Charity Foundation is engaged in five major areas: education, medical relief, relief for the underprivileged, rural revitalisation and environmental protection with an emphasis on the needs of the aided parties. Through research and study, project design, project implementation, influence through propagation and assessment and monitoring to form a working close loop, ensuring effective response to the needs of the aided parties and social benefit will be achieved.

During the year, the Company commenced more than 30 projects in areas such as educational assistance, relief for the underprivileged, industrial aid, aid for the farm workers through retail purchases, infrastructure construction and village facelifts based on the actual needs of the rural areas in over 20 provinces, including Guangxi, Heilongjiang, Sichuan, Hainan, Guizhou, Inner Mongolia, Chongqing, Shaanxi, Fujian, Zhejiang and Gansu, in active response to the call for rural revitalisation, in a bid to make precise contributions to the rural revitalisation strategy. Specifically: (1) in connection with educational assistance, a further 5-year donation agreement was signed under the Xinghua Education Assistance Project to offer support to underprivileged students in Gansu and Qinghai for 10 years. A new Xing Angel one-on-one educational assistance project was also launched, whereby a ZTE excellence group was formed in Jingxi City, Baise, Guangxi, with 50 students each receiving an annual sum of RMB3,000 as scholarship and daily allowance from an equal number of ZTE staff. In Gulang County, Wuwei City, Gansu Province, the “Xing Fire Programme” was launched to provide growth empowerment support to teachers, with a view to bringing improvements to the education ecology in rural areas. Elsewhere, we continued to implement the Charity 100 Education Assistance Action in Shaanxi, providing ongoing financial assistance to students in western regions to safeguard their education. (2) In connection with relief for the underprivileged, the Company organised visits to veteran soldiers in Baoshan, Yunnan for the 16th consecutive year and mobilised 745 ZTE employees to bring heart-felt gifts to the veteran

Environmental and Social Responsibility

soldiers. Meanwhile, a charity initiative of handset donation was planned to donate 8,792 handsets to senior citizens aged above 60 in Jiangxi, Guizhou and Gansu Provinces so that they could be better connected with the modern community. (3) In connection with industrial aid, feature industrial projects were rolled out in Tangyuan County and Huanan County in Heilongjiang Province, such as the construction of smart mushroom farm and corn processing base to help villagers earn more income. (4) In connection with aid for the farm workers through retail purchases, the Company actively purchased specialty produces from regions like Heilongjiang, Hainan and Chongqing and donated them all to social welfare institutions such as elderly homes, helping the agricultural workers through its purchases while rendering care for the elderly to serve the twofold purposes of procuring sales for the agricultural workers and sharing an act of compassion with the community. Moreover, the Company supported infrastructure construction such as road and bridge building, village facelifts and digitalisation conversion in Chengkou County in Chongqing, in order to further improve the living environment in these regions.

In 2022, the Company will continue to focus on the actual needs in the community in its social welfare initiatives. First, we will focus on educational assistance and helped to improve education in rural villages in four aspects: scholarship, teacher's training, one-on-one support and friendly campus. Second, we will also focus on the charity culture through the creation of a ZTE voluntary service regime, gradually increasing the frequency of volunteer activities and volunteers' involvement. Third, we will be concerned with the underprivileged and roll out a guardian programme covering areas such as care for veteran soldiers, Vcare space and relief for rare diseases, among others. Fourth, we will continue to assist in rural revitalisation in response to the nation's call and the community's needs, launching rural revitalisation initiatives with ZTE characteristics.

Material Matters

(I) MATERIAL LITIGATION AND ARBITRATION

During the year, the Group did not incur any material litigation or arbitration as defined under the Shenzhen Listing Rules. The Group's major litigation and arbitration proceedings are set out as follows:

1. In November 2012, ZTE do Brazil ("ZTE Brazil") filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB35,819,500). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB35,671,600) together with accrued interests and legal fees payable immediately by the Brazilian company. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB35,671,600) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB35,671,600) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB94,792,700). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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

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

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

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

Material Matters

On 25 January 2021, the aforesaid natural person filed an appeal to the Supreme People's Court for the withdrawal of the first trial judgement and ruling in support of all the claims of the aforesaid natural person instead. On 16 August 2021, the Supreme People's Court ruled for the appeal to be automatically withdrawn and the first trial judgement to remain in effect on the grounds the aforesaid natural person had not furnished the prepayment of the second trial case admission fee within the stipulated period.

On 26 December 2021, the aforesaid natural person filed an application for retrial to the Guangdong Higher Court appealing for the withdrawal of first trial judgement and ruling in support of all the claims of the aforesaid natural person instead, and that the litigation fees for the primary trial should be borne by the Company in full. On 7 February 2022, the Company received a summons for hearing on the application for civil case retrial from the Guangdong Higher Court. The Company has been working actively in response to the case.

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

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

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

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

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

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

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

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

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

Material Matters

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

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

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

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2021 where BRL amounts are translated at the exchange rate of BRL1: RMB1.1424.

(II) APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS BY THE CONTROLLING SHAREHOLDER AND OTHER CONNECTED PARTIES

1. Appropriation of non-operating funds of the listed company by the controlling shareholder and other connected parties

☐ Applicable ☒ N/A

2. Statement on fund appropriation issued by Ernst & Young Hua Ming LLP

The "Statement on Appropriation of Non-operating Funds and Other Fund Transactions with Connected Parties of ZTE Corporation in 2021" issued by Ernst & Young Hua Ming LLP has been set out in the Overseas Regulatory Announcement published by the Company on 8 March 2022.

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

☐ Applicable ☒ N/A

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

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

Material Matters

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

On 27 October 2021, the registration for 18.8219% equity interests in ZTE Microelectronics was changed to the effect that they were under the name of the Company, and ZTE Microelectronics obtained the “Notification of Change of Registration from Shenzhen Administration for Market Regulation. Following the implementation of the 2020 equity distribution plan of the Company, the A share issue price for the Company’s issuance of shares for asset acquisition has been adjusted from RMB30.80 per share to RMB30.60 per share, and the volume of A shares to be issued has been adjusted from 84,767,110 shares to 85,321,143 shares, comprising 45,942,154 A shares issued to Hengjian Xinxin and 39,378,989 A shares issued to Huitong Rongxin. The issuance of shares for asset acquisition has been completed, and the new shares were listed on 10 November 2021. For details, please refer to the “Announcement on the Completion of the Transfer of Target Assets of the Acquisition of Assets by Issuance of Shares and Ancillary Fund raising” and “Announcement on Adjustments to the Share Issue Price and Issue Volume of the Issuance of Shares for Asset Acquisition following the Implementation of the 2020 Equity Distribution Plan” published on 27 October 2021 and the “Announcement on the Completion of the Issuance of Consideration Shares under the Acquisition of Assets by Issuance of Shares and Ancillary Fund raising” published by the Company on 8 November 2021.

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

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

Counterparty	Equity disposed of	Date of disposal	Trading price (RMB100 million)	Net profit contribution to listed company from the equity interest from the beginning of the period to the date of disposal		Pricing principle of equity disposal	Whether a connected transaction	Connected relationship with counterparty	Whether equity involved has been transferred in full	Whether implemented as scheduled; reasons if not and measures adopted if not
				(RMB100 million)	Net profit contribution to listed company of equity disposal as a percentage of total net profit ^{Note 1}					
E-Town Semiconductor	90% equity interest in Caltta	March 2021	10.35	(0.36)	9.72%	Determined through arm’s length negotiations between the two parties based on the operating and financial conditions of Caltta	No	N/A	Yes	Yes

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

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

Material Matters

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

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

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

(VII) SUBSCRIPTION FOR SHARES IN HONGTU ZHANLU FUND

As considered and approved at the Twenty-fourth Meeting of the Eighth Session of the Board of Directors of the Company held on 25 September 2020, the Company subscribed for shares in Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership) (hereinafter the “Hongtu Zhanlu Fund”) as limited partner with a capital contribution of not more than RMB400 million.

Hongtu Zhanlu Fund has completed registration with the industrial and commercial administration authorities as well as filing and registration with the Asset Management Association of China and completed the raising of funds in the amount of RMB1,000 million, with the Company accounting for an capital contribution of RMB400 million. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Subscription for Shares in Hongtu Zhanlu Fund”, “Overseas Regulatory Announcement Announcement on the completion of filing and registration of Hongtu Zhanlu Fund that participates in subscription” and “Overseas Regulatory Announcement Announcement on the completion of issue fund of Hongtu Zhanlu Fund that participates in subscription” published by the Company on 25 September 2020, 22 December 2020 and 20 December 2021, respectively.

Material Matters

(VIII) SIGNIFICANT CONNECTED TRANSACTIONS

1. SIGNIFICANT CONNECTED TRANSACTIONS AS DEFINED UNDER PRC LAWS AND REGULATIONS

(1) Connected transactions in the ordinary course of business

The connected transactions disclosed in the following table represent continuing connected transactions in 2021 reaching the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingyin and its subsidiaries and companies in which it held equity interests of 30% or above	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components and LiFePO4 battery and accessories by the Company from the connected party	Connected parties from which the Company made purchases were selected through the Company's accreditation and bidding or negotiation procedures. Prices at which the purchase orders were entered into by the two parties were determined through arm's length negotiations and on the basis of normal commercial terms. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products and services of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB300,000 per unit, cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used; LiFePO4 battery: RMB3,000-6,000 per unit; battery accessories: RMB100-500 per unit, depending on model, functional features and level of process sophistication. Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB830-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day.	42,824.7	0.70	No	Commercial acceptance bill	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products and services of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB830-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day.	5,914.5	0.10	No	Tele-transfer	N/A	2020-1-17	Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
ZTE Software Technology (Nanchang) Company Limited ("Nanchang Software")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products and services of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB830-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day.	4,611.7	0.08	No	Tele-transfer	N/A	2020-1-17	Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party	Purchase price not higher than prices at which Zhongxing Hetai sells products (or services) to other customers purchasing similar products (or services) in similar amounts, subject to the actual agreement signed by the two parties.		2,807.3	0.05	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities by the Company to the connected party	In 2021, the rental fee was RMB63/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB55/sq.m./month for hotel properties in Nanjing; RMB72/sq.m./month for hotel properties in Shanghai; RMB43/sq.m./month for hotel properties in Xi'an. The rental fee for related equipment and facilities required by the hotel operations in Shenzhen, Shanghai, Nanjing and Xi'an was 1,370,000/year.	4,963.4	19.08	No	Tele-transfer	N/A		2020-1-17 2021-4-29	Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
航天微草信息 技术有限公司 (航天微草)	Subsidiary of a company for which a connected natural person of the Company acted as senior management	Sale of products	The sale of the full range of government and enterprise products by the Company to the connected party	Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.		57,686.1	0.50	No	Tele-transfer or bank acceptance bill	N/A	2020-12-22	Announcement No. 2020121 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total						118,817.7	N/A	-	-	-	-	-

Material Matters

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products and services at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries and companies in which it held equity interests of 30% or above by the Group in 2021 be capped at RMB900 million (before VAT); At the Thirteen Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, in 2021 be capped at RMB91.65 million and RMB58.20 million (before VAT), respectively; At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of hotel services from Zhongxing Hetai, a connected party, or its subsidiaries by the Group in 2021 be capped at RMB37.50 million (before VAT); At the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020 and the Thirty-fourth Meeting of the Eighth Session of the Board of Directors of the Company held on 28 April 2021, it was considered and approved that the estimated lease of properties and equipment and facilities to Zhongxing Hetai or its subsidiaries by the Group in 2021 be capped at RMB59.72 million (before VAT); At the Twenty-ninth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 December 2020, it was considered and approved that the estimated sales of products to 航天歐華, a connected party, by the Group in 2021 be capped at RMB1,100 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

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

Material Matters

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

☐ Applicable ☒ N/A

(3) Connected transactions involving joint investment in third parties during the reporting period.

☐ Applicable ☒ N/A

(4) Creditors or debtors with connected parties

☐ Applicable ☒ N/A

The Company did not have any creditors or debtors with connected parties during the reporting period.

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

(6) Other material connected transactions

The following connected transactions were considered and approved at the Forty-third Meeting of the Eighth Session of the Board of Directors of the Company held on 16 December 2021. For details, please refer to the “Announcement of Resolutions of the Forty-third Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange” and “Overseas Regulatory Announcement Announcement of Connected Transactions 2022 and 2023 Framework Agreement for the Lease of Properties and Equipment and Facilities with Connected Party Zhongxing Hetai” published by the Company on 16 December 2021;

- ① estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries and companies in which it held equity interests of 30% or above by the Group in 2022 be capped at RMB550 million (before tax);
- ② estimated sales of products to 航天歐華 by the Group in 2022 be capped at RMB1,200 million (before tax);
- ③ estimated purchases of hotel services from Zhongxing Hetai and its subsidiaries by the Group in 2022 and 2023 be capped at RMB46 million and RMB48 million (before tax), respectively;
- ④ lease of properties and equipment and facilities to Zhongxing Hetai and its subsidiaries by the Group in 2022 and 2023 amounting to RMB57.54 million each year.

2. Continuing connected transactions under the Hong Kong Listing Rules

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

(1) Continuing connected transactions for the purchase of raw materials from Zhongxingxin

The Group entered into the Purchase Framework Agreement with Zhongxingxin on 25 December 2018 and has fulfilled the statutory procedures of reporting and announcement in accordance with relevant clauses under Chapter 14A of the Hong Kong Listing Rules based on the estimated annual cap of connected transactions under the said agreement. For details, please refer to the “CONTINUING CONNECTED TRANSACTIONS PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN” published by the Company on the Hong Kong Stock Exchange website and the Company’s website on 26 December 2018.

Material Matters

① **Purchases of raw materials by the Company from Zhongxingxin and companies in which it directly or indirectly holds 30% shareholdings or above, comprising primarily cabinets and accessories, cases and accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components**

- Description of the connected relationship between the parties to the transaction:

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

- Total transaction amount in 2021:

The total transaction amount for the Group's purchase of raw materials from Zhongxingxin and its subsidiaries and investee companies was approximately RMB428,247,000.

- Price and other terms:

Pursuant to the Zhongxingxin Purchase Framework Agreement between the Company and Zhongxingxin in respect of the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries and investee companies dated 25 December 2018 as considered and approved at the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, the effective period shall be from 1 January 2019 to 31 December 2021 and the amount of purchase from Zhongxingxin and its subsidiaries and investee companies made by the Group for 2019–2021 shall be capped at RMB700 million, RMB800 million and RMB900 million (before VAT), respectively.

Before becoming an approved supplier of the Group, Zhongxingxin and its subsidiaries and investee companies must pass the Group's internally formulated qualification procedures based on qualifications, competence, product quality and price. Zhongxingxin and its subsidiaries and investee companies were selected through the Group's qualification and bidding procedures as described above. For details, please refer to the "CONTINUING CONNECTED TRANSACTIONS PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN" published by the Company on the Hong Kong Stock Exchange website and the Company's website on 26 December 2018. The Directors confirm that the accreditation of qualifications, bidding procedures, pricing bases and internal Group procedures under the Zhongxingxin Purchase Framework Agreement will effectively ensure that the Group's purchases from Zhongxingxin and its subsidiaries and investee companies are made on an arm's length basis and on normal commercial terms without compromising the interests of the Group and its shareholders as a whole.

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement and bidding results, the Group will enter into individual agreements with Zhongxingxin and its subsidiaries and investee companies by way of the issuance of purchase orders, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery schedules, locations and modes, payment methods, packaging, receipt of delivery, default liability, quality specifications and after-sale service terms. Prices shall be determined in accordance with the pricing policy stipulated under the Zhongxingxin Purchase Framework Agreement. The annual cap for purchase in 2021 was estimated at RMB900 million (before VAT).

- Purpose of the transaction:

Zhongxingxin and its subsidiaries and investee companies had been selected as long-term suppliers through the Group's qualification and bidding procedures as they had consistently been able to manufacture products in compliance with the Group's demands and supply premium products and services at competitive prices. The Group considers it very important and beneficial to have reliable and cooperative suppliers, and purchasing raw materials required for the Group's products from Zhongxingxin and its subsidiaries and investee companies allows the Group to ensure the quality and timely delivery of such parts.

Material Matters

② **The Independent Non-executive Directors of the Company have reviewed each of the aforesaid continuing connected transactions of the Group and confirmed that:**

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

③ **The auditors of the Company have examined the aforesaid continuing connected transactions and confirmed to the Board of Directors of the Company that, in relation to the continuing connected transactions:**

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

(2) *Connected transactions*

Transactions relating to the payment of remuneration by the Company to its key management personnel, including remuneration for the directors, supervisors and chief executive officers of the Company and its subsidiaries and new shares issued to the directors and chief executive officers of the Company and its subsidiaries by the Company under the share option incentive schemes, fall within the scope of connected transaction defined under Chapter 14A of the Hong Kong Listing Rules. Such transactions are exempted from compliance with provisions relating to connected transactions under Rule 14A.76, Rule 14A.95 and Rule 14A.92(3).

In 2021, Chengdu ZTE Software Company Limited (“Chengdu Software”), a subsidiary of the Company, leased a property from Zhongxingxin for a rental amount of RMB9,386,000. Such transaction is exempted from compliance with connected transaction provisions under Rule 14A.76; the Company and Xi’an Zhongxing New Software Company Limited, a subsidiary of the Company, leased properties to Shenzhen Zhongxing Cloud Service Company Limited (a subsidiary of Zhongxingxin) for a rental amount of RMB3,388,000; the Group sold wireless communication system equipment products, etc. with a total amount of RMB29,698,000 to Zhongxingxin and companies in which it held 30% shareholdings or above; the Company leased properties to Shenzhen Zhongxing International Investment Company Limited (in which a Director of the Company held 35%) for a rental amount of RMB146,000; the Company leased properties from Tianjin Zhongxing International Investment Company Limited (a wholly-owned subsidiary of Shenzhen Zhongxing International Investment Company Limited) for a rental amount of RMB4.50 million. Such transaction is exempted from compliance with provisions relating to connected transactions pursuant to Rule 14A.76.

Save as disclosed in the above, there were no other connected transactions which should be deemed as “connected transactions” or “continuing connected transactions” as defined under Chapter 14A of the Hong Kong Listing Rules. The Company has complied with applicable disclosure requirements under Chapter 14A of the Hong Kong Listing Rules in respect of the aforesaid connected transactions.

Material Matters

(IX) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. There was no trust, contract management or lease of assets of other companies by the Company or of the Company's assets by other companies commencing or subsisting during the year.
2. Third-party guarantees of the Group

Third-party guarantees provided by the Company and subsidiaries (excluding guarantees provided by the Company on behalf of subsidiaries and vice versa and by subsidiaries on behalf of fellow subsidiaries)										
	Date and index of domestic announcement disclosing the guarantee amount			Actual amount guaranteed			Counter-guarantee		Whether performance was completed	Whether provided on behalf of connected parties
Guaranteed party		Amount guaranteed	Date incurred		Type of guarantee	Collateral		Term of guarantee		
Beijing Fuhua Yuqi Information Technology Co., Ltd ^{Note 1}	1 December 2016 201678	RMB21,019,250	1 April 2017	RMB21,019,250	Joint liability assurance	N/A	Note 1	From the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract.	No	No
Total amount of third-party guarantee approved during the reporting period (A1)				—	Total amount of third-party guarantee actually incurred during the reporting period (A2)				—	
Total amount of third-party guarantee approved as at the end of the reporting period (A3)				RMB21,019,300	Total amount of balance of third-party guarantee actually incurred as at the end of the reporting period (A4)				RMB21,019,300	
Guarantees provided by the Company on behalf of subsidiaries										
	Date and index of domestic announcement disclosing the guarantee amount			Actual amount guaranteed			Counter-guarantee		Whether performance was completed	Whether provided on behalf of connected parties
Guaranteed party		Amount guaranteed	Date incurred		Type of guarantee	Collateral		Term of guarantee		
ZTE France SASU ^{Note 2}	14 December 2011 201152	EUR10 million	N/A	—	Assurance	N/A	N/A	From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	N/A	No
PT. ZTE Indonesia ^{Note 3}	13 September 2013 201362	USD40 million	23 October 2013	USD40 million	Joint liability	N/A	N/A	From maturity to the date on which performance of material obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	Note 3	No
PT. ZTE Indonesia ^{Note 3}	13 September 2013 201362	USD15 million	11 September 2013	USD15 million	Joint liability	N/A	N/A	From maturity to 5 March 2017 or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed (whichever is later)	Note 3	No
ZTE (Malaysia) Corporation SDN. BHD ^{Note 4}	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	—	Joint liability	N/A	N/A	Commencing on the date on which the "UM Wireless Capacity Expansion Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the "UM Wireless Capacity Expansion Contract" is completed	Yes	No
ZTE (Wenzhou) Railway Communication Technology Limited ^{Note 5}	30 September 2017 201765	RMB3,300,000	28 December 2017	RMB3,152,500	Joint liability	N/A	Note 5	Commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfillment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate	Yes	No
ZTE (H.K.) Limited ^{Note 6}	16 March 2018 201822	Not more than USD600 million	1 June 2020	USD300 million	Joint liability assurance	N/A	N/A	From 1 June 2020 to (1) six months after 1 June 2023, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
			13 August 2020	USD50 million	Joint liability assurance	N/A	N/A	From 13 August 2020 to (1) 13 August 2025, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
			2 March 2021	USD150 million	Joint liability assurance	N/A	N/A	A period of six months from 2 March 2021 to the loan maturity date (for loans, guarantee periods are calculated on the basis of individual drawdowns), provided that in the event of maturity being brought forward by the lender owing to the occurrence of events stipulated by laws and regulations or the master contract, guarantee period shall be two years from the date of maturity being brought forward	No	No

Material Matters

Guarantees provided by the Company on behalf of subsidiaries										
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Collateral	Counter-guarantee	Term of guarantee	Whether performance was completed	Whether provided on behalf of connected parties
PT. ZTE Indonesia ^{Note 7}	15 October 2018 201890	USD40 million	25 October 2018	USD40 million	Joint liability	N/A	N/A	Commencing on the date of issuance of the guarantee letter of the parent company and ending on the date on which the parent company is fully released from its assurance obligations under the guarantee	Note 7	No
PT. ZTE Indonesia ^{Note 7}	15 October 2018 201890	IDR300 billion	26 April 2019	IDR300 billion	Joint liability	N/A	N/A	Commencing on the date of issuance of the bank guarantee letter and ending upon the conclusion of an effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later	Note 7	No
PT. ZTE Indonesia ^{Note 8}	19 February 2021 202118	USD40 million	30 June 2021	USD40 million	Joint liability	N/A	N/A	Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	No	No
PT. ZTE Indonesia ^{Note 8}	19 February 2021 202118	IDR400 billion	30 June 2021	IDR400 billion	Joint liability	N/A	N/A	Effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later	No	No
11 overseas subsidiaries involved in the MTN Group project ^{Note 9}	17 March 2021 202128	USD160 million	N/A	—	Joint liability	N/A	N/A	Commencing on the date of issuance of the guarantee certificate to MTN Group by the Company and ending upon the date of expiry of the "Framework Agreement", in any case not later than 5 years after the effective date of the "Framework Agreement"	N/A	No
11 overseas subsidiaries involved in the MTN Group project ^{Note 9}	17 March 2021 202128	USD16 million	N/A	—	Joint liability	N/A	N/A	Commencing on the date of issuance of the performance bond and ending upon the date on which performance of obligations under the "Framework Agreement" and its subsidiary contract is completed	N/A	No
Total amount of guarantee approved during the reporting period (B1)		RMB4,105,596,400 ^{Note 10}		Total amount of guarantee actually incurred during the reporting period (B2)		RMB1,389,846,400				
Total amount of guarantee approved as at the end of the reporting period (B3)		RMB9,128,169,800 ^{Note 10}		Total amount of balance of guarantee actually incurred as at the end of the reporting period (B4)		RMB3,621,096,400				

Material Matters

Guarantees provided by subsidiaries on behalf of fellow subsidiaries										
	Date and index of domestic announcement disclosing the guarantee amount								Whether performance was completed	Whether provided on behalf of connected parties
Guaranteed party		Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Collateral	Counter-guarantee	Term of guarantee		
Xi'an Cris Semiconductor Technology Company Limited ^{Note 11}	N/A	USD30 million	26 January 2017	USD21,728,400	Joint liability	N/A	N/A	Commencing on the date on which the "Guarantee Contract" comes into effect and ending upon on the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding.	No	No
ZTE ICT (Guangxi) Company Limited ^{Note 12}	19 March 2019 201916	RMB10 million	20 March 2019	RMB10 million	Joint liability assurance	N/A	N/A	Commencing on the date on which the "Maximum Guarantee Contract" comes into effect upon execution and ending on the date on which a period of 3 years has lapsed since the conclusion of the performance period for the primary creditor rights guaranteed	Yes	No
ZTE ICT Company Limited ^{Note 13}	24 April 2020 202032	RMB100 million	7 May 2020	RMB100 million	Secured by collaterals	State-owned land use rights and properties	N/A	Commencing on the date on which the "Maximum Mortgage Contract" comes into effect and ending on 3 January 2023	Yes	No
Netas Bilişim Teknolojileri A.Ş. ^{Note 14}	N/A	USD2,153,300	14 November 2012	—	Joint liability	N/A	N/A	Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" is completed.	No	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ^{Note 14}	N/A	EUR10,753,800	5 May 2017	EUR10,753,800	Joint liability	N/A	N/A	Commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed	No	No
Netas Bilişim Teknolojileri A.Ş. ^{Note 15}	22 December 2020 2020112	USD90 million	Note 15	USD10,798,500	Joint liability	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
	17 December 2021 2021130	USD65 million	—	—	Joint liability	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ^{Note 15}	22 December 2020 2020112	USD20 million	Note 15	USD686,400	Joint liability	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
	17 December 2021 2021130	USD15 million	—	—	Joint liability	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
NETAŞ TELEKOMÜNİKASYON A.Ş. ^{Note 15}	22 December 2020 2020112	USD30 million	Note 15	USD14,136,900	Joint liability	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
	17 December 2021 2021130	USD30 million	—	—	Joint liability	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
Netas Telecom Limited Liability Partnership ^{Note 15}	22 December 2020 2020112	USD10 million	Note 15	USD1.20 million	Joint liability	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
	17 December 2021 2021130	USD10 million	—	—	Joint liability	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
Total amount of guarantee for subsidiary approved during the reporting period (C1)			RMB765 million	Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)				RMB309,507,500		
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)			RMB2,113,870,800	Total amount of balance of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)				RMB387,151,000		
Total amount guaranteed by the Company (sum of the three categories set out above)										
Total amount of guarantee approved during the reporting period (A1+B1+C1)			RMB4,870,596,400	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)				RMB1,699,353,900		
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)			RMB11,263,059,900	Total amount of balance of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)				RMB4,029,266,700		
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company					7.83%					
Including:										
Amount of guarantee provided on behalf of shareholders, de facto controllers and their connected parties (D)					0					
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (E)					RMB3,986,519,200					
Amount of total guarantee exceeding 50% of net assets (F)					0					
Aggregate amount of the three guarantee amounts stated above (D+E+F)					RMB3,986,519,200					
Statement on liability incurred during the reporting period or potential joint liability for debt settlement (if any) in respect of outstanding guarantees					N/A					
Statement on provision of guarantee to third parties in violation of stipulated procedures (if any)					N/A					

Note 1: It was considered and approved at the Tenth Meeting of the Seventh Session of the Board of Directors of the Company that guarantee be provided by the Company by way of joint liability assurance for the performance of obligations by Beijing Fuhua Yuqi Information Technology Co., Ltd. ("Fuhua Yuqi") under the Technology Development (Entrustment) Contract for a guarantee amount of not more than RMB21,019,250 for a term commencing on the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract. The Technology Development (Entrustment) Contract came into effect on 1 April 2017 upon execution. Fuhua Yuqi has provided a third-party counter-guarantee to the Company in respect of the aforesaid guarantee. As at the end of the reporting period, the aforesaid guarantee was under normal performance.

Material Matters

- Note 2: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company under the 2010 SMS Execution Contract ("SMS Contract") and the PATES-NG Execution Contract ("PATES Contract"). The PATES Contract was completed and the guarantee provided by the Company in respect of the performance obligations of ZTE France has not completed registration procedures of the State Administration of Foreign Exchange and had yet to be performed.
- Note 3: It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors of the Company and the Third Extraordinary General Meeting of 2013 of the Company that a performance guarantee of USD40 million be provided by the Company for PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD15 million. As at the end of the reporting period, the aforesaid guarantee has been released.
- Note 4: At the Twenty-first Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE (Malaysia) Corporation SDN. BHD ("ZTE Malaysia"), a wholly-owned subsidiary of the Company. At the Thirty-ninth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2016 of the Company, it was considered and approved that the Company would increase the USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, by USD40 million (namely, a total of not more than USD60 million). As of the end of the reporting period, ZTE Malaysia's obligations under the UM Wireless Capacity Expansion Contract have been fulfilled, and the performance guarantee provided by the Company for ZTE Malaysia has been released accordingly.
- Note 5: As considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors of the Company, the provision by the Company of a guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE (Wenzhou) Railway Communication Technology Limited ("ZTE Wenzhou") under the "Wenzhou Public Security Communications Contract" for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate was approved. The Company has applied to the relevant bank for the issuance of a bank guarantee letter providing guarantee by way of performance bond with a cumulative maximum amount of RMB3,152,500 in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract". As of the end of the reporting period, the aforementioned performance bond has expired and the guarantee has been released accordingly.
- Note 6: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million. The aforesaid guarantee was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting of the Company. In June 2020, ZTE HK entered a USD300 million loan agreement with 8 Chinese/foreign banks headed by Bank of China, Macau Branch ("BOC Macau"). At the same time, the Company entered into a guarantee agreement with BOC Macau to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. On 13 August 2020, ZTE HK entered into a USD50 million loan agreement with 3 banks, including CITIC Bank London Branch. At the same time, the Company entered into a guarantee agreement with CITIC Bank London Branch to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. On 2 March 2021, ZTE HK entered into a USD150 million loan agreement with BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. As of the end of the reporting period, the above-mentioned guarantee was under normal performance.
- Note 7: As considered and passed at the Thirty-ninth Meeting of the Seventh Session of the Board of Directors of the Company, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of an IDR300 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. The aforesaid guarantee was within the limit of USD200 million for the guarantee of contract performance provided for wholly-owned overseas subsidiaries as considered and passed at the 2017 Annual General Meeting. As of the end of the reporting period, the aforesaid guarantee has been released.
- Note 8: As considered and passed at the Thirty-second Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of an IDR400 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. As of the end of the reporting period, the aforementioned guarantees have become effective.
- Note 9: As considered and passed at the Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of no more than USD160 million performance guarantee and the application to the relevant bank for the issuance of an USD16 million bank letter of guarantee by the Company for 11 overseas subsidiaries involved in MTN Group projects (including ZTE Corporation South Africa Proprietary Limited, ZTE Congo SARL, ZTE Zambia Service Limited, ZTE Uganda Limited, ZTE Nigeria Limited, ZTE Corporation Cote D' Ivoire SARL.U, ZTE Ghana Limited, ZTE Guinea SA, ZTE Afghanistan Ltd Co, ZTE Cameroon SARL and ZTE (H.K.) Limited), was approved. As of the end of the reporting period, the aforementioned guarantee has not yet become effective.

Material Matters

- Note 10: As considered and passed at the Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of performance guarantee line of no more than USD400 million in aggregate for 11 overseas subsidiaries (excluding the 11 overseas subsidiaries involved in the MTN Group projects), was approved. The computations of the total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) include a USD400 million guarantee provided for overseas wholly-owned subsidiaries. As at the end of the reporting period, the aforesaid guarantee had yet to be applied.
- Note 11: It was considered and approved at the board meeting of ZTE Microelectronics, a subsidiary of the Company, that ZTE Microelectronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between Xi'an Cris Semiconductor Technology Company Limited ("Cris"), its wholly-owned subsidiary, and Taiwan Semiconductor Manufacturing Company Limited ("TSMC") for a term commencing on the date on which the "Guarantee Contract" comes into effect and ending upon on the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. As at the end of the reporting period, the aforesaid guarantee was under normal operation and guarantee for an amount of USD21,728,400 had come into effect.
- Note 12: As considered and approved at the Forty-fifth Meeting of the Seventh Session of the Board of Directors of the Company and by the board of directors and general meeting of ZTE ICT, ZTE ICT would provide guarantee by way of assurance with an amount of RMB10 million in respect of the obligations of ZTE ICT (Guangxi) Company Limited ("Guangxi ICT"), under the "Working Capital Maximum Borrowing Contract" in favour of Guilin Bank, Wuzhou Branch, for a term commencing on the date on which the "Maximum Guarantee Contract" comes into effect and ending on the date on which a period of 3 years has lapsed since the conclusion of the performance period for the primary creditor rights guaranteed. On 20 March 2019, ZTE ICT entered into a "Maximum Guarantee Contract" with Guilin Bank, Wuzhou Branch. As of the end of the reporting period, Guangxi ICT had settled the loan to the Guilin Bank, Wuzhou Branch and the aforementioned guarantee had been released.
- Note 13: As considered and approved at the Sixteenth Meeting of the Eighth Session of the Board of Directors of the Company and by the board of directors and general meeting of Hunan ZICT Technology Co., Ltd ("Hunan ZICT"), Hunan ZICT would provide a maximum RMB100 million guarantee backed by real estate mortgages in favour of Shanghai Pudong Development Bank Corporation Shenzhen Branch ("PDB") in respect of financing for ZICT. The real estate mortgage came into effect after ZICT entered into a Finance Facility Agreement with PDB and Hunan ZICT entered into a Maximum Mortgage Contract with PDB and completed registration of the mortgage on 7 May 2020. As at the end of the reporting period, ICT had settled the loan to PDB and the aforementioned guarantee was released.
- Note 14: The Company completed the acquisition of Netaş, a listed Turkish company, on 28 July 2017. Prior to the acquisition of Netaş by the Company, Netaş had provided the following guarantee for its subsidiaries Probil Bilgi İşlem Destek ve Danışmanlık San.ve Tic. A.Ş. (renamed Netas Bilişim Teknolojileri A.Ş. and hereinafter as "Netas Bilişim") and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ("BDH"): (1) guarantee in respect of the performance obligations of Netas Bilişim under the "Systems Integration Agreement" for an amount of approximately USD2,153,300 for a term commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which the performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" are completed. As at the end of the reporting period, the actual amount of guarantee incurred by Netas Bilişim was 0; (2) guarantee in respect of the performance obligations of BDH under the "Procurement and Installation Agreement" for an amount of EUR10,753,800 for a term commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed. As at the end of the reporting period, the aforesaid guarantees were under normal performance.
- Note 15: As considered and approved at the Twenty-ninth Meeting of the Eighth Session of the Board of Directors of the Company and the board of directors of Netas, it was approved that a reciprocal joint-liability guarantee would be effected among Netaş and its subsidiaries in respect of composite credit facilities sought from financial institutions for an amount of not more than USD150 million. The facilities shall cover loans, letters of guarantee and reverse supply chain financing, among others. The effective period of the guarantee shall be 1 January 2021 to 31 December 2021. Netaş and BDH shall provide credit loan guarantee for Netaş Bilişim within the guarantee limit and as at the end of the reporting period, the balance of actual guarantee was USD10,798,500; Netaş and Netaş Bilişim shall provide credit loan guarantee for BDH within the guarantee limit and as at the end of the reporting period, the balance of actual guarantee was USD686,400; Netaş Bilişim shall provide credit loan guarantee for Netaş within the guarantee limit and as at the end of the reporting period, the balance of actual guarantee was USD14,136,900; Netaş shall provide credit loan guarantee for Netaş Telecom Limited Liability Partnership within the guarantee limit and as at the end of the reporting period, the balance of actual guarantee was USD1.20 million.
- Pursuant to the "Resolution on Provision of the Reciprocal Guarantee Among Turkish Company NETAŞ TELEKOMÜNİKASYON A.Ş. and its Subsidiaries" considered and approved at the Forty-third Meeting of the Eighth Session of the Board of Directors of the Company held on 16 December 2021, the proposed reciprocal joint-liability guarantee among Netaş and its subsidiaries in respect of composite credit facilities sought from financial institutions for an amount of not more than USD120 million was approved. In accordance with the "Shenzhen Stock Exchange Self-discipline Regulatory Guide for Listed Companies No. 1 — Regulated Operation of Companies Listed on the Main Board" recently implemented in January 2022, where a subsidiary of a listed company provides guarantee for another subsidiary which has a gearing ratio of more than 70%, such guarantee is subject to consideration at the general meeting of the listed company. The reciprocal guarantee among Netaş and its subsidiaries has been resubmitted to the Board and the general meeting for consideration. After consideration and approval at the general meeting, the limits approved on 16 December 2021 will become invalid. For details, please refer to the "Overseas Regulatory Announcement Announcement on proposed provision of guarantee for subsidiary in 2022".
- Note 16: The guarantee amounts were translated at the book exchange rates of the Company as at 31 December 2021: USD1: RMB6.375; EUR1: RMB7.2201; IDR1: RMB0.00044649.

Material Matters

3. Statement on guarantees provided in violation of regulations

☐ Applicable ☒ N/A

4. For the special statement and independent opinion on the fund transfers between the Company and connected parties and third-party guarantees of the Company furnished by the Independent Non-Executive Directors of the Company, please refer to the Overseas Regulatory Announcement published by the Company on 8 March 2022.

5. Entrusted cash asset management

(1) *Entrusted investment management*

For details of the entrusted investment management of the Group during the year, please refer to the section headed “Report of the Board of Directors — (II) 10. Analysis of Investment” in this report.

(2) *The Company did not incur any entrusted loans during the year.*

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

☐ Applicable ☒ N/A

(X) UNDERTAKING

1 Undertakings by relevant parties such as the Company’s shareholders, connected parties, acquirers and the Company for which fulfillment was completed during the reporting period and those for which fulfillment was not completed as at the end of the reporting period

(1) *Undertaking given upon initial public offering*

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

The undertaking was under normal performance during the year and there was no instance of non-completion of the performance of undertaking after the end of the relevant period.

(2) *Undertaking by parties to the non-public issuance of A shares*

a. *Undertaking of the Company not to commit new funds to quasi-financial businesses*

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

Material Matters

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

b. Undertaking by the controlling shareholder, Directors and senior management of the Company in relation to the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares of the Company in 2018

Zhongxingxin, the controlling shareholder of the Company, provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares in 2018: (1) that it will not, for so long as it remains the controlling shareholder of the Company, act beyond its powers to interfere with the Company’s operating and management activities or infringe upon the Company’s interests; (2) that it will willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.

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

The Company’s net profit attributable to holders of ordinary shares of the listed company after extraordinary items, basic earnings per share after extraordinary items and diluted earnings per share after extraordinary items for 2021 amounted to RMB3.31 billion, RMB0.71 and RMB0.71, respectively, which have exceeded the estimated earnings per share stated in the “Overseas Regulatory Announcement Announcement on dilution of return for current period by non-public issuance of A shares, remedial measures and undertakings by relevant parties” published on 31 January 2018. The controlling shareholder, Directors and senior management of the Company have completed the fulfilment of their undertaking.

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

The parties to the Company’s issuance of shares to purchase assets and raise ancillary funds provided undertakings on 28 October 2020 and 16 November 2020, respectively. For details, please refer to the Overseas Regulatory Announcement published by the Company on 28 October 2020, 16 November 2020 and 8 November 2021, respectively.

Material Matters

The Company acquired 18.8219% equity interest in ZTE Microelectronics, a subsidiary, held in aggregate by Hengjian Xinxin and Huitong Rongxin by way of share issuance. The new shares were listed on Shenzhen Stock Exchange on 10 November 2021. The undertaking of Hengjian Xinxin, Huitong Rongxin, ZTE Microelectronics, and the directors, supervisors and senior of management of ZTE Microelectronics regarding the provision of true, accurate and complete information, the undertaking of Hengjian Xinxin, Huitong Rongxin regarding the ownership status of the subject assets, and the undertaking of Zhongxingxin and the Directors and senior management of the Company regarding share sell-down plans have been fulfilled and completed in a normal manner. Other undertakings were under normal performance and there was no instance of non-completion of the performance of undertaking after the end of the relevant period.

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

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

The undertakings were under normal performance during the year and there was no instance of failure to complete the performance of undertaking after the end of the relevant period.

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

☐ Applicable ☒ N/A

(XI) EXPLANATORY STATEMENT FROM THE BOARD OF DIRECTORS OF THE COMPANY ON INFORMATION RELATING TO THE LATEST “QUALIFIED AUDIT REPORT”

☐ Applicable ☒ N/A

(XII) EXPLANATORY STATEMENT FROM THE BOARD OF DIRECTORS, THE SUPERVISORY COMMITTEE AND THE INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE COMPANY ON THE ACCOUNTANT’S “QUALIFIED AUDIT REPORT” FOR THE YEAR

☐ Applicable ☒ N/A

(XIII) EXPLANATORY STATEMENT ON CHANGES IN THE ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR RECTIFICATION OF SIGNIFICANT ACCOUNTING ERRORS FOR THE YEAR IN COMPARISON WITH THE PREVIOUS ANNUAL FINANCIAL REPORT

☐ Applicable ☒ N/A

(XIV) EXPLANATORY STATEMENT ON CHANGES TO THE SCOPE OF CONSOLIDATION FINANCIAL STATEMENT IN COMPARISON WITH THE PREVIOUS ANNUAL FINANCIAL REPORT

New subsidiaries established by the Company during the year included: tier-one subsidiaries Zhongxing Intelligent Technology (Nanjing) Company Limited, Nanjing Zhongxing Zhiyuan Technology Company Limited, Nanjing Chunjun Innovative Technology Company Limited, Zhongxing (Chengdu) Intelligent Technology Company Limited, Jinzhuan Xinke Company Limited; and tier-two subsidiary Chengdu Cris Semiconductor Technology Company Limited.

Subsidiaries deregistered by the Company during the year included: tier-one subsidiary Xi’an Zhongxing Jingcheng Technology Company Limited; tier-two subsidiaries Xiamen Zhenkun NEV Company Limited, Nubia (Indonesia) Limited, Chengdu Xingxin NEV Company Limited and Wuhan Baicheng Shun’an Auto Sales Company Limited; and tier-three subsidiaries ZTE Switzerland AG and ZTE Luxembourg.

Material Matters

The Company completed disposal of 90% equity interest in subsidiary Caltta Technologies, 5.1% equity interest in subsidiary ZTE (Wenzhou) Railway Communication Technology Limited and 90% equity interest in Shenzhen Zhongxing SI Technology Company Limited; Netas Bilisim Teknolojileri AnonimSirketi, a subsidiary of the Company, completed disposal of 100% equity interest in NetRD Bilgi Teknolojilerive Telekomunikasyon A.S. Caltta Technologies and its subsidiaries, ZTE (Wenzhou) Railway Communication Technology Limited and its subsidiaries, Shenzhen Zhongxing SI Technology Company Limited and NetRD Bilgi Teknolojilerive Telekomunikasyon A.S. have been excluded from the consolidated financial statements of the Group.

In December 2021, Wuhan Xihu District People's Court of Wuhan granted approval for the commencement of bankruptcy procedure of Zhongxing Gaoneng Technology Company Limited, a subsidiary of the Company. Zhongxing Gaoneng Technology Company Limited had been excluded from the consolidated financial statements of the Group as from December 2021.

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

(XV) APPOINTMENT OF AUDITORS, FINANCIAL ADVISOR OR SPONSOR BY THE COMPANY

1. Appointment of auditors by the Company

Ernst & Young Hua Ming LLP acted as the Group's auditor. For details, please refer to the section headed "Corporate Governance Report (XIV) Audit" in this report.

2. Appointment of financial advisor by the Company

In 2021, the Company appointed China Securities Co, Ltd. as independent financial advisor in connection with its issuance of shares for asset acquisition and raising ancillary funds. No fees have yet been paid.

(XVI) ENFORCEMENT AND CRIMINAL PUNISHMENT IN ACCORDANCE WITH THE LAW ON ALLEGED CRIMES, CASE INVESTIGATION BY CSRC OR ADMINISTRATIVE PENALTY BY CSRC OR MATERIAL ADMINISTRATIVE PENALTY BY OTHER COMPETENT AUTHORITIES FOR ALLEGED VIOLATIONS OF LAWS AND REGULATIONS, DETAINMENT FOR ALLEGED MATERIAL VIOLATIONS OF DISCIPLINE AND LAW OR CRIME IN OFFICE BY DISCIPLINARY AUTHORITIES AFFECTING THE PERFORMANCE OF DUTIES, AND ENFORCEMENT BY OTHER COMPETENT AUTHORITIES FOR ALLEGED VIOLATION OF LAWS AND REGULATIONS AFFECTING THE PERFORMANCE OF DUTIES AGAINST THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR CONTROLLING SHAREHOLDER DURING THE YEAR.

☐ Applicable ☒ N/A

(XVII) CREDIBILITY OF COMPANY AND CONTROLLING SHAREHOLDER

☐ Applicable ☒ N/A

The company and its controlling shareholder were not subject to any non-compliance with obligations under valid court judgement or overdue debts of a substantial nature during the year.

(XVIII) ALLEGED ILLICIT TRADING IN SHARES OF THE COMPANY BY DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR SHAREHOLDERS HOLDING 5% OR MORE OF SHARES IN THE COMPANY IN RESPECT OF WHICH THE RETRIEVAL OF ALLEGED ILLICIT GAINS HAS BEEN ANNOUNCED BY THE COMPANY

☐ Applicable ☒ N/A

(XIX) PROSPECTS OF WITHDRAWAL FROM LISTING SUBSEQUENT TO THE PUBLICATION OF THE ANNUAL REPORT

☐ Applicable ☒ N/A

Material Matters

(XX) OTHER SIGNIFICANT EVENTS

Save as aforesaid, no other significant events as specified under Rule 80 of the Securities Law and Article 22 of the Measures for the Administration of Information Disclosure by Listed Companies and events that were significant in the judgment of the Board of Directors of the Company occurred to the Company during the year.

(XXI) THERE WERE NO OTHER DISCLOSEABLE MATERIAL MATTERS OCCURRING TO THE SUBSIDIARIES OF THE COMPANY DURING THE YEAR THAT REMAINED UNDISCLOSED.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE YEAR

Unit: shares

	31 December 2020		Increase/decrease as a result of the change during the year (+, -)					31 December 2021	
	Number of shares	Percentage	New issue ^{Note 1}	Bonus issue	Transfer from capital reserve	Others ^{Note 2}	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	381,678,564	8.27%	+85,343,643	—	—	-381,113,143	-295,769,500	85,909,064	1.82%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	43,032,108	0.93%	+39,378,989	—	—	-43,032,108	-3,653,119	39,378,989	0.84%
3. Other domestic shares	338,066,860	7.33%	+45,942,154	—	—	-338,066,860	-292,124,706	45,942,154	0.97%
Comprising: Domestic									
non-state-owned									
corporate shares	338,066,860	7.33%	+45,942,154	—	—	-338,066,860	-292,124,706	45,942,154	0.97%
Domestic natural									
person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate									
shares	—	—	—	—	—	—	—	—	—
Foreign natural									
person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	579,596	0.01%	+22,500	—	—	-14,175	+8,325	587,921	0.01%
II. Shares not subject to lock-up	4,231,756,334	91.73%	+32,017,431	—	—	+381,113,143	+413,130,574	4,644,886,908	98.18%
1. RMB ordinary shares	3,476,253,800	75.35%	+32,017,431	—	—	+381,113,143	+413,130,574	3,889,384,374	82.21%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares									
(H shares)	755,502,534	16.38%	—	—	—	—	—	755,502,534	15.97%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	4,613,434,898	100.00%	+117,361,074	—	—	—	+117,361,074	4,730,795,972	100.00%

Note 1: The Company's A shares increased 117,361,074 shares following the addition of 85,321,143 new A shares under the share issuance for asset acquisition, the exercise of a total of 32,033,154 A share options by the participants under the 2017 Share Option Incentive Scheme and the exercise of a total of 6,777 A share options by the participants under the initial grant of the 2020 Share Option Incentive Scheme during the year;

Note 2: Unlocking of shares under the Company's non-public issuance of A shares upon expiration of lock-up period and lock-up or unlocking of shares of Directors, Supervisors and senior management on a pro-rata basis in accordance with pertinent domestic regulations.

Changes in Shareholdings and Information of Shareholders

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

Unit: shares

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up As at 31 December 2020	Number of A shares unlocked during the reporting period	Increase in the number of A shares subject to lock-up during the reporting period	Number of A shares subject to lock-up As at 31 December 2021	Reason for lock-up	Date of unlocking
1	Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership)	—	—	45,942,154	45,942,154	Restricted shares under share issuance for asset acquisition	Note 1
2	Shenzhen Nanshan Strategic New Industry Investment Company Limited	43,032,108	43,032,108	39,378,989	39,378,989		Note 2
3	Nanjing Xinchuangxing Consulting and Management Partnership (Limited)	43,032,108	43,032,108	—	—	Expiration of restricted shares	4 February 2021 ^{Note 3}
4	New China Life Insurance Company Limited — New Traditional Products 2	43,032,108	43,032,108	—	—	under non-public issuance of A shares	
5	Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-Win Equity Investment Fund Partnership (Limited)	43,032,108	43,032,108	—	—		
6	Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	43,032,108	43,032,108	—	—		
7	NSSF Portfolio #101	42,204,567	42,204,567	—	—		
8	NSSF Portfolio #108	18,205,892	18,205,892	—	—		
9	Basic Pension Insurance Fund Portfolio #808	7,447,864	7,447,864	—	—		
10	NSSF Portfolio #115	6,620,324	6,620,324	—	—		
11	NSSF Portfolio #401	6,620,324	6,620,324	—	—		
12	Other restricted shares under non-public issue	84,839,457	84,839,457	—	—		
13	Restricted senior management shares	579,596	14,175	22,500	587,921	Restricted senior management shares ^{Note 4}	—
—	Total	381,678,564	381,113,143	85,343,643	85,909,064	—	—

Note 1: The new shares under the share issuance for asset acquisition were listed on the Shenzhen Stock Exchange on 10 November 2021 and shall not be traded or transferred within 12 months from 10 November 2021;

Note 2: The 43,032,108 A shares issued to Huitong Rongxin by the Company under the non-public issuance of A shares were unlocked on 4 February 2021. The 39,378,989 A shares issued to Huitong Rongxin by the Company under the share issuance for asset acquisition shall not be traded or transferred within 12 months from 10 November 2021;

Note 3: The new shares under the Company' non-public issuance of A shares were listed on Shenzhen Stock Exchange on 4 February 2020 and shall not be transferred within 12 months from 4 February 2020. The date of listing and trading of the new shares under the Company' non-public issuance of A shares was 4 February 2021. For details, please refer to the "Overseas Regulatory Announcement Indicative Announcement on the Release of Selling Restrictions for Restricted Shares under the Non-public Issuance of A Shares" published by the Company on 2 February 2021;

Note 4: Attributable to the calculation of the number of restricted shares of directors, supervisors and senior management of listed companies based on the number of shares registered under their names on the last trading day of the previous year by China Securities Depository and Clearing Corporation Limited, Shenzhen Branch in accordance with the "Company Law" and "Administrative Rules for Company Shares held by Directors, Supervisors and Senior Management of Listed Companies and Changes thereof".

Changes in Shareholdings and Information of Shareholders

(III) ISSUE AND LISTING OF SECURITIES DURING THE YEAR

1. The Company granted 149,601,200 A share options to 1,996 participants on 6 July 2017. The registration of the grant of such A share options was completed on 20 July 2017. The code of the options is “037050” and the abbreviated name is “中興JLC2”. For details of the exercise and cancellation of the aforesaid share options, please refer to the section headed “Corporate Governance Report — (X) IMPLEMENTATION AND IMPACT OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME AND MANAGEMENT STOCK OWNERSHIP SCHEME” in this report. During the reporting period, a total of 32,033,154 A share options were exercised by scheme participants under the 2017 Share Option Incentive Scheme of the Company, and the total share capital of the Company was increased by 32,033,154 shares accordingly.
2. The Company granted 158,472,000 A share options to 6,123 participants on 6 November 2020. The registration of the grant of such A share options was completed on 30 November 2020. The code of the options is “037099” and the abbreviated name is “中興JLC3”. For details of the exercise and cancellation of the aforesaid share options, please refer to the section headed “Corporate Governance Report — (X) IMPLEMENTATION AND IMPACT OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME AND MANAGEMENT STOCK OWNERSHIP SCHEME” in this report. During the reporting period, a total of 6,777 A share options were exercised by scheme participants under the 2020 Share Option Incentive Scheme of the Company, and the total share capital of the Company was increased by 6,777 shares accordingly.
3. The Company granted 5,000,000 A share options to 410 participants on 23 September 2021. The registration of the grant of such A share options was completed on 22 October 2021. The code of the options is “037180” and the abbreviated name is “中興JLC4”.
4. The Company acquired 18.8219% equity interests in ZTE Microelectronics, a subsidiary of the Company, held in aggregate by Hengjian Xinxin and Huitong Rongxin by way of share issue at an issue price of RMB30.60/share, with an issue size of 85,321,143 shares comprising 45,942,154 A shares issued to Hengjian Xinxin and 39,378,989 A shares issued to Huitong Rongxin. The new shares were listed on Shenzhen Stock Exchange on 10 November 2021.
5. For details of the Company’s issuance of Super and Short-term Commercial Paper (“SCP”), please refer to the section headed “Information on Bonds — (III) Non-financial corporate debt financing instruments” in this report.
6. The Company had no employees’ shares.

(IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE YEAR

1. Total number of shareholders, shareholdings of top ten shareholders and top ten holders that were not subject to lock-up as at the end of the year

	Total number of shareholders
As at 31 December 2021	There were 447,683 shareholders (comprising 447,377 holders of A shares and 306 holders of H shares)
As at 28 February 2022, namely the last day of the preceding month of the date of publication of the Annual Report	There were 481,863 shareholders (comprising 481,559 holders of A shares and 304 holders of H shares)

Changes in Shareholdings and Information of Shareholders

Shareholdings of shareholders holding 5% or above of the shares or top 10 shareholders							
Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Class of shares	Increase/decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged, marked or frozen (shares)
1. Zhongxingxin	Domestic general corporation	21.30%	1,005,840,400	A share	-27,601,800	—	Nil
			2,038,000 ^{Note 1}	H share	—		
2. HKSCC Nominees Limited ^{Note 2}	Foreign shareholders	15.90%	752,388,556	H share	+179,248	—	Unknown
3. Hong Kong Securities Clearing Company Limited ^{Note 3}	Foreign corporation	2.33%	110,156,628	A share	+54,073,731	—	Nil
4. Shenzhen Nanshan Strategic New Industry Investment Company Limited	State-owned corporation	1.74%	82,411,097	A share	+39,378,989	39,378,989	Nil
5. Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership)	Domestic general corporation	0.97%	45,942,154	A share	+45,942,154	45,942,154	Nil
6. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-Win Equity Investment Fund Partnership (Limited)	Others	0.91%	43,032,108	A share	—	—	Nil
7. Central Huijin Asset Management Co., Ltd.	State-owned corporation	0.89%	42,171,534	A share	-10,348,066	—	Nil
8. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	0.88%	41,516,065	A share	—	—	Nil
9. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	Others	0.74%	34,900,000	A share	-8,132,108	—	Nil
10. NSF Portfolio #113	Others	0.63%	29,817,518	A share	+18,947,518	—	Nil

Changes in Shareholdings and Information of Shareholders

Shareholdings of top 10 holders of shares that were not subject to lock-up		
Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,005,840,400	A share
	2,038,000	H share
2. HKSCC Nominees Limited	752,388,556	H share
3. Hong Kong Securities Clearing Company Limited	110,156,628	A share
4. Shenzhen Nanshan Strategic New Industry Investment Company Limited	43,032,108	A share
5. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-Win Equity Investment Fund Partnership (Limited)	43,032,108	A share
6. Central Huijin Asset Management Co., Ltd.	42,171,534	A share
7. Hunan Nantian (Group) Co., Ltd.	41,516,065	A share
8. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	34,900,000	A share
9. NSF Portfolio #113	29,817,518	A share
10. New China Life Insurance Company Limited — New Traditional Products 2	28,032,489	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 the above-mentioned shareholders' delegated/entrusted voting rights and waiver of voting rights	N/A	
Strategic investor or general corporation becoming a top 10 shareholder as a result of new share placing (if any)	N/A	
Special description for the existence of special repurchase account among the top 10 shareholders (if any)	N/A	
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A	
Top 10 holders of ordinary shares and top 10 holders of ordinary shares that were not subject to lock-up of the Company conducted any transactions on agreed repurchases during the reporting period	N/A	

Note 1: 2,038,000 H shares in the Company held by Zhongxingxin were held by HKSCC Nominees Limited as nominee shares.

Note 2: Shares held by HKSCC Nominees Limited represented the sum of shares held in the accounts of the H shareholders of the Company traded on the trading platform of HKSCC Nominees Limited. To avoid repetition in counting, 2,038,000 H shares in the Company held by Zhongxingxin have been excluded from the number of shares held HKSCC Nominees Limited.

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

Changes in Shareholdings and Information of Shareholders

Note 4: Shareholders holding 5% or above of the Company's shares — Zhongxingxin, holding 1,007,878,400 shares in the Company in aggregate, representing 21.30% of the total share capital of the Company as at the end of the reporting period, was the controlling shareholder of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period are as follows:

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

2. Controlling shareholder of the Company

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

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Wei Zaisheng
Date of incorporation:	29 April 1993
Uniform social credit code:	91440300192224518G
Registered capital:	RMB100 million
Scope of business:	R&D of machine vision systems integration; design and production of optical instruments, industrial cameras and instruments and high-end mechanical equipment; computer systems integration; R&D, technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software, hardware, electronic components and raw materials of computer vision data processing systems; leasing of owned housing properties; industrial investment; import and export business. (Commencement of operation of enterprises requiring prerequisite administrative approvals shall be subject to the obtaining of documents for such prerequisite administrative approvals.)

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

3. The shareholders (or de facto controllers) of the controlling shareholders of the Company

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

Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large-scale state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tang Lei and its uniform social credit code is 12100000H0420141X7. It is the large-scale integrated research institute engaged in the research and development, commercial production and complementary integration and inspection/testing of semi-conductor integrated circuits, hybrid integrated circuits and computers.

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

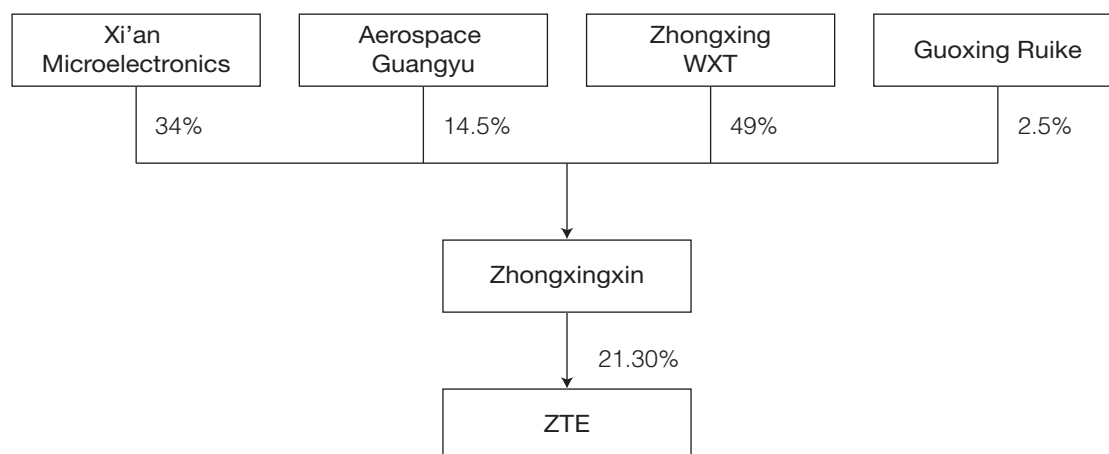
Changes in Shareholdings and Information of Shareholders

of aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile and automobile. Domestic trade and import and export operations; trade brokerage and agency; lease of owned properties; wholesale of aqua-products; sales of mining products (other than mining products required to be centrally purchased by entities designated by the State) and timber; sales of goldware and silverware; logistics information service (excluding dangerous items) and sales of construction materials (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items); paper pulp sales; paper product sales, optical communication equipment sales; integrated circuit chip and product and sales; rubber product sales; non-metal mining material and product sales (voluntary commencement of business according to laws based on business license, save for items requiring approval in accordance with laws). Cargo freight and warehousing; wholesale of pre-packaged food; wholesale of agricultural by-products; sales of coal products; sales of pre-packaged food (including refrigerated food) and sales of bulk food (including refrigerated food); sales of medical equipment; sales of Class II and Class III radioactive devices; sales of light cycle oil (excluding dangerous chemicals). Food business (sales of bulk food); wholesale of refined oil product (dangerous chemicals only); dangerous chemicals (subject to approval of relevant authorities if so required under the law and approval documents and permits issued by relevant authorities for individual business items).

Zhongxing WXT is a private enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10 million. Its uniform social credit code is 9144030027941498XF. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment (excluding restricted projects); investment in industrial operations (subject to separate applications for specific projects).

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

The following diagram shows the shareholding and controlling relationships between the aforesaid entities and the Company as at 31 December 2021.



Changes in Shareholdings and Information of Shareholders

4. The Company had no other corporate shareholder which was interested in more than 10% of its shares.
5. During the year, no controlling shareholder, parties to reorganisation or other entities of undertaking were subject to restrictions against the sell-down of the Company's shares.
6. Interests of substantial shareholders of the Company in shares and underlying shares required to be disclosed under the SFO and Hong Kong Listing Rules

As at 31 December 2021, the following shareholders held interests or short positions in 5% or more in various classes of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of: ^{Note}	
			Total share capital	Class shares
Zhongxingxin	Beneficial owner	1,005,840,400 A shares (L)	21.26%(L)	25.30%(L)
Zhongxing WXT	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.26%(L)	25.30%(L)
Xi'an Microelectronics	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.26%(L)	25.30%(L)
China Aerospace Electronics Technology Research Institute	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.26%(L)	25.30%(L)
China Aerospace Science and Technology Corporation	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.26%(L)	25.30%(L)
BlackRock, Inc.	Interests of corporate controlled by you	65,662,077 H shares (L)	1.39% (L)	8.69% (L)
		90,800 H shares (S)	0.00% (S)	0.01%(S)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.81%(L)	5.08%(L)

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

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,730,795,972 shares, comprising 3,975,293,438 A shares and 755,502,534 H shares, as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, so far as the Directors, Supervisors and chief executive of the Company are aware, other than the Directors and chief executive of the Company, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

(V) REPURCHASE, SALE AND REDEMPTION OF SECURITIES

During the year, the Company and its subsidiaries did not repurchase, sell or redeem any listed securities of the Company.

(VI) THE COMPANY HAD NO PREFERENTIAL SHARES

(VII) PUBLIC FLOAT

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

Directors, Supervisors, Senior Management and Employees

(I) BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

1. Brief biographies of Directors

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

Mr. Xu Ziyang, born in 1972, is Executive Director and President of the Company. He graduated from University of Electronic Science and Technology of China with a bachelor's degree in engineering majoring in physical electronics technology in 1994. Mr. Xu joined the Company in 1998, and served successively as programmer, section chief of GSM product line development department of Nanjing Research and Development Center, head of PS development department, deputy general manager of core network product line, and general manager of core network product line of the Company from 1998 to 2011. From 2011 to 2013, he acted as general manager of MKT Fourth Branch of the Company in charge of European and United States systems products. From 2014 to 2016, Mr. Xu acted as general manager of ZTE Services Deutschland GmbH, a subsidiary of the Company. From 2016 to July 2018, he acted concurrently as assistant to the President of the Company and product general manager of the CCN core network product line of the Wireless Operations Department of the Company. Mr. Xu has been President of the Company since July 2018 and Executive Director of the Company since August 2018. Mr. Xu has many years of operational and management experience in the telecommunication industry.

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

Directors, Supervisors, Senior Management and Employees

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

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

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

Directors, Supervisors, Senior Management and Employees

Ms. Cai Manli, born in 1973, is Independent Non-executive Director of the Company. Ms. Cai graduated from Renmin University of China in 1998 with a bachelor's degree in economics majoring in accounting and obtained a master's degree in management from Central University of Finance and Economics in 2006. She is a certified public accountant and certified tax agent of the PRC. From 2002 to 2015, Ms. Cai was involved in regulatory governance of listed companies at CSRC, holding successively the positions of deputy chief of the M&A Governance Office II and chief of the M&A Governance Office I while also serving as the leader of the accounting and evaluation group at the Department for the Governance of Listed Companies. She was formerly general manager of HEYI Rising Assets Management Co., Ltd and independent director of Beijing Yadii Media Co., Ltd, SF Diamond Co., Ltd and Hubei Radio & Television Information Network Co., Ltd, respectively. Since 2015, she has been senior advisor at King & Wood Mallesons. She has been concurrently serving external supervisor of Sichuan Xinwang Bank Co., Ltd since 2016; independent director of Shanghai Flyco Electrical Appliance Co., Ltd (a company listed on the Shanghai Stock Exchange) since November 2018; New Hope Liuhe Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since June 2019, Kuangshi Technology Co., Ltd since December 2020 and Guangzhou Jifei Technology Corporation since March 2021. She has been Independent Non-executive Director of the Company since June 2018. Ms. Cai has extensive experience in consultation and equity investments relating to capital markets.

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

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

Directors, Supervisors, Senior Management and Employees

2. Brief biography of Secretary to the Board of Directors/Company Secretary

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

3. Brief biographies of Supervisors

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

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

Mr. Li Quancai, born in 1961, is a Supervisor of the Company. Mr. Li graduated from Xi'an Jiaotong University in 1989 with a bachelor's degree, majoring in industrial and corporate automation. Mr. Li worked at China Aerospace Factory No. 691 from August 1981 to October 1989. From November 1989 to September 1993, he was under the employment of Shenzhen Zhongxing Semiconductor Co., Ltd. He joined Zhongxingxin, the controlling shareholder of the Company, in October 1993 and had since successively served as after-sales engineer, manager of sales department and regional general manager of marketing until October 1997. From November 1997 to May 2018, Mr. Li was working at the Company, having held the positions of Deputy General Manager of Marketing Division II, Deputy General Manager of Marketing of the Mobile Division, Deputy General Manager of Production of the Mobile Division, Head of the Xi'an Research Institute of the Mobile Division and Deputy Head of the Wireless Research Institute. He was chairman of the Trade Union of the Company from May 2018 to July 2021 and has been a Supervisor of the Company since November 2017. Mr. Li has extensive experience in management and operations.

Directors, Supervisors, Senior Management and Employees

Mr. Shang Xiaofeng, born in 1975, is a Supervisor of the Company. Mr. Shang graduated from Shanxi University of Finance and Economics in 2001 with a master's degree in management majoring in accounting and holds qualifications as a certified management accountant and the title of senior accountant. From July 2001 to September 2002, Mr. Shang was an accountant at the Agricultural Bank of China, Shenzhen Branch; from September 2002 to March 2011, he worked at the treasury department of Ping An Insurance (Group) Company of China, Ltd.; from March 2011 to May 2017, Mr. Shang had successively undertaken the positions of deputy treasury department manager of the finance centre, treasury department manager of the finance centre and head of the finance centre of CASIC Shenzhen (Group) Limited; from May 2017 to June 2020 he had been head of the finance department of Shenzhen Aerospace Industrial Technology Research Institute Limited and general manager of its international operations company. He was director and general manager of Shenzhen Aerospace Guangyu Industrial Company Limited from June 2020 to January 2022. Mr. Shang has been Supervisor of the Company since March 2019. Mr. Shang has extensive experience in financial and operational management.

Ms. Zhang Sufang, born in 1974, is a Supervisor of the Company. graduated from Nankai University in June 2000 with a master's degree in management. From July 2000 to February 2009, Ms. Zhang had successively served at the promotion and reception department and as head of the finance department of Zhongxingxin; she has been secretary to the board of directors of Zhongxingxin since July 2006 and head of the general office of Zhongxingxin since February 2009. From December 2011 to October 2021, Ms. Zhang has served as a member of the fourth and fifth sessions of CPPCC Shenzhen Luohu District Committee. Ms Zhang has been Supervisor of the Company since March 2019. She is also concurrently serving as supervisor/general manager at various subsidiaries of Zhongxingxin. Ms. Zhang has extensive experience in management and operations.

4. Brief biographies of Senior Management

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

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

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

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

Directors, Supervisors, Senior Management and Employees

Mr. Xie Junshi, born in 1975, is Executive Vice President of the Company. Mr. Xie graduated from Tsinghua University in 1998 with a bachelor's degree in engineering majoring in engineering mechanics and further obtained a master's degree in engineering majoring in fluid mechanics in 2001, also from Tsinghua University. After joining the Company in 2001, Mr. Xie had been dedicated to the Company's international market development from 2001 to 2018. From 2001 to 2012, he had successively served as the Company's Technology Manager (International Markets), Business Technology Manager (Europe and South Asia) and Deputy General Manager (Europe and North America) in charge of MKT. He served as the Company's Deputy General Manager (Europe) in charge of terminals, corporate business and operations in 2013. From 2014 to July 2018, he was the Company's General Manager (Europe and America) for MKT and Solutions. He was Senior Vice President and Chief Operating Officer from July 2018 to September 2019. Since September 2019, he has been Executive Vice President and Chief Operating Officer of the Company. Mr. Xie has many years of experience in the operation and management of the telecommunication industry.

Mr. Ding Jianzhong, Secretary to the Board of Directors/Company Secretary of the Company. Please refer to the section headed "Brief biographies of Secretary to the Board of Directors/Company Secretary" for his biography.

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

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on Note 1	Term of office ending on Note 1	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes	Total payable remuneration received from the Company during the reporting period (RMB in ten thousand) Note 2	Whether remuneration is received from related parties Note 2
Directors of the Company														
1	Li Zixue	Male	57	Chairman	Incumbent	3/2019	3/2022	—	—	—	—	—	845.0	No
2	Xu Ziyang	Male	49	Director	Incumbent	3/2019	3/2022	84,000	—	—	84,000	—	1,112.0	No
				President		4/2019	3/2022							
3	Li Buqing	Male	49	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	10	Yes
4	Gu Junying	Male	54	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	881.0	No
				Executive Vice President		4/2019	3/2022							
5	Zhu Weimin	Male	56	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	10	Yes
6	Fang Rong	Female	57	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	10	Yes
7	Cai Manli	Female	48	Independent Non-executive Director	Incumbent	3/2019	3/2022	—	—	—	—	—	25	Yes
8	Gordon Ng	Male	57	Independent Non-executive Director	Incumbent	3/2019	3/2022	—	—	—	—	—	25	Yes
9	Zhuang Jiansheng	Male	56	Independent Non-executive Director	Incumbent	6/2020	3/2022	—	—	—	—	—	25	Yes
Supervisors of the Company														
10	Xie Daxiong	Male	58	Chairman of Supervisory Committee	Incumbent	3/2019	3/2022	495,803	—	123,900	371,903	Note 3	668.8	No
11	Xia Xiaoyue	Female	46	Supervisor	Incumbent	3/2019	3/2022	50,927	—	—	50,927	—	166.2	No
12	Li Quancai	Male	60	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	167.3	No
13	Shang Xiaofeng	Male	46	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	—	Yes
14	Zhang Sufang	Female	47	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	—	Yes
Senior management of the Company														
15	Wang Xiyu	Male	47	Executive Vice President	Incumbent	4/2019	3/2022	68,566	—	17,000	51,566	Note 3	1,095.0	No
16	Li Ying	Female	43	Executive Vice President and Chief Financial Officer	Incumbent	4/2019	3/2022	54,600	—	11,900	42,700	Note 3	886.0	No
17	Xie Junshi	Male	46	Executive Vice President	Incumbent	9/2019	3/2022	—	30,000	—	30,000	Note 3	883.0	No
18	Ding Jianzhong	Male	45	Secretary to the Board	Incumbent	7/2019	3/2022	—	—	—	—	—	350.0	No
—	Total	—	—	—	—	—	—	753,896	30,000	152,800	631,096	—	7,159.3	—

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

Note 2: Pursuant to Rule 6.3.3 of the Shenzhen Listing Rules, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company act as directors and senior management (other than the said listed company and its subsidiaries) are deemed as connected parties of such listed company.

Note 3: Increase or decrease of shareholdings, including the exercise of A share options, in accordance with pertinent domestic regulations.

Directors, Supervisors, Senior Management and Employees

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

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

Note 6: The Directors, Supervisors and senior management of the Company have not been subject to disciplinary actions of the securities regulatory authorities in the past three years.

For details of the share options of A shares of the Company held by the Directors and senior management of the Company, please refer to the section headed “Corporate Governance Report – (X) Implementation and Impact of the Company’s Share Option Incentive Scheme and Management Stock Ownership Scheme” in this report.

(III) INFORMATION CONCERNING CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING POSITIONS IN CORPORATE SHAREHOLDERS OF THE COMPANY AS AT THE END OF THE YEAR

Name	Name of shareholder	Position with the shareholder	Commencement of term of office ^{Note}	Conclusion of term of office ^{Note}	Whether receiving remuneration from Zhongxingxin
Zhu Weimin	Zhongxingxin	Director	August 2018	August 2024	Yes
Shang Xiaofeng	Zhongxingxin	Supervisor	August 2018	February 2022	Yes
Zhang Sufang	Zhongxingxin	Secretary to the Board of Directors	August 2018	August 2024	Yes

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

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

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Li Buqing ^{Note 1}	Shenzhen Aerospace Industrial Technology Research Institute Limited	Chief accountant	Yes
	CASIC Shenzhen (Group) Company Limited	Director, chief accountant	No
	Shenzhen Aerospace Property Management Co., Ltd	Director	No
	Shenzhen Aerospace Liye Industry Development Co., Ltd.	Chairman	No
	Shenzhen Zhongxing Information Company Limited	Director	No
	Shenzhen Hangxin Property Management Co., Ltd.	Director	No
Zhu Weimin ^{Note 2}	Shenzhen ZTE International Investment Limited	Chairman	Yes
	Held positions in 6 subsidiaries of Shenzhen ZTE International Investment Limited including Beijing United ZTE International Investment Limited	Chairman/Director	No
	Zhongxing WXT	Director	No
	Shenzhen Techaser Technologies Co., Ltd.	Director	No

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Fang Rong ^{Note 3}	Shenzhen Xinyu Tengyue Electronics Co., Ltd	Director	No
	Hainan Xinghang Technology Co., Ltd.	Director	No
	Zhongxing Development Company Limited	Director, executive vice president	Yes
	Shenzhen ZTE International Investment Limited	Director	No
	Held positions in 12 subsidiaries or investees of Zhongxing Development Company Limited including Beijing Holi Health Information Scientific and Technological Co., Ltd.	Director/chairman	No
Cai Manli ^{Note 4}	Beijing United ZTE International Investment Limited	Director	No
	King & Wood Mallesons	Senior advisor	Yes
	Sichuan Xinwang Bank Co., Ltd	Independent supervisor	Yes
	Shanghai Flyco Electrical Appliance Co., Ltd	Independent director	Yes
	New Hope Liuhe Co., Ltd.	Independent director	Yes
	Kuangshi Technology Co., Ltd.	Independent director	Yes
	Guangzhou Jifei Technology Corporation	Independent director	Yes
Gordon Ng	Dentons Hong Kong LLP	Partner	Yes
	China Energine International (Holdings) Limited	Independent Non-executive Director	Yes
	Mainland Headwear Holdings Limited	Independent Non-executive Director	Yes
Zhuang Jiansheng	Shanghai Huiye Law Firm	Partner	Yes
Xie Daxiong	Guangdong Newstart Technology & Service Company Limited	Chairman	No
	Guangzhou Huijian Testing Technology Company Limited	Chairman	
Shang Xiaofeng ^{Note 5}	Hainan Xinghang Technology Co., Ltd.	Supervisor	No
Zhang Sufang ^{Note 6}	Held positions in 13 subsidiaries or investee companies of Zhongxingxin including Pylon Technologies Co., Ltd.	Supervisory committee chairman/supervisor/general manager	No
Wang Xiyu ^{Note 7}	ZTE Microelectronics Technology Company Limited	Chairman	No
	ZTE Optoelectronics Technology Company Limited	Chairman	
Li Ying	ZTE Group Finance Co., Ltd.	Chairman	No
	ZTE (H.K.) Limited	Chairman	
	Shenzhen ZTE Jinkong Commercial Factoring Company Limited	Chairman	
	ZTE Microelectronics Technology Company Limited	Director	

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

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

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

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

Directors, Supervisors, Senior Management and Employees

Note 5: Mr. Shang Xiaofeng has been appointed as the supervisor of Hainan Xinghang Technology Co., Ltd. since April 2021; and has ceased to be director of 廣東歐科空調製冷有限公司 as from December 2021 and director and general manager of Shenzhen Aerospace Guangyu Industrial Company Limited as from January 2022.

Note 6: Ms. Zhang Sufang has ceased to be representative of the executive partner of Hefei Zhongxing Hechuang Semiconductor Venture Investment Fund (Limited Partnership) as from April 2021 and director of Sindi Technologies Co., Ltd. as from December 2021.

Note 7: Mr. Wang Xiyu has ceased to be director of Guangdong Newstart Technology & Service Company Limited as from January 2021 and chairman of Xi'an Cris Semiconductor Technology Company Limited as from March 2021.

Note 8: Mr. Li Quancai has ceased to be supervisor of 深圳市益和天成投資發展有限公司 from March 2021 and chairman of 深圳市中興宜和投資發展有限公司 as from August 2021.

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

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

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

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

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

(VI) INFORMATION ON GROUP EMPLOYEES

As at the end of the year, the Group had 72,584 employees (including 66,616 as employees of the parent company), with an average age of 33.69. There were 93 resigned/retired employees, including 56 resigned/retired employees in respect of which expenses were payable by the Company.

1. Classification by specialisation as follows:

Specialisation	Headcount	As an approximate percentage of total headcount
Research and development	33,422	46.0%
Marketing and sales	8,283	11.4%
Customer service	8,626	11.9%
Manufacturing	16,582	22.9%
Financial	1,319	1.8%
Administration	4,352	6.0%
Total	72,584	100%

Directors, Supervisors, Senior Management and Employees

2. Classification by academic qualifications as follows:

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	414	0.6%
Master's degree	26,580	36.6%
Bachelor's degree	26,116	36.0%
Others	19,474	26.8%
Total	72,584	100%

3. Remuneration Package and Training for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees are also entitled to accident insurance, business travel insurance, housing allowance, retirement and other benefits. In accordance with relevant regulations of countries where the employees are located, the Group also participates in social insurance plans organised by the relevant government authorities, under which the Group makes contributions towards each employee's social insurance fund in an amount equivalent to a specified percentage of his/her monthly salaries.

Staff training provided by the Group includes induction training, business skills training, professional aptitude training, compliance training and leadership training. Such training are conducted in the forms of class lessons, online learning via PC terminals or mobile phones, public lectures, themed seminars and sand table drilling. Training programmes will be arranged for new employees upon their induction according to their job positions, and instructors will be assigned to provide supervision. In-service staff may take part in group training or project assignment organised by the Group based on their job requirements, qualifications required for various positions and aptitude assessment results, or conduct online and offline self-learning based on their personal career planning. For management officers, the Group provides a combination of online and offline training comprising reading classes, close-ended training, guided reading and online learning.

Information on Bonds

(I) CORPORATE BONDS

☐ Applicable ☒ N/A

(II) DEBENTURES

☐ Applicable ☒ N/A

(III) NON-FINANCIAL CORPORATE DEBT FINANCING INSTRUMENTS

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

Pursuant to the “Resolution on the Proposed Application for Consolidated Registration for Issuance of Multiple Types of Debt Financing Instruments for 2021” considered and approved at the Thirty-third Meeting of the Eighth Session of the Board of Directors and the 2020 Annual General Meeting of the Company, approval was granted for the consolidated registration with the NAFMII for issuance of multiple types of debt financing instruments, including super short term commercial paper, short term commercial paper, medium term note, perpetual note and asset-backed note, by the Company, such that the Company may conduct such issuance during the effective term of registration without further application. NAFMII has accepted the Company’s registration of multiple types of debt financing instruments as aforesaid. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Proposed Application for Consolidated Registration For Issuance of Multiple Types of Debt Financing Instruments for 2021”, “Announcement on Resolutions of the 2020 Annual General Meeting and “Overseas Regulatory Announcement Announcement on the Approval of Registration for Multiple Types of Debt Financing Instruments” published by the Company on 16 March 2021, 25 June 2021 and 18 August 2021, respectively.

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

Bond name	Bond abbreviation	Bond code	Issue date	Accrual date	Maturity date	Bond balance (RMB100 million)	Interest rate	Principal and interest repayment method	Trading market
ZTE Corporation 2021 Tranche I SCPs	21中興通訊 SCP001	012101775	28 April 2021	29 April 2021	26 October 2021	10	2.70%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche II SCPs	21中興通訊 SCP002	012101763	28 April 2021	29 April 2021	26 October 2021	10	2.70%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche III SCPs	21中興通訊 SCP003	012102436	5 July 2021	6 July 2021	30 September 2021	10	2.50%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche IV SCPs	21中興通訊 SCP004	012102589	15 July 2021	16 July 2021	30 September 2021	10	2.45%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche V SCPs	21中興通訊 SCP005	012102582	15 July 2021	16 July 2021	30 September 2021	10	2.45%	One-off principal and interest repayment on maturity	Inter-bank bond market

Information on Bonds

Bond name	Bond abbreviation	Bond code	Issue date	Accrual date	Maturity date	Bond balance (RMB100 million)	Interest rate	Principal and interest repayment method	Trading market
ZTE Corporation 2021 Tranche VI SCPs	21中興通訊 SCP006	012102879	6 August 2021	9 August 2021	30 September 2021	10	2.25%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche VII SCPs	21中興通訊 SCP007	012102956	11 August 2021	13 August 2021	30 September 2021	10	2.15%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche VIII SCPs	21中興通訊 SCP008	012103078	19 August 2021	20 August 2021	30 September 2021	10	2.15%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche IX SCPs	21中興通訊 SCP009	012103791	19 October 2021	20 October 2021	30 December 2021	15	2.30%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche X SCPs	21中興通訊 SCP010	012103794	19 October 2021	20 October 2021	30 December 2021	10	2.30%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche XI SCPs	21中興通訊 SCP011	012103843	21 October 2021	22 October 2021	31 December 2021	20	2.35%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche XII SCPs	21中興通訊 SCP012	012103961	28 October 2021	29 October 2021	30 December 2021	20	2.35%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche XIII SCPs	21中興通訊 SCP013	012104073	8 November 2021	9 November 2021	30 December 2021	10	2.28%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2021 Tranche XIV SCPs	21中興通訊 SCP014	012104070	8 November 2021	9 November 2021	30 December 2021	10	2.28%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2022 Tranche I SCPs	22中興通訊 SCP001	012280234	13 January 2022	14 January 2022	30 March 2022	10	2.25%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2022 Tranche II SCPs	22中興通訊 SCP002	012280219	13 January 2022	14 January 2022	30 March 2022	10	2.25%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2022 Tranche III SCPs	22中興通訊 SCP003	012280221	13 January 2022	14 January 2022	30 March 2022	15	2.25%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2022 Tranche IV SCPs	22中興通訊 SCP004	012280217	13 January 2022	14 January 2022	30 March 2022	10	2.25%	One-off principal and interest repayment on maturity	Inter-bank bond market

Information on Bonds

Bond name	Bond abbreviation	Bond code	Issue date	Accrual date	Maturity date	Bond balance (RMB100 million)	Interest rate	Principal and interest repayment method	Trading market
ZTE Corporation 2022 Tranche V SCPs	22中興通訊 SCP005	012280269	17 January 2022	18 January 2022	30 March 2022	10	2.30%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2022 Tranche VI SCPs	22中興通訊 SCP006	012280276	17 January 2022	18 January 2022	30 March 2022	10	2.30%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2022 Tranche VII SCPs	22中興通訊 SCP007	012280280	17 January 2022	18 January 2022	30 March 2022	20	2.30%	One-off principal and interest repayment on maturity	Inter-bank bond market
ZTE Corporation 2022 Tranche VIII SCPs	22中興通訊 SCP008	012280618	20 February 2022	21 February 2022	30 March 2022	15	2.10%	One-off principal and interest repayment on maturity	Inter-bank bond market
Investor suitability arrangements (if any)			N/A						
Applicable trading mechanism			Inter-bank bond market trading mechanism						
Whether there are risks (if any) of terminating listing transactions and countermeasures			N/A						
Overdue bonds			N/A						

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

☐ Applicable ☒ N/A

3. Information of intermediary

Intermediaries for the Company's SCPs tranches I to XIV 2021 and SCPs tranches I to VIII 2022 are set out as follows:

Type of intermediary	Name of intermediary
Underwriter	Industrial Bank Co., Ltd., China Everbright Bank Co., Ltd., Guangfa Bank Co., Ltd., China CITIC Bank Corporation Limited, China Construction Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd., Bank of China Limited, Ping An Bank Co., Ltd., China Bohai Bank Co., Ltd., Bank of Shanghai Co., Ltd., Bank of Beijing Co., Ltd., China Merchants Bank Co., Ltd.
Legal advisor	Beijing Junhe Law Firm
Accountant	Ernst & Young Hua Ming LLP
Rating agency	China Chengxin International Credit Rating Co., Ltd.
Custodian	Interbank Market Clearing House Co., Ltd.
Technical support for centralised book building system	Beijing Financial Assets Exchange Co., Ltd.

Information on Bonds

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

4. Use of proceeds

Unit: RMB100 million

Bond	Total amount of proceeds	Amount utilised	Amount remaining	Operation of dedicated account for proceeds (if any)	Rectification of illicit use of proceeds (if any)	Whether consistent with uses, application plans and other agreed terms stated in issue prospectus
ZTE Corporation SCPs 2021 tranches I to XIV	165	165	—	Nil	Nil	Yes
ZTE Corporation SCPs 2022 tranches I to VIII	100	69.27	30.73	Nil	Nil	Yes

The proceeds was not applied to construction projects. Owing to adjustments to the funding plans and following the approval by the Company's competent authorities, the Company modified the use of proceeds raised from the SCPs 2021 tranches I and II debt financing instrument. For details, please refer to the announcements published by the Company on the website of Shanghai Clearing (www.shclearing.com) and www.chinamoney.com.cn. The variation of the use of proceeds was in compliance with the provisions of national laws and regulations and pertinent policy guides and did not have any adverse impact on the payment of the debt financing instruments.

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

☐ Applicable ☒ N/A

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

☐ Applicable ☒ N/A

Information on Bonds

7. Other information

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

(IV) CONVERTIBLE CORPORATE BONDS

☐ Applicable ☒ N/A

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

☐ Applicable ☒ N/A

(VI) OVERDUE INTEREST-BEARING DEBTS OTHER THAN BONDS AT THE END OF THE REPORTING PERIOD

☐ Applicable ☒ N/A

(VII) WHETHER THERE ARE VIOLATION OF RULES AND REGULATIONS DURING THE REPORTING PERIOD

☐ Applicable ☒ N/A

Information on Bonds

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

Items	At the end of the reporting period	At the end of last year	Increase/decrease at the end of the reporting period as compared to the end of last year
Current ratio	1.63	1.44	13.19%
Gearing ratio	68.42%	69.38%	Decreased by 0.96 percentage points
Quick ratio	1.16	0.99	17.17%

	For the reporting period	Corresponding period of last year	Increase/decrease of the reporting period as compared to the corresponding period of last year
Net profit after extraordinary gain/loss attributable to holders of ordinary shares of the listed company (RMB million)	3,305.9	1,035.6	219.23%
EBITDA (RMB million)	14,494.1	10,531.1	37.63%
Debt-to-EBITDA ratio	26.07%	20.57%	Increased by 5.50 percentage points
Interest coverage ratio	6.74	4.39	53.53%
Cash interest coverage ratio	13.69	8.85	54.69%
EBITDA interest coverage ratio	9.79	7.04	39.06%
Loan repayment ratio	100%	100%	—
Interest repayment ratio	100%	100%	—

Audit Report

Ernst & Young Hua Ming (2022) Shen Zi No. 60438556_H01
ZTE CORPORATION



To the Shareholders of ZTE Corporation:

I. AUDIT OPINION

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2021, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2021 and notes to the financial statements.

In our opinion, the accompanying financial statements of ZTE Corporation have been prepared in accordance with the PRC ASBEs in all material aspects and give a fair view of the consolidated and company financial position of ZTE Corporation as at 31 December 2021 and the consolidated and company results of operation and cash flows of ZTE Corporation for 2021.

II. BASIS FOR OPINION

We conducted our audit in accordance with the Auditing Standards for Certified Public Accountants of China. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of ZTE Corporation in accordance with the Code of Ethics for PRC certified accountants and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements as a whole.

Audit Report

Ernst & Young Hua Ming (2022) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:	How our audit addressed the key audit matter:
<i>Revenue recognition of telecommunication system construction contract</i>	
Revenue generated from telecommunication system construction contract recognised amounted to RMB68,280,061,000, representing 60% of the total revenue, in the consolidated financial statements and RMB72,568,758,000, representing 66% of the total revenue, in the company financial statements for 2021. Such contracts consisted a number of performance obligations for goods and services including mainly sales of equipment and installation services, among others. Significant judgements and estimates by the management are required for the revenue recognition of telecommunication system construction contracts: I. Whether the promised goods or services represent separate performance obligations. In making such judgment, the management needs to assess whether the promised goods or services are distinct. II. Whether each distinct performance obligation is satisfied over a period of time or at a point in time. The management needs to consider how the promised goods or services is being delivered to customers. III. To allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the distinct good or service underlying each performance obligation, the management adopts the cost plus approach, which is primarily based on historic data, past experience, parts and configuration of the projects and the evaluation of risk and uncertainty inherent in the arrangement.	Our audit procedures mainly included: We evaluated the process of revenue recognition of telecommunication system construction contracts and the related internal controls, assessed the Group's accounting policies, and tested the effectiveness of the design and execution of key internal controls. We performed tests of details on the recognition of revenue from telecommunication system construction contract on a sampling basis: In respect of the judgement on whether a performance obligation is distinct and on the timing of the transfer of control, we have assessed the management's judgement, assumptions and methodology upon which it is based, as well as reviewed the key terms of the contract. In respect of the allocation of transaction price, we have assessed the expected cost margin approach and compared the major parameters (e.g., cost, gross margin percentage, etc.) used in the model against historical data. In respect of contract modification, we have examined the supplemental agreements signed with customers and assessed the methods adopted by the management for allocating transaction prices between the delivered and undelivered performance obligations; for contract modification of which amount has yet to be confirmed, we have assessed the key assumptions on which the management's estimates are based.

Audit Report

Ernst & Young Hua Ming (2022) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:	How our audit addressed the key audit matter:
<i>Revenue recognition of telecommunication system construction contract (Continued)</i>	

- IV. For contract modification, the management needs to judge whether this constitute new distinct goods or services and whether satisfied and unsatisfied performance obligation are distinct from each other on the date of modification, in order to allocate the modified transaction prices appropriately between the delivered and undelivered performance obligation. When changes in the corresponding transaction price are yet to be confirmed, the management needs to make estimations on the change in transaction price caused by contract modification.

In view of the above, the revenue recognition of telecommunication system construction contracts is relatively complicated, we have identified the recognition of revenue from telecommunication system construction as a key audit matter.

For disclosure of our policy for the revenue recognition, please refer to Note III.20; for disclosure of judgements and estimates for revenue recognition, please refer to Note III.30; for disclosure of categories of revenue, please refer to Note V.39; for disclosure of contract assets, please refer to Note V.8; for disclosure of contract liabilities, please refer to V.24.

Audit Report

Ernst & Young Hua Ming (2022) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:	How our audit addressed the key audit matter:
<i>Expected credit loss of trade receivables and contract assets</i>	
The carrying amount of trade receivables (long-term trade receivables included) and contract assets as at 31 December 2021 was approximately RMB26,450,779,000, representing 16% of total assets on the consolidated financial statements and RMB32,297,879,000, representing 22% of total assets on the company financial statements. In accordance with “ASBE No.22 — Recognition and measurement of financial instruments (Revised 2017). Impairment losses of trade receivables and contract assets are accounted for using the expected credit loss (“ECL”) approach. For trade receivables and contract assets that contain a significant financing component, ZTE Corporation elects to measure loss provision based on the ECL amount for the whole period, therefore the loss provision for all trade receivables and contract assets shall be measured on the basis of the ECL amount for the whole period. The Management assesses the ECL of some trade receivables and contract assets individually and others by group. For trade receivables or contract assets that are individually significant with objective evidence that the credit risk are obviously different from others, ECL is measured as the shortfall between the present value of all contract cashflow receivable and the present value of all contract cashflow expected to be received under the individual contract. For others trade receivables and contract asset, ECLs are assessed by groups with past due information in response to credit risk characteristics of different debtors. The management has established a provision matrix based on days past due for customers of different credit standings by reference to its historical credit loss experience, on the basis of which ECL is estimated. In assessing the ECL, the management takes into consideration past events, current conditions and reasonable and well-founded information on future economic forecasts.	Our audit procedure mainly included: We evaluated the processes relating to the ECL of trade receivables and contract assets and the related internal controls, tested the effectiveness of design and execution of key internal controls. For ECL of individually assessed trade receivables and contract assets, we have examined on a sampling basis the objective evidence relating to the impairment of trade receivables and contract assets and the key assumptions used in the estimate of the present value of all cash shortfalls. We have also reviewed whether amounts have been recovered after the end of reporting period. For other trade receivables and contract assets, we have assessed whether the provision matrix established by the management was in compliance with the ECL approach and assessed the key parameters used in the provision matrix including mainly: credit rating, historical rates of bad debts, migration rates and forward-looking information, etc. We have obtained debtors’ credit information on a sampling basis to ascertain whether the classification of debtors is in compliance with the Company’s policy. We have tested the management’s ageing analysis based on days past due by examining the original documents (such as bills and bank deposit advices). We have recalculated the ECL of each type of trade receivables and contract assets according to the provision matrix.

Audit Report

Ernst & Young Hua Ming (2022) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:	How our audit addressed the key audit matter:
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Expected credit loss of trade receivables and contract assets (Continued)

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

For disclosure on estimations of trade receivable and contract asset impairment provision, please refer to Note III.9; for disclosure of significant accounting judgements and estimates for trade receivable and contract asset impairment, please refer to Note III.30; for disclosure of the amount of bad debt provision for trade receivables and long-term receivables, please refer to Note V. 4A and 9; for disclosure of contract asset impairment provision, please refer to Note V.8.

Audit Report

Ernst & Young Hua Ming (2022) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (CONTINUED)

Key audit matter:	How our audit addressed the key audit matter:
<i>Impairment provision for inventories</i> As at 31 December 2021, the carrying amount of inventories was RMB36,316,753,000, representing 22% of total assets, on the consolidated financial statements and RMB17,333,958,000, representing 12% of total assets, on the company financial statements. The impairment provision of inventories was made based on their respective estimated net realisable value. The assessment of the estimated net realisable value was calculated based on the management's estimated selling prices, estimated costs to be incurred upon completion of production, costs to be incurred to make the sale and the relevant tax. The estimated selling price is determined with reference to the contract price if the inventories are held for particular contracts. For those which are not earmarked to particular contracts or held for contracts which were cancelled or modified, the management will estimate their respective realisable value based on judgments on the method by which they subsequently realised. The amount of inventory impairment loss has a significant impact on the financial statements and is subject to significant management judgements and estimates. Therefore, impairment provision for inventories was identified as a key audit matter. <i>For disclosure of the accounting policy on impairment provision please refer to Note III.10; for disclosure of significant judgement and estimates on impairment provision please refer to Note III.30; for disclosure of impairment provision for inventories, please refer to Note V.7.</i>	Our audit procedure mainly included: We obtained an understanding of the processes of impairment provision of inventories and the related internal controls; performed testing on key controls to assess the design and execution effectiveness of key internal controls. We observed the stocktaking process to ascertain whether the damaged, slow-moving and obsolete inventories were identified. We tested the aging analysis of inventories by checking the original documents. We evaluated the key assumptions, such as selling prices, cost to be incurred upon completion, selling expense and the relevant taxes, which were used by the management in calculating net realisable value. For inventories held for particular contracts, we checked the respective contract price on a sampling basis. For those without earmarked prices or was cancelled or modified, we inspected key assumptions used by management in estimating the recoverable amount on a sampling basis and checked whether inventories were sold subsequent to the reporting period.

Audit Report

Ernst & Young Hua Ming (2022) Shen Zi No. 60438556_H01
ZTE CORPORATION

IV. OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

- (1) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

Audit Report

Ernst & Young Hua Ming (2022) Shen Zi No. 60438556_H01
ZTE CORPORATION

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

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

- (4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ZTE Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to issue a qualified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause ZTE Corporation to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within ZTE Corporation to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst & Young Hua Ming LLP

PRC certified public accountant:

Li Jianguang (李劍光)
(Partner in charge)

PRC certified public accountant:

Zeng Cihua (曾賜花)

Beijing, PRC

8 March 2022

Consolidated Balance Sheet

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

Assets	Note V	31 December 2021 (Audited)	31 December 2020 (Audited)
Current assets			
Cash	1	50,713,310	35,659,832
Trading financial assets	2	1,360,697	1,036,906
Derivative financial assets	3	209,352	36,118
Trade receivables	4A	17,509,059	15,891,020
Receivable financing	4B	5,196,458	1,970,624
Factored trade receivables	4A	200,992	199,872
Prepayments	5	606,781	321,792
Other receivables	6	1,353,779	1,152,479
Inventories	7	36,316,753	33,689,306
Contract assets	8	6,585,307	8,926,411
Other current assets	20	7,818,597	8,092,915
Total current assets		127,871,085	106,977,275
Non-current assets			
Long-term receivables	9	2,356,413	2,679,578
Factored long-term receivables	9	243,701	347,920
Long-term equity investments	10	1,684,909	1,713,803
Other non-current financial assets	11	1,175,249	1,536,741
Investment properties	12	2,013,927	2,035,234
Fixed assets	13	11,437,011	11,913,942
Construction in progress	14	1,372,869	1,039,900
Right-of-use assets	15	815,346	1,047,210
Intangible assets	16	8,094,542	9,367,282
Development costs	17	2,453,275	2,072,857
Goodwill	18	—	186,206
Deferred tax assets	19	3,194,741	3,437,101
Other non-current assets	20	6,050,357	6,279,857
Total non-current assets		40,892,340	43,657,631
TOTAL ASSETS		168,763,425	150,634,906

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

Consolidated Balance Sheet

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

Liabilities	Note V	31 December 2021 (Audited)	31 December 2020 (Audited)
Current liabilities			
Short-term loans	21	8,946,935	10,559,160
Bank advances on factored trade receivables	4A	202,249	201,484
Derivative financial liabilities	22	27,729	153,961
Bills payable	23A	11,557,376	11,364,056
Trade payables	23B	21,717,267	17,151,733
Contract liabilities	24	16,101,652	14,998,172
Salary and welfare payables	25	11,691,423	10,545,495
Taxes payable	26	1,216,334	878,201
Other payables	27	3,505,419	4,352,802
Provisions	28	2,741,536	2,085,234
Non-current liabilities due within one year	29	977,336	2,104,677
Total current liabilities		78,685,256	74,394,975
Non-current liabilities			
Long-term loans	30	29,908,441	22,614,304
Bank advances on factored long-term trade receivables	9	250,452	353,446
Lease liabilities	31	531,983	718,186
Provision for retirement benefits		147,539	144,250
Deferred income		1,872,518	2,228,313
Deferred tax liabilities	19	150,348	134,317
Other non-current liabilities	32	3,929,228	3,924,609
Total non-current liabilities		36,790,509	30,117,425
Total liabilities		115,475,765	104,512,400

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

Consolidated Balance Sheet

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

Shareholder's equity	Note V	31 December 2021 (Audited)	31 December 2020 (Audited)
Shareholder's equity			
Share capital	33	4,730,796	4,613,435
Capital reserves	34	25,359,964	23,275,810
Less: treasury stock	35	—	114,766
Other comprehensive income	36	(2,287,021)	(2,270,622)
Surplus reserve	37	3,027,154	2,968,473
Retained profits	38	20,651,196	14,824,478
Total equity attributable to holders of ordinary shares of the parent		51,482,089	43,296,808
Non-controlling interests		1,805,571	2,825,698
Total shareholders' equity		53,287,660	46,122,506
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		168,763,425	150,634,906

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

Legal Representative: Li Zixue

Chief Financial Officer: Li Ying

Head of Finance Division: Xu Jianrui

Consolidated Income Statement

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

	Note V	2021 (Audited)	2020 (Audited)
Operating revenue	39	114,521,641	101,450,670
Less: Operating costs	39	74,159,846	69,379,215
Taxes and surcharges	40	787,467	684,617
Selling and distribution costs	41	8,733,152	7,578,837
Administrative expenses	42	5,444,613	4,994,996
Research and development costs	43	18,804,012	14,797,025
Finance costs	44	962,906	420,537
Including: Interest expense		1,481,221	1,495,660
Interest income		1,497,096	1,238,753
Add: Other income	45	1,941,399	1,572,666
Investment income	46	1,564,193	906,406
Including: Share of gains/(losses) of associates and joint ventures		65,713	(420,515)
Losses from derecognition of financial assets at amortised cost		(224,761)	(187,525)
Gains from changes in fair values	47	1,099,364	39,023
Credit impairment losses	48	(268,942)	(433,103)
Asset impairment losses	49	(1,521,298)	(209,715)
Gains from asset disposal	50	231,744	—
Operating profit		8,676,105	5,470,720
Add: Non-operating income	51	250,091	237,759
Less: Non-operating expenses	51	427,270	644,313
Total profit		8,498,926	5,064,166
Less: Income tax	53	1,463,036	342,474
Net profit		7,035,890	4,721,692
Analysed by continuity of operations			
Net profit from continuing operations		7,035,890	4,721,692
Analysed by ownership			
Holders of ordinary shares of the parent		6,812,941	4,259,752
Holders of perpetual capital instruments		—	16,236
Non-controlling interests		222,949	445,704

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

Consolidated Income Statement

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

	Note V	2021 (Audited)	2020 (Audited)
Other comprehensive income, net of tax		(24,745)	(295,330)
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	36	(16,399)	(269,642)
Other comprehensive income that cannot be reclassified to profit or loss			
Change arising from the re-measurement of defined benefit plans		(3,439)	350
		(3,439)	350
Other comprehensive income that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(12,960)	(269,992)
		(12,960)	(269,992)
Other comprehensive income attributable to non-controlling interests, net of tax		(8,346)	(25,688)
Total comprehensive income		7,011,145	4,426,362
Attributable to:			
Holders of ordinary shares of the parent		6,796,542	3,990,110
Holders of perpetual capital instruments		—	16,236
Non-controlling interests		214,603	420,016
Earnings per share (RMB/share)			
Basic	54	RMB1.47	RMB0.92
Diluted	54	RMB1.47	RMB0.92

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

Consolidated Statement of Changes in Equity

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

2021										
Equity attributable to holders of ordinary shares of the parent										
	Share capital	Capital reserves	Less: treasury stock	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Non-controlling interests	Total shareholders' equity	
I. Year-end balance of previous year	4,613,435	23,275,810	(114,766)	(2,270,622)	2,968,473	14,824,478	43,296,808	2,825,698	46,122,506	
II. Changes during the year										
(I) Total comprehensive income	—	—	—	(16,399)	—	6,812,941	6,796,542	214,603	7,011,145	
(II) Shareholder's capital injection and capital reduction										
1. Ordinary share injection from shareholders	32,040	870,179	—	—	—	—	902,219	10,742	912,961	
2. Equity settled share expenses charged to equity	—	517,266	—	—	—	—	517,266	—	517,266	
3. Acquisition of non-controlling interests	85,321	811,475	—	—	—	—	896,796	(900,226)	(3,430)	
4. Disposal of subsidiaries	—	—	—	—	—	—	—	(53,267)	(53,267)	
5. Others	—	(114,766)	114,766	—	—	—	—	—	—	
(III) Profit appropriation										
1. Surplus reserve fund	—	—	—	—	58,681	(58,681)	—	—	—	
2. Distribution to shareholders	—	—	—	—	—	(927,542)	(927,542)	(291,979)	(1,219,521)	
III. Year-end balance of current year	4,730,796	25,359,964	—	(2,287,021)	3,027,154	20,651,196	51,482,089	1,805,571	53,287,660	

2020										
Equity attributable to holders of ordinary shares of the parent								Other equity instruments		
	Share capital	Capital reserves	Less: treasury stock	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Year-end balance of previous year	4,227,530	12,144,432	—	(2,000,980)	2,775,521	11,680,365	28,826,868	6,252,364	2,875,066	37,954,298
II. Changes during the period										
(I) Total comprehensive income	—	—	—	(269,642)	—	4,259,752	3,990,110	16,236	420,016	4,426,362
(II) Shareholder's capital injection and capital reduction										
1. Ordinary share injection from shareholders	385,905	11,206,155	—	—	—	—	11,592,060	—	437,145	12,029,205
2. Equity settled share expenses charged to equity	—	188,797	—	—	—	—	188,797	—	—	188,797
3. Capital withdrawal by shareholders	—	—	—	—	—	—	—	—	(384,274)	(384,274)
4. Acquisition of non-controlling interests	—	(458,009)	—	—	—	—	(458,009)	—	(288,333)	(746,342)
5. Redemption of perpetual notes	—	(80,000)	—	—	—	—	(80,000)	(5,920,000)	—	(6,000,000)
6. Others	—	274,435	(114,766)	—	—	—	159,669	—	—	159,669
(III) Profit appropriation										
1. Surplus reserve fund	—	—	—	—	192,952	(192,952)	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(922,687)	(922,687)	(348,600)	(233,922)	(1,505,209)
III. Year-end balance of current year	4,613,435	23,275,810	(114,766)	(2,270,622)	2,968,473	14,824,478	43,296,808	—	2,825,698	46,122,506

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

Consolidated Cash Flow Statement

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

	Note V	2021 (Audited)	2020 (Audited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		120,976,285	114,716,078
Refunds of taxes		4,610,677	3,985,133
Cash received relating to other operating activities		4,631,593	6,771,002
Sub-total of cash inflows		130,218,555	125,472,213
Cash paid for goods and services		75,886,059	79,466,978
Cash paid to and on behalf of employees		22,334,000	18,795,464
Cash paid for various types of taxes		6,716,951	6,599,758
Cash paid relating to other operating activities		9,558,018	10,377,362
Sub-total of cash outflows		114,495,028	115,239,562
Net cash flows from operating activities	56	15,723,527	10,232,651
II. Cash flows from investing activities			
Cash received from sale of investments		10,274,155	6,509,874
Cash received from return on investment		466,361	273,809
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		220,622	9,398
Net cash received from the disposal of subsidiaries and other operating units		1,240,256	251,702
Sub-total of cash inflows		12,201,394	7,044,783
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets		5,686,369	6,471,652
Cash paid for acquisition of investments		17,062,063	7,363,565
Other cash paid in relation to investing activities	55	45,400	34,009
Net cash paid for acquisition of subsidiaries and other business entities		—	257,671
Sub-total of cash outflows		22,793,832	14,126,897
Net cash flows from investing activities		(10,592,438)	(7,082,114)

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

Consolidated Cash Flow Statement

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

	Note V	2021 (Audited)	2020 (Audited)
III. Cash flows from financing activities			
Cash received from capital injection		538,020	14,166,524
Including: Capital injection into subsidiaries by minority shareholders		20,000	2,612,000
Cash received from borrowings		66,860,187	48,160,989
Other cash received in relation to financing activities	55	—	6,540
Sub-total of cash inflows		67,398,207	62,334,053
Cash repayment of borrowings		61,551,343	49,454,964
Cash payments for perpetual capital instruments		—	6,000,000
Cash payments for distribution of dividends, profits and for interest expenses		2,618,461	2,950,970
Including: Distribution of dividends, profits by subsidiaries to minority shareholders		312,960	259,200
Other cash paid relating to financing activities	55	449,889	4,218,024
Sub-total of cash outflows		64,619,693	62,623,958
Net cash flows from financing activities		2,778,514	(289,905)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		(242,076)	36,624
V. Net increase in cash and cash equivalents		7,667,527	2,897,256
Add: cash and cash equivalents at beginning of year		31,403,056	28,505,800
VI. Net balance of cash and cash equivalents at the end of year	56	39,070,583	31,403,056

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

Balance Sheet

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

Assets	Note XIV	31 December 2021 (Audited)	31 December 2020 (Audited)
Current assets			
Cash		26,959,247	23,398,960
Derivative financial assets		208,877	35,995
Trade receivables	1	20,970,487	19,779,132
Receivable financing		4,943,204	1,864,477
Factored trade receivables	1	169,613	178,443
Prepayments		41,618	11,779
Other receivables	2	28,772,253	40,271,860
Inventories		17,333,958	18,444,527
Contract assets		5,127,209	5,180,041
Other current assets		2,634,789	3,490,828
Total current assets		107,161,255	112,656,042
Non-current assets			
Long-term trade receivables	3	6,200,183	6,439,012
Factored long-term trade receivables	3	222,746	305,062
Long-term equity investments	4	16,957,563	13,475,272
Other non-current financial assets		627,848	706,117
Investment properties		1,614,000	1,600,000
Fixed assets		5,937,863	6,056,830
Construction in progress		490,891	365,523
Right-of-use assets		246,209	372,162
Intangible assets		3,085,517	3,156,323
Development costs		307,740	314,854
Deferred tax assets		1,289,485	2,244,139
Other non-current assets		4,558,759	4,983,901
Total non-current assets		41,538,804	40,019,195
TOTAL ASSETS		148,700,059	152,675,237

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

Balance Sheet

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

Liabilities and shareholders' equity	Note XIV	31 December 2021 (Audited)	31 December 2020 (Audited)
Current liabilities			
Short-term loans		2,865,000	7,590,608
Bank advances on factored trade receivables		170,822	180,055
Derivative financial liabilities		27,625	140,982
Bills payable		15,474,186	12,884,302
Trade payables		32,865,858	44,970,734
Contract liabilities		12,141,684	10,202,939
Salary and welfare payables		7,267,864	5,782,275
Taxes payable		215,423	131,279
Other payables		7,402,014	13,871,716
Provisions		1,796,414	1,568,818
Non-current liabilities due within one year		247,572	747,843
Total current liabilities		80,474,462	98,071,551
Non-current liabilities			
Long-term loans		19,463,550	16,931,479
Bank advances on factored long-term trade receivables		229,500	310,588
Lease liabilities		137,135	218,235
Provision for retirement benefits		147,539	144,250
Deferred income		136,962	293,675
Other non-current liabilities		1,812,185	1,798,324
Total non-current liabilities		21,926,871	19,696,551
Total liabilities		102,401,333	117,768,102
Shareholders' equity			
Share capital		4,730,796	4,613,435
Capital reserves		25,387,579	21,583,815
Less: treasury stock		—	114,766
Other comprehensive income		714,191	701,136
Surplus reserve		2,365,398	2,306,717
Retained profits		13,100,762	5,816,798
Shareholders' equity attributable to holders of ordinary shares		46,298,726	34,907,135
Total shareholders' equity		46,298,726	34,907,135
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		148,700,059	152,675,237

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

Income Statement

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

	Note XIV	2021 (Audited)	2020 (Audited)
Operating revenue	5	110,469,065	94,147,280
Less: Operating costs	5	90,621,043	81,047,285
Taxes and surcharges		201,340	194,958
Selling and distribution costs		5,728,795	4,578,571
Administrative expenses		4,755,179	4,099,577
Research and development costs		4,770,989	3,371,221
Finance costs		669,665	885,257
Including: Interest expense		1,066,104	1,070,039
Interest income		1,036,262	737,628
Add: Other income		478,842	349,010
Investment income	6	4,140,438	2,065,939
Including: Share of gains/(losses) of associates and joint ventures	6	70,810	(408,440)
Losses from derecognition of financial assets at amortised cost	6	(96,182)	(65,131)
Gains/(losses) from changes in fair values		268,122	(41,334)
Credit impairment losses		(77,550)	65,556
Asset impairment losses		358,263	139,396
Gain from asset disposal	7	231,744	—
Operating profit		9,121,913	2,548,978
Add: Non-operating income		178,441	96,955
Less: Non-operating expenses		71,766	543,741
Total profit		9,228,588	2,102,192
Less: Income tax		958,401	(637,645)
Net profit		8,270,187	2,739,837
Including: net profit from continuing operations		8,270,187	2,739,837
Analysed by ownership			
Attributable to holders of ordinary shares		8,270,187	2,723,601
Attributable to holders of perpetual capital instruments		—	16,236
Other comprehensive income, net of tax		13,055	4,669
Other comprehensive income that cannot be reclassified to profit and loss			
Change arising from the re-measurement of defined benefit plans		(3,439)	350
Other comprehensive income that will be reclassified to profit and loss			
Exchange differences on translation of foreign operations		16,494	4,319
Total comprehensive profit		8,283,242	2,744,506
Attributable to:			
Holders of ordinary shares		8,283,242	2,728,270
Holders of perpetual capital instruments		—	16,236

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

Statement of Changes in Equity

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

2021									
	Share capital	Capital reserves	Less: treasury stock	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
I. Closing balance of previous year	4,613,435	21,583,815	(114,766)	701,136	2,306,717	5,816,798	34,907,135	—	34,907,135
II. Changes during the year									
(I) Total comprehensive income	—	—	—	13,055	—	8,270,187	8,283,242	—	8,283,242
(II) Shareholder's capital injection and capital reduction									
1. Shareholders' capital injection	117,361	3,401,264	—	—	—	—	3,518,625	—	3,518,625
2. Equity settled share expenses charged to equity	—	517,266	—	—	—	—	517,266	—	517,266
3. Others	—	(114,766)	114,766	—	—	—	—	—	—
(III) Profit appropriation									
1. Surplus reserve funds	—	—	—	—	58,681	(58,681)	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(927,542)	(927,542)	—	(927,542)
III. Closing balance of current year	4,730,796	25,387,579	—	714,191	2,365,398	13,100,762	46,298,726	—	46,298,726

2020									
	Share capital	Capital reserves	Less: treasury stock	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
I. Closing balance of previous year	4,227,530	9,996,674	—	696,467	2,113,765	4,208,836	21,243,272	6,252,364	27,495,636
II. Changes during the year									
(I) Total comprehensive income	—	—	—	4,669	—	2,723,601	2,728,270	16,236	2,744,506
(II) Shareholder's capital injection and capital reduction									
1. Shareholders' capital contribution	385,905	11,203,909	—	—	—	—	11,589,814	—	11,589,814
2. Equity settled share expenses charged to equity	—	188,797	—	—	—	—	188,797	—	188,797
3. Redemption of perpetual capital instruments	—	(80,000)	—	—	—	—	(80,000)	(5,920,000)	(6,000,000)
4. Others	—	274,435	(114,766)	—	—	—	159,669	—	159,669
(III) Profit appropriation									
1. Allocation to surplus reserve	—	—	—	—	192,952	(192,952)	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(922,687)	(922,687)	(348,600)	(1,271,287)
III. Current year's closing balance	4,613,435	21,583,815	(114,766)	701,136	2,306,717	5,816,798	34,907,135	—	34,907,135

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

Cash Flow Statement

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

	2021 (Audited)	2020 (Audited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	113,381,697	106,663,870
Refunds of taxes	2,519,266	2,360,236
Cash received relating to other operating activities	1,693,409	1,591,760
Sub-total of cash inflows	117,594,372	110,615,866
Cash paid for goods and services	97,613,362	94,158,730
Cash paid to and on behalf of employees	6,758,970	5,930,104
Cash paid for various types of taxes	1,138,224	1,410,785
Cash paid relating to other operating activities	6,216,615	5,852,676
Sub-total of cash outflows	111,727,171	107,352,295
Net cash flows from operating activities	5,867,201	3,263,571
II. Cash flows from investing activities		
Cash received from sale of investments	9,452,074	3,028,230
Cash received from return on investments	4,315,071	4,332,809
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	226,861	6,749
Cash received relating to other investing activities	1,417,540	6,385,000
Sub-total of cash inflows	15,411,546	13,752,788
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	2,778,121	2,574,830
Cash paid for acquisition of investments	16,346,678	5,583,800
Other cash paid in relation to investing activities	762,800	7,590,000
Sub-total of cash outflows	19,887,599	15,748,630
Net cash flows from investing activities	(4,476,053)	(1,995,842)
III. Cash flows from financing activities		
Cash received from capital injection	518,270	11,554,524
Cash received from borrowings	42,728,243	37,216,367
Other cash relating to financing activities received	11,366	—
Sub-total of cash inflows	43,257,879	48,770,891
Cash repayment of borrowings	45,238,533	31,024,267
Cash payment for perpetual capital instruments	—	6,000,000
Cash payments for distribution of dividends and profits or for interest expenses	1,815,856	2,354,201
Other cash paid in relation to financing activities	190,634	305,692
Sub-total of cash outflows	47,245,023	39,684,160
Net cash flows from financing activities	(3,987,144)	9,086,731
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(119,630)	(289,710)
V. Net increase in cash and cash equivalents	(2,715,626)	10,064,750
Add: cash and cash equivalents at the beginning of the year	20,097,442	10,032,692
VI. Net balance of cash and cash equivalents at the end of the year	17,381,816	20,097,442

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

I. CORPORATE BACKGROUND

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

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

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 8 March 2022.

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements are prepared on a going concern basis.

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 2021 and the results of their operations and their cash flows for the year 2021.

2. Financial year

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

3. Reporting currency

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

4. Business combination

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

Business combinations involving entities under common control

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

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

Business combinations not involving entities under common control

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Consolidated financial statements

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

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

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

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

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

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

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

8. Foreign currency translation

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

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

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

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

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

Classification and valuation of financial assets

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Debt instruments at amortised cost

Financial assets fulfilling all of the following conditions are classified as financial assets at amortised cost: the objective of the Group's business management model in respect of such type of financial assets is to generate contract cash flow; the contract terms of such type of financial assets provide that cash flow generated on specific dates represents interest payment in relation to principal amounts based on outstanding principal amounts only. Interest income from such type of financial assets are recognised using the effective interest rate method, and any profit or loss arising from derecognition, amendments or impairment shall be charged to current profit or loss.

Debt instrument at fair value through other comprehensive income

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

Financial assets at fair value through current profit or loss

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Impairment of financial instruments

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial instruments (continued)

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

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

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

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

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

Financial guarantee contracts

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Derivative financial instruments

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

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

Transfer of financial assets

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

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

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

10. Inventories

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

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Long-term equity investments

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Long-term equity investments (continued)

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

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Investment properties

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

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

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

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

13. Fixed Assets

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

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. Construction in progress

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

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

15. Borrowing costs

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

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

Capitalisation of borrowing costs begins where:

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

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

	Estimated useful life
Software	2-5 years
Technology know-how	2-10 years
Land use rights	35-50 years
Franchise	2-10 years
Development expenses	3-5 years

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Provisions

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

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

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

18. Share-based payments

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

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Share-based payments (continued)

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

19. Other equity instrument

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

20. Revenue

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

Contract for the sales of products

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

Contract for the rendering of services

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue (continued)

Telecommunication system construction contract

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

Variable consideration

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

Consideration payable to customers

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

Return clauses

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue (continued)

Significant financing component

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

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

Warranty clauses

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

Contract changes

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. Contract assets and contract liabilities

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

Contract assets

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

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

Contract liabilities

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

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

22. Assets relating to contract cost

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

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Assets relating to contract cost (continued)

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

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

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

23. Government grants

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

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Income tax

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

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

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

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

- (1) where the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- (2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Income tax (continued)

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

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

25. Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. If one party to the contract conveys a right to control the use of one or more identified assets for a period of time in exchange for consideration, such contract is, or contains, a lease. To determine whether a contract has conveyed the right to control the use of an identified asset for a period of time, the Group assesses whether the customer to the contract has both the right to obtain substantially all economic benefits from the use of the identified asset and the right to direct the use of the identified asset during the period of use.

As a lessee

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

Initial measurement

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Leases (continued)

As a lessee (continued)

Subsequent measurement

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

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

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

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

Modification of leases

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Leases (continued)

As a lessee (continued)

Modification of leases (continued)

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

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

Short-term lease and low-value asset lease

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

As a lessor

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

As the lessor under a finance lease

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Leases (continued)

As a lessor (continued)

As the lessor under a finance lease (continued)

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

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

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

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

As the lessor under an operating lease

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

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

Leaseback transactions

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Leases (continued)

As lessee

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

As lessor

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

26. Impairment

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

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Impairment (continued)

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

Previously recognised impairment losses are not reversed in subsequent periods.

27. Employee remuneration

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

Short-term remuneration

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

Retirement benefit (defined deposit scheme)

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

Retirement benefit (defined benefit scheme)

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Employee remuneration (continued)

Retirement benefit (defined benefit scheme) (continued)

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

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

Termination benefits

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

Other long-term employees' benefits

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

28. Fair value measurement

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Fair value measurement (continued)

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

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

29. Profit distribution

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

30. Significant accounting judgements and estimates

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

Judgement

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

Determination of standalone contractual performance obligations under telecommunication system construction contracts

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

Determination of progress of performance of service rendering contracts

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

Performance of obligation at a point of time

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

Business model

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

Characteristics of contract cash flow

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

Deferred tax liabilities relating to subsidiaries, associates and joint ventures

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

Derecognition of financial assets

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

Estimation uncertainty

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

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

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of financial instruments

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

Depreciation and amortisation

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

Development costs

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

Deferred tax assets

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

Estimated standalone selling price

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Provision for inventory impairment

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

Warranty

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

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 31 December 2021 was RMB2,013,927,000 (31 December 2020: RMB2,035,234,000).

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value of non-listed equity investment

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

Provision for expected credit losses on trade receivables and contract assets

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

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

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

Lease period — lease contracts comprising the optional for renewal

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

IV. TAXATION

1. Principal tax items and tax rates

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

2. Tax concession

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

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

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

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

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

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2021–2022 as a national-grade key software enterprise.

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

IV. TAXATION (continued)

2. Tax concession (continued)

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

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

Xi'an Cris Semiconductor Technology Company Limited is subject to a preferential tax rate of 10% for 2021 as a legally incorporated and qualified IC design enterprise.

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

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

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

Shanghai ZXELINK Co., Ltd is subject to an enterprise income tax rate of 15% from 2020 to 2022 as a national-grade hi-tech enterprise.

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

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

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and Bank Balances

	31 December 2021	31 December 2020
Cash	1,685	1,655
Bank Deposit	49,290,568	33,974,444
Other cash	1,421,057	1,683,733
	50,713,310	35,659,832

As at 31 December 2021, the Group's overseas currency deposits amounted to RMB2,847,164,000 (31 December 2020: RMB3,674,558,000). Funds placed overseas and subject to remittance restrictions amounted to RMB41,776,000 (31 December 2020: RMB60,697,000).

Current bank deposits earn interest income based on current deposit interest rates. Short-term time deposits with terms ranging from 7 days to months depending on the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB10,221,671,000 (31 December 2020: RMB2,573,043,000) were not included in cash and cash equivalents.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

2. Trading financial assets

	31 December 2021	31 December 2020
Financial assets at fair value through current profit and loss		
Investment in equity instrument	1,360,697	507,821
Other investment	—	529,085
	1,360,697	1,036,906

3. Derivative financial assets

	31 December 2021	31 December 2020
Derivative financial assets at fair value through current profit or loss	209,352	36,118

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

4A. Trade receivables

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

Aging analysis of trade receivables was as follows:

	31 December 2021	31 December 2020
Within 1 year	17,787,091	15,962,806
1 year to 2 years	1,433,721	2,030,116
2 years to 3 years	928,053	1,372,649
Over 3 years	4,813,325	6,079,878
	24,962,190	25,445,449
Bad debt provision	7,453,131	9,554,429
	17,509,059	15,891,020

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

4A. Trade receivables (continued)

	31 December 2021					31 December 2020				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Percentage (%)	Amount	Percentage of charge (%)		Amount	Percentage (%)	Amount	Percentage of charge (%)	
Standalone bad debt provision	1,967,274	8	1,967,274	100	—	4,002,648	16	4,002,648	100	—
For which provision for bad debt is recognised by group with credit risk characteristics	22,994,916	92	5,485,857	24	17,509,059	21,442,801	84	5,551,781	26	15,891,020
	24,962,190	100	7,453,131	30	17,509,059	25,445,449	100	9,554,429	38	15,891,020

As at 31 December 2021, bad debt provisions for trade receivables which were individually made were as follows:

	Book balance	Bad debt provision	Expected credit loss rate
Overseas carriers 1*	390,460	390,460	100%
Overseas carriers 2*	241,715	241,715	100%
Overseas carriers 3*	199,284	199,284	100%
Overseas carriers 4*	158,079	158,079	100%
Overseas carriers 5*	90,141	90,141	100%
Others (Customer 6 to Customer 31)*	887,595	887,595	100%
	1,967,274	1,967,274	100%

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

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

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

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

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

4A. Trade receivables (continued)

Bad debt provisions for trade receivables based on credit risk characteristics are as follows:

	31 December 2021			31 December 2020		
	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire duration	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire duration
0-6 months	15,940,858	3	489,273	13,794,187	2	334,348
6-12 months	1,185,963	17	197,560	1,359,046	19	252,669
1-2 years	1,363,706	29	394,634	1,798,892	34	606,115
2-3 years	802,566	88	702,567	917,238	86	785,211
Over 3 years	3,701,823	100	3,701,823	3,573,438	100	3,573,438
	22,994,916		5,485,857	21,442,801		5,551,781

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

	Opening balance	Charge/ (reversal) for the year	Write-off for the year	Effect of exchange rate	Closing balance
31 December 2021					
Bad debt provision	9,555,334	218,800	(2,024,178)	(295,568)	7,454,388
Including: trade receivables	9,554,429	218,448	(2,024,178)	(295,568)	7,453,131
Factored trade receivables	905	352	—	—	1,257
31 December 2020					
Bad debt provision	13,100,538	182,221	(3,366,645)	(360,780)	9,555,334
Including: trade receivables	13,100,250	181,604	(3,366,645)	(360,780)	9,554,429
Factored trade receivables	288	617	—	—	905

For the year, there was reversal of RMB295,016,000 (2020: RMB127,620,000) in bad debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately; and write-off of RMB1,639,844,000 (2020: RMB2,627,392,000) in bad debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately as the amount is deemed non-recoverable. It was attributable to non-connected transaction.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

4A. Trade receivables (continued)

Top 5 accounts of trade receivables as at 31 December 2021 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	3,428,694	13.74%	18,625
Customer 2	1,073,113	4.30%	26,388
Customer 3	1,002,129	4.01%	216,999
Customer 4	941,532	3.77%	77,718
Customer 5	862,243	3.45%	434,458
	7,307,711	29.27%	774,188

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

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

The Group factored trade receivables measured at amortised cost on a non-recourse basis to financial institutions. The carrying amount of trade receivables derecognised as at the end of the year was RMB9,111,606,000 (2020: RMB7,183,099,000) and loss of RMB224,761,000 (2020: loss of RMB187,525,000) was recognised in investment income for the year.

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

4B. Receiving financing

	31 December 2021	31 December 2020
Commercial acceptance bills	3,508,193	1,465,791
Bank acceptance bills	1,688,265	504,833
	5,196,458	1,970,624

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

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

	31 December 2021		31 December 2020	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Commercial acceptance bills	—	—	1,614,429	—
Bank acceptance bills	1,017,956	—	1,369,471	—
	1,017,956	—	2,983,900	—

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

	Opening balance	Provision for the year	Reversal for the year	Closing balance
31 December 2021	1,439	1,889	—	3,328
31 December 2020	1,936	(497)	—	1,439

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

5. Prepayments

Aging analysis of prepayments was as follows:

	31 December 2021		31 December 2020	
	Book balance	Percentage	Book balance	Percentage
Within 1 year	606,781	100%	321,792	100%

Top 5 accounts of prepayments as at 31 December 2021 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	300,000	49.44%
Supplier 2	59,146	9.75%
Supplier 3	32,289	5.32%
Supplier 4	18,419	3.04%
Supplier 5	10,771	1.78%
	420,625	69.33%

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

6. Other receivables

	31 December 2021	31 December 2020
Interests receivables	295,146	64,353
Other receivables	1,058,633	1,088,126
	1,353,779	1,152,479

Interests receivables

	31 December 2021	31 December 2020
Time deposits	295,146	64,353

Other receivables

Aging analysis of other receivables was as follows:

	31 December 2021	31 December 2020
Within 1 year	656,167	712,800
1 year to 2 years	414,203	400,421
2 years to 3 years	33,292	85,802
Over 3 years	62,089	91,289
	1,165,751	1,290,312
Bad debt provision	(107,118)	(202,186)
	1,058,633	1,088,126

Other receivables analysed by nature were as follows:

	31 December 2021	31 December 2020
Staff loans	87,075	296,171
Transactions with third parties	971,558	791,955
	1,058,633	1,088,126

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

6. Other receivables (continued)

Top 5 accounts of other receivables as at 31 December 2021 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Bad debt provision	Expected credit loss	Nature
Third-party entity 1	125,000	10.72%	—	—	Transactions with third parties
Third-party entity 2	89,100	7.64%	—	—	Transactions with third parties
Third-party entity 3	44,652	3.83%	—	—	Transactions with third parties
Third-party entity 4	35,114	3.01%	—	—	Transactions with third parties
Third-party entity 5	17,373	1.49%	—	—	Transactions with third parties
Total	311,239	26.69%	—	—	

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

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

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

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

6. Other receivables (continued)

Financial assets included in other receivables was RMB1,078,676,000. For financial assets included in other receivables based on expected credit losses in the next 12 months and expected credit losses during the entire life, the change of provisions for bad debt was as follows:

2021

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses during the entire life (Standalone assessment)	Stage 3 Financial assets with credit impairment occurred (during the entire life)	Total
Opening balance	793	—	201,393	202,186
Provision for the year	180	—	59,174	59,354
Reversed during the year	—	—	(2,553)	(2,553)
Transfer during the year	—	—	(149,528)	(149,528)
Exchange rate effect	—	—	(2,341)	(2,341)
Balance at 31 December 2021	973	—	106,145	107,118

2020

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses during the entire life (Standalone assessment)	Stage 3 Financial assets with credit impairment occurred (during the entire life)	Total
Opening balance	827	—	239,310	240,137
Provision for the year	—	—	120,577	120,577
Reversed during the year	(34)	—	(189)	(223)
Transfer during the year	—	—	(149,725)	(149,725)
Exchange rate effect	—	—	(8,580)	(8,580)
Balance at 31 December 2020	793	—	201,393	202,186

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

7. Inventories

	31 December 2021			31 December 2020		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials and materials under subcontract processing	17,487,715	1,826,349	15,661,366	13,635,517	789,230	12,846,287
Work in progress	2,131,693	31,397	2,100,296	1,381,110	22,218	1,358,892
Finished goods	3,940,946	421,083	3,519,863	2,935,688	548,437	2,387,251
Dispatch of goods	10,764,909	1,248,209	9,516,700	11,859,666	1,838,061	10,021,605
Contract performance costs	6,935,493	1,416,965	5,518,528	8,173,003	1,097,732	7,075,271
	41,260,756	4,944,003	36,316,753	37,984,984	4,295,678	33,689,306

Change in inventory impairment provision is as follows:

2021

	Opening balance	Charge/(reversal) for the year	Transfer during the year	Others	Closing balance
Raw materials and materials under subcontract processing	789,230	1,081,968	(320)	(44,529)	1,826,349
Work in progress	22,218	20,865	—	(11,686)	31,397
Finished goods	548,437	(46,096)	(28,820)	(52,438)	421,083
Dispatch of goods and contract performance costs	2,935,793	(238,491)	(514)	(31,614)	2,665,174
	4,295,678	818,246	(29,654)	(140,267)	4,944,003

2020

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

8. Contract assets

	31 December 2021			31 December 2020		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Contract assets	6,974,268	(388,961)	6,585,307	9,237,256	(310,845)	8,926,411

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

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

	Opening balance	Provisions for the year	Write-off for the year	Exchange rate changes	Closing balance
2021	310,845	84,267	(587)	(5,564)	388,961

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

	31 December 2021		
	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire duration
Standalone bad debt provision	165,931	100.00%	165,931
For which provision for bad debt is recognised by group with credit risk characteristics	6,808,337	3.28%	223,030
	6,974,268	5.58%	388,961

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

9. Long-term receivables

	31 December 2021	31 December 2020
Installment payments for the provision of telecommunication system construction projects	2,510,109	2,871,490
Less: Bad debt provision for long-term receivables	153,696	191,912
	2,356,413	2,679,578

Change in bad debt provision for long-term trade receivables is as follows:

	Opening balance	Provision (reversal) for the year	Write-off for the year	Exchange rate changes	Closing balance
31 December 2021					
Bad debt provision	197,438	(8,548)	(25,477)	(2,967)	160,446
Including: long-term trade receivables	191,912	(9,772)	(25,477)	(2,967)	153,696
Long-term factored receivables	5,526	1,224	—	—	6,750
31 December 2020					
Bad debt provision	68,140	131,026	—	(1,728)	197,438
Including: long-term trade receivables	67,953	125,687	—	(1,728)	191,912
Long-term factored receivables	187	5,339	—	—	5,526

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

Long-term trade receivables was provided based on expected credit loss during the entire life. All long-term trade receivables had not expired during the year. The rate of expected credit loss was 6.12%.

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

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

10. Long-term equity investments

		31 December 2021	31 December 2020
Equity method			
Joint ventures	(1)	498,020	205,022
Associates	(2)	1,273,662	1,600,152
Less: provision for impairment of long-term equity investments		86,773	91,371
		1,684,909	1,713,803

31 December 2021

(1) Joint Ventures

	Shareholding percentage	Opening book balance	Movement during the year							Closing book balance	Impairment provision as at the end of the year
			Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend	Transfer out of impairment provision		
Puxing Mobile Tech Company Limited	50%	31,343	—	—	(20,581)	—	—	—	—	10,752	—
德特賽維技術有限公司	49%	26,768	—	—	1,759	—	—	—	—	28,527	—
重慶百德行置業有限公司	10%	7,000	—	—	—	—	—	—	—	7,000	—
Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership)	40%	40,000	—	—	10,539	—	—	—	—	50,539	—
Zuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	40%	99,911	300,000	—	1,291	—	—	—	—	401,202	—
		205,022	300,000	—	(7,002)	—	—	—	—	498,020	—

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

10. Long-term equity investments (continued)

31 December 2021 (Continued)

(2) Associates

	Shareholding percentage	Opening book balance	Movement during the year						Cash dividend	Charge/transfer out of impairment provision	Closing balance	Impairment provision as at the end of the year
			Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement					
KAZNURTEL Limited Liability Company*	—	—	—	(2,477)	—	—	—	—	2,477	—	—	
ZTE Energy Limited*	—	447,010	—	(486,199)	48,377	—	—	(9,188)	—	—	—	
ZTE Software Technology (Nanchang) Company Limited*	—	—	—	—	—	—	—	—	—	—	—	
Telecom Innovations (Uzbekistan)	34.04%	—	—	—	—	—	—	—	—	—	(11,216)	
深圳市中兴和泰酒店投資管理有限公司	18%	—	—	—	—	—	—	—	—	—	—	
北京億科三友科技發展有限公司*	—	—	—	(4,764)	—	—	—	—	4,764	—	—	
上海中興思枯通訊有限公司*	—	—	—	—	—	—	—	—	—	—	—	
中興羅維科技江蘇有限公司	23%	1,492	—	—	(1,062)	—	—	—	—	430	—	
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	49%	—	—	—	—	—	—	—	—	—	(7,117)	
中山優順置業有限公司	20%	2,000	—	—	—	—	—	—	—	2,000	—	
鐵建聯和(北京)科技有限公司	30%	—	—	—	—	—	—	—	—	—	(570)	
廣東中城信息技術有限公司	39%	4,687	—	—	—	—	—	—	—	4,687	—	
上海博色信息科技有限公司	29%	4,138	—	—	(1,342)	—	(4)	—	—	2,792	—	
New Idea Investment Pte. Ltd	20%	—	—	—	—	—	—	—	—	—	(14,551)	
興辰智能科技產業有限公司	19%	—	—	—	—	—	—	—	—	—	(37,248)	
南京寧網科技有限公司	21.26%	3,812	—	—	(159)	—	—	—	—	3,653	—	
Hengyang ICT Real Estate Co., Ltd.	30%	52,446	—	—	—	—	—	—	(16,071)	36,375	(16,071)	
貴州中安雲網科技有限公司	9.31%	5,118	—	—	357	—	—	—	—	5,475	—	
陝西高能裝備與智能製造產業研究院有限公司	12.5%	2,152	—	—	—	—	—	(48)	—	2,104	—	
中教雲通(北京)科技有限公司	—	1,526	—	(1,526)	—	—	—	—	—	—	—	
Kron Telekomunikasyon Hizmetleri A.S.	10%	9,718	—	(711)	(4,494)	(224)	—	5	—	4,294	—	
山東興濟置業有限公司	10%	1,069	—	—	—	—	—	—	—	1,069	—	
ZTE 9 (Wuxi) Co., Ltd.*	—	—	—	(13,428)	—	—	—	—	13,428	—	—	
Huanggang Education Valley Investment Holdings Co., Ltd	25%	4,414	—	—	(3,686)	—	—	—	—	728	—	
Whale Cloud Technology Co., Ltd.	28.99%	867,614	—	—	42,559	—	—	—	—	910,173	—	
Shijiazhuang Smart Industries Company Limited	12%	16,172	—	—	(8,343)	—	—	—	—	7,829	—	
Zhongxing Feliu Information Technology Company Limited	31.69%	42,848	—	—	(1,208)	—	—	—	—	41,640	—	
江西國投信息科技有限公司	15%	1,571	—	—	(38)	—	—	—	—	1,533	—	
安徽奇英智能科技有限公司	35%	3,044	—	—	(177)	—	—	—	—	2,867	—	
Xingyun Times Technology Company Limited	23.26%	—	133,514	—	(1,820)	—	—	—	—	131,694	—	
Shenzhen Zhongxin New Energy Technology Company Limited*	—	37,950	—	(37,950)	—	—	—	—	—	—	—	
ZTE (Wenzhou) Railway Communication Technology Limited	45.9%	—	23,795	—	3,751	—	—	—	—	27,546	—	
		1,508,781	157,309	(547,055)	72,715	(224)	(4)	(9,231)	4,598	1,186,889	(86,773)	

* KAZNURTEL Limited Liability Company, ZTE Energy Company Limited (renamed Zonergy Corporation as from 2 November 2021), ZTE Software Technology (Nanchang) Company Limited, 北京億科三友科技发展有限公司, 上海中興思枯通訊有限公司, 中教雲通(北京)科技有限公司, ZTE 9 (Wuxi) Co., Ltd and Shenzhen Zhongxin New Energy Technology Company Limited were no longer accounted for as associates for the year owing to the full disposal of equity interests held in these companies.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

10. Long-term equity investments (continued)

31 December 2020

(1) Joint Ventures

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

* The Group no longer exercised common control over Bestel Communications Ltd and PengzhongXingsheng ceased to be accounted for as joint venture after the Group lost common control following their deregistration during the year.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

10. Long-term equity investments (continued)

31 December 2020 (continued)

(2) Associates

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

* 廈門智慧小區網絡科技有限公 司 was no longer accounted for as an associate as the Group ceased to exercise significant influence following its deregistration;

** 廣東福能大數據產業園建設有 限公司 and Laxense, Inc. were no longer accounted for as associates as the Group ceased to exercise significant influence following the transfer of equity interests;

*** The Group acquired 28.43% interests in Nubia Technology Limited during the year and held 78.33% in Nubia Technology following the acquisition. Nubia Technology Limited was included in the consolidated financial statements and no longer accounted for as an associate.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

10. Long-term equity investments (continued)

Provision for impairment of long-term equity investment:

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
KAZNURTEL Limited Liability Company	2,477	—	(2,477)	—
Telecom Innovations (Uzbekistan)	11,216	—	—	11,216
北京億科三友科技發展有限公司	4,764	—	(4,764)	—
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	7,117	—	—	7,117
New Idea Investment Pte. Ltd	14,551	—	—	14,551
興辰智能科技產業有限公司	37,248	—	—	37,248
ZTE 9 (Wuxi) Co., Ltd.	13,428	—	(13,428)	—
鐵建聯和 (北京) 科技有限公司	570	—	—	570
Hengyang ICT Real Estate Co., Ltd.	—	16,071	—	16,071
	91,371	16,071	(20,669)	86,773

31 December 2020

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

11. Other non-current financial assets

	31 December 2021	31 December 2020
Financial assets at fair value through current profit and loss	1,175,249	1,536,741

12. Investment properties

Subsequent measurement under the fair value model

31 December 2021

	Buildings
Opening balance	2,035,234
Other outgoing transfers	(18,738)
Fair value change (Note V.47)	(2,569)
Closing balance	2,013,927

31 December 2020

	Buildings
Opening balance	1,957,242
Business combination not under common control	96,901
Other outgoing transfers	(20,667)
Fair value change (Note V.47)	1,758
Closing balance	2,035,234

During the year, the Group leased buildings of the investment properties to Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited, a related party, and other non-related parties by way of operating lease.

As at 31 December 2021, investment properties with a carrying value of RMB1,287,000,000 (31 December 2020: RMB1,727,000,000) had yet to obtain title registration certificates.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

13. Fixed assets

31 December 2021

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	9,584,112	29,289	6,367,292	3,135,370	275,430	396,183	19,787,676
Acquisitions	95,181	—	1,601,529	157,646	22,118	58,636	1,935,110
Transfer from construction in progress	149,835	—	40,138	1,406	—	36	191,415
Transfer from investment properties	18,738	—	—	—	—	—	18,738
Disposal or retirement	(542,667)	—	(612,641)	(222,736)	(29,282)	(29,966)	(1,437,292)
Disposal of subsidiaries	(153,367)	—	(47,056)	(239,124)	(2,261)	(67,554)	(509,362)
Exchange rate adjustments	(14,947)	(2,623)	(19,775)	(9,069)	(1,298)	(14,989)	(62,701)
Closing balance	9,136,885	26,666	7,329,487	2,823,493	264,707	342,346	19,923,584
Cumulative depreciation							
Opening balance	2,150,165	—	3,457,403	1,800,470	165,703	271,258	7,844,999
Provision	293,800	—	1,029,918	240,199	20,015	86,788	1,670,720
Disposal or retirement	(77,353)	—	(538,607)	(192,411)	(26,382)	(25,330)	(860,083)
Disposal of subsidiaries	(29,334)	—	(28,668)	(41,527)	(1,212)	(50,358)	(151,099)
Exchange rate adjustments	(10,016)	—	(17,559)	(7,480)	(1,290)	(10,198)	(46,543)
Closing balance	2,327,262	—	3,902,487	1,799,251	156,834	272,160	8,457,994
Provision for impairment							
Opening balance	21,270	—	1,840	5,521	—	104	28,735
Provision	—	—	—	57,074	—	953	58,027
Disposal or retirement	—	—	(426)	(10)	—	(21)	(457)
Disposal of subsidiaries	—	—	—	(57,032)	—	—	(57,032)
Exchange rate adjustments	—	—	(686)	—	—	(8)	(694)
Closing balance	21,270	—	728	5,553	—	1,028	28,579
Book value							
As at the end of the year	6,788,353	26,666	3,426,272	1,018,689	107,873	69,158	11,437,011
As at the beginning of the year	7,412,677	29,289	2,908,049	1,329,379	109,727	124,821	11,913,942

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

13. Fixed assets (continued)

31 December 2020

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	7,376,296	40,441	5,533,723	3,164,125	281,759	362,772	16,759,116
Acquisitions	1,653,580	—	1,566,243	249,756	22,940	74,009	3,566,528
Transfer from construction in progress	533,155	—	31,824	1,610	—	88	566,677
Business combination not under common control	79,598	—	60,453	57,045	6,706	779	204,581
Disposal or retirement	(35,617)	—	(818,322)	(315,996)	(31,234)	(22,424)	(1,223,593)
Exchange rate adjustments	(22,900)	(11,152)	(6,629)	(21,170)	(4,741)	(19,041)	(85,633)
Closing balance	9,584,112	29,289	6,367,292	3,135,370	275,430	396,183	19,787,676
Cumulative depreciation							
Opening balance	1,853,492	—	3,313,005	1,775,221	169,974	222,677	7,334,369
Provision	280,061	—	798,921	278,667	23,062	84,210	1,464,921
Business combination not under common control	47,707	—	45,053	27,401	3,684	672	124,517
Disposal or retirement	(18,557)	—	(695,099)	(261,273)	(28,446)	(25,103)	(1,028,478)
Exchange rate adjustments	(12,538)	—	(4,477)	(19,546)	(2,571)	(11,198)	(50,330)
Closing balance	2,150,165	—	3,457,403	1,800,470	165,703	271,258	7,844,999
Provision for impairment							
Opening balance	21,270	—	1,886	16,926	1,096	81	41,259
Provision	—	—	426	10	—	21	457
Disposal or retirement	—	—	(638)	(11,415)	(1,096)	—	(13,149)
Exchange rate adjustments	—	—	166	—	—	2	168
Closing balance	21,270	—	1,840	5,521	—	104	28,735
Book value							
As at the end of the year	7,412,677	29,289	2,908,049	1,329,379	109,727	124,821	11,913,942
As at the beginning of the year	5,501,534	40,441	2,218,832	1,371,978	110,689	140,014	9,383,488

As at 31 December 2021, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing and other locations in China with a net book value of approximately RMB4,023,835,000 (31 December 2020: RMB2,033,892,000).

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

14. Construction in progress

Changes in major construction in progress as at 31 December 2021 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Other reduction	Impairment provision	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Nanjing Project	978,070	361,162	206,063	—	—	—	567,225	Internal funds	57.99%	In progress
Commercial NEV Production Base	578,333	6,356	12,786	—	—	—	19,142	Internal funds	94.22%	In progress
Shanghai R&D Centre Phase III	478,000	182,031	76,474	—	—	—	258,505	Internal funds	54.08%	In progress
ZTE Headquarters	169,040	84,520	37,327	—	—	—	121,847	Internal funds	72.08%	In progress
Xi'an Project	774,200	194,464	71,201	—	—	—	265,665	Internal funds	34.31%	In progress
Others	—	211,367	152,321	191,415	31,788	—	140,485	Internal funds		In progress
		1,039,900	556,172	191,415	31,788	—	1,372,869			

Changes in major construction in progress as at 31 December 2020 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Other reduction	Impairment provision	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Nanjing Project	978,070	261,568	99,593	—	—	—	361,161	Internal funds	36.93%	In progress
Commercial NEV Production Base	578,333	526,796	5,317	525,757	—	—	6,356	Internal funds	92.01%	In progress
Shanghai R&D Centre Phase III	478,000	75,810	106,221	—	—	—	182,031	Internal funds	49.49%	In progress
ZTE Headquarters	169,040	50,712	33,808	—	—	—	84,520	Internal funds	50.00%	In progress
Xi'an Project	774,200	129,471	64,993	—	—	—	194,464	Internal funds	25.12%	In progress
Others	—	127,359	131,520	40,920	—	6,591	211,368	Internal funds		In progress
		1,171,716	441,452	566,677	—	6,591	1,039,900			

As at 31 December 2021, there was no capitalised interest in the balance of the construction in progress (31 December 2020: Nil).

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

15. Rights-of-use assets

31 December 2021

	Buildings and structures	Vehicles	Other equipment	Total
Cost				
Opening balance	1,615,090	129,627	143,818	1,888,535
Increase	240,128	19,666	—	259,794
Disposal	(421,032)	(89,113)	(67,575)	(577,720)
Exchange rate adjustment	(39,839)	(1,706)	(403)	(41,948)
Closing balance	1,394,347	58,474	75,840	1,528,661
Cumulative depreciation				
Opening balance	628,047	99,259	114,019	841,325
Charge	355,961	28,549	20,814	405,324
Disposal	(347,795)	(89,113)	(67,575)	(504,483)
Exchange rate adjustment	(27,366)	(1,207)	(278)	(28,851)
Closing balance	608,847	37,488	66,980	713,315
Book value				
As at the end of the year	785,500	20,986	8,860	815,346
As at the beginning of the year	987,043	30,368	29,799	1,047,210

31 December 2020

	Buildings and structures	Vehicles	Other equipment	Total
Cost				
Opening balance	1,395,884	110,319	123,555	1,629,758
Increase	299,975	11,646	74,423	386,044
Disposal	(127,650)	(22,912)	(53,907)	(204,469)
Exchange rate adjustment	46,881	30,574	(253)	77,202
Closing balance	1,615,090	129,627	143,818	1,888,535
Cumulative depreciation				
Opening balance	437,127	32,804	96,046	565,977
Charge	274,565	59,628	71,909	406,103
Disposal	(127,650)	(22,912)	(53,907)	(204,469)
Exchange rate adjustment	44,005	29,739	(29)	73,714
Closing balance	628,047	99,259	114,019	841,325
Book value				
As at the end of the year	987,043	30,368	29,799	1,047,210
As at the beginning of the year	958,757	77,515	27,509	1,063,781

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

16. Intangible assets

31 December 2021

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	994,714	464,259	3,075,120	2,061,615	14,191,688	20,787,396
Acquisition	285,378	38,376	30,433	70,191	—	424,378
In-house R&D	—	—	—	—	1,426,090	1,426,090
Disposal or retirement	(69,118)	(10,597)	(183,620)	—	—	(263,335)
Disposal of subsidiary	(15,079)	(1,616)	(59,413)	(1,415)	—	(77,523)
Exchange rate adjustments	(22,229)	—	—	(40,694)	—	(62,923)
Closing balance	1,173,666	490,422	2,862,520	2,089,697	15,617,778	22,234,083
Cumulative amortization						
Opening balance	389,337	327,705	393,296	952,686	9,271,610	11,334,634
Provision	218,440	55,723	75,201	329,332	1,833,131	2,511,827
Disposal or retirement	(57,267)	(1,142)	(45,381)	—	—	(103,790)
Disposal of subsidiary	(8,050)	(695)	(3,070)	(436)	—	(12,251)
Exchange rate adjustments	(17,306)	—	—	(6,184)	—	(23,490)
Closing balance	525,154	381,591	420,046	1,275,398	11,104,741	13,706,930
Provision for impairment						
Opening balance	14,615	12,205	—	58,660	—	85,480
Charge	83,487	27,217	—	192,318	55,459	358,481
Disposal or retirement	(4,191)	—	—	—	—	(4,191)
Disposal of subsidiary	—	—	—	—	—	—
Exchange rate adjustments	(1,298)	—	—	(5,861)	—	(7,159)
Closing balance	92,613	39,422	—	245,117	55,459	432,611
Book value						
As at the end of the year	555,899	69,409	2,442,474	569,182	4,457,578	8,094,542
As at the beginning of the year	590,762	124,349	2,681,824	1,050,269	4,920,078	9,367,282

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

16. Intangible assets (continued)

31 December 2020

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	707,951	157,517	2,733,148	1,152,934	12,145,786	16,897,336
Acquisition	343,047	11,270	346,789	163,741	—	864,847
In-house R&D	—	—	—	—	2,045,902	2,045,902
Business combination not under common control	37,024	304,415	1,640	735,132	—	1,078,211
Disposal or retirement	(70,980)	(8,943)	(6,457)	(65)	—	(86,445)
Exchange rate adjustments	(22,328)	—	—	9,873	—	(12,455)
Closing balance	994,714	464,259	3,075,120	2,061,615	14,191,688	20,787,396
Cumulative amortization						
Opening balance	206,494	149,587	321,658	746,349	7,676,568	9,100,656
Provision	230,393	22,552	71,513	214,581	1,595,042	2,134,081
Business combination not under common control	28,667	158,679	260	572	—	188,178
Disposal or retirement	(61,367)	(3,113)	(135)	(34)	—	(64,649)
Exchange rate adjustments	(14,850)	—	—	(8,782)	—	(23,632)
Closing balance	389,337	327,705	393,296	952,686	9,271,610	11,334,634
Provision for impairment						
Opening balance	14,300	—	6,322	57,238	—	77,860
Charge	—	12,205	—	—	—	12,205
Disposal or retirement	—	—	(6,322)	—	—	(6,322)
Exchange rate adjustments	315	—	—	1,422	—	1,737
Closing balance	14,615	12,205	—	58,660	—	85,480
Book value						
As at the end of the year	590,762	124,349	2,681,824	1,050,269	4,920,078	9,367,282
As at the beginning of the year	487,157	7,930	2,405,168	349,347	4,469,218	7,718,820

As at 31 December 2021, the Group was in the process of obtaining the land use right certificate of land blocks located in Nanjing in the PRC, with a carrying value of approximately RMB90,443,000 (31 December 2020: RMB1,032,215,000).

As at 31 December 2021, intangible assets formed through internal research and development accounted for 55% of the book value of intangible assets as at the end of the year (31 December 2020: 53%).

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

17. Deferred development costs

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	2,270	26,798	(23,714)	5,354
System products	2,070,587	1,779,710	(1,402,376)	2,447,921
	2,072,857	1,806,508	(1,426,090)	2,453,275

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	32,057	77,485	(107,272)	2,270
System products	1,844,352	2,164,865	(1,938,630)	2,070,587
	1,876,409	2,242,350	(2,045,902)	2,072,857

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

18. Goodwill

Movements in the original value of goodwill are as follows:

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
		Exchange rate movement	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	186,206	—	—	186,206
Suzhou Laxense Technology Co., Ltd.	33,500	—	—	33,500
NETAS TELEKOMUNIKASYON A.S.	89,763	—	—	89,763
	309,469	—	—	309,469

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
		Business combination not under common control	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	186,206	—	—	186,206
Suzhou Laxense Technology Co., Ltd.	33,500	—	—	33,500
NETAS TELEKOMUNIKASYON A.S.	89,763	—	—	89,763
	309,469	—	—	309,469

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

18. Goodwill (continued)

Change in goodwill impairment provision was as follows:

31 December 2021

	Opening balance	Increase during the year Charge	Decrease during the year Disposal	Closing balance
Zhuhai Guangtong Bus Co., Ltd.	—	186,206	—	186,206
Suzhou Laxense Technology Co., Ltd.	33,500	—	—	33,500
NETAS TELEKOMUNIKASYON A.S.	89,763	—	—	89,763
Total	123,263	186,206	—	309,469

31 December 2020

	Opening balance	Increase during the year Charge	Decrease during the year Disposal	Closing balance
Zhuhai Guangtong Bus Co., Ltd.	—	—	—	—
Suzhou Laxense Technology Co., Ltd.	33,500	—	—	33,500
NETAS TELEKOMUNIKASYON A.S.	89,763	—	—	89,763
Total	123,263	—	—	123,263

Goodwill acquired as a result of corporate merger has been allocated to the following asset groups or portfolio of asset groups for the purpose of impairment testing:

Zhuhai Guangtong Bus Co., Ltd. transferred material assets to ZTE Smart Auto Company Limited, its parent company, during 2019. The management was of the view that Zhuhai Guangtong Bus Co., Ltd. should be combined with ZTE Smart Auto Company Limited into one asset group. The management was of the view that Suzhou Laxense Technology Co., Ltd. and NETAS TELEKOMUNIKASYON A.S. were relatively independent asset groups not related to other business segments of the Group. Hence these two companies were each accounted for as an asset group.

- ZTE Smart Auto Company Limited asset group
- Suzhou Laxense Technology Co., Ltd. asset group
- NETAS TELEKOMUNIKASYON A.S. asset group

As at 31 December 2021, full impairment charges had been provided for in respect of ZTE Smart Auto Company Limited asset group, Suzhou Laxense Technology Co., Ltd. asset group and the NETAS TELEKOMUNIKASYON A.S. asset group.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

18. Goodwill (continued)

The carrying values of goodwill comprised in the ZTE Smart Auto Company Limited asset group are as follows:

	31 December 2021
ZTE Smart Auto Company Limited asset group	1,014,880

The recoverable amounts of such asset groups and portfolio of asset groups is based on the 5-year budget approved by the management and the present value of future cash flow arrived at through a detailed projection of subsequent cash flow for 5 years using a specific long-term average growth rate. The key assumptions adopted include:

	ZTE Smart Auto Company Limited
Growth rate for the forecast period	Detailed revenue growth rate for the 5-year forecast period determined by the management based on past experience and market forecasts.
Growth rate for the stable period	2.39%
Gross profit margin	Gross profit margin estimated by the management based on past experience and market forecasts.
Discount rate	12.82%

The Group determines the growth rate and gross profit margin based on past experience and market forecasts. The discount rate adopted reflects the specific risks of the asset groups. The growth rate for the stable period is the weighted average growth rate adopted for the detailed projection of subsequent cash flow for 5 years and is consistent with the projections set out in industry reports and does not exceed the long-term average growth rate of each product.

The Company conducted impairment tests on the aforesaid goodwill at the end of the year. In conducting such goodwill impairment tests, the Group compared the carrying values of the relevant asset groups (including goodwill) against their recoverable amounts. If the recoverable amount is lower than the carrying value, the difference is charged to current profit or loss. In the goodwill impairment test, full goodwill impairment charge was made against the ZTE Smart Auto Company Limited asset group.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

19. Deferred tax assets/liabilities

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

	31 December 2021		31 December 2020	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	3,192,500	531,200	2,281,961	464,969
Provision for impairment in inventory	2,467,474	545,017	1,295,712	266,314
Estimated construction contract losses	1,986,503	319,771	1,424,193	213,629
Amortisation of deferred development costs	3,464,832	567,272	2,572,554	279,142
Provision for warranties and returned goods	147,941	34,014	245,741	40,938
Provision for retirement benefits	147,539	33,935	175,954	29,277
Deductible tax losses	5,715,990	906,061	10,369,097	1,599,119
Accruals	3,107,299	499,853	4,118,262	545,809
Overseas taxes pending deduction	—	—	1,747,971	262,196
Share option scheme expenses	996,419	149,463	496,504	74,476
Lease liabilities	921,179	134,111	1,162,649	165,721
	22,147,676	3,720,697	25,890,598	3,941,590
	31 December 2021		31 December 2020	
	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	1,088,329	163,249	1,090,898	163,635
Investment in financial instruments through profit or loss at fair value	1,615,632	212,922	513,699	99,174
Fair-value adjustment from business combination not under common control	656,635	98,495	1,073,769	161,065
Rights-of-use assets	815,346	122,302	1,047,210	157,082
Others	528,905	79,336	385,670	57,850
	4,704,847	676,304	4,111,246	638,806

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

19. Deferred tax assets/liabilities (continued)

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

	31 December 2021		31 December 2020	
	Amount of set-off	Amount after set-off	Amount of set-off	Amount after set-off
Deferred tax assets	525,956	3,194,741	504,489	3,437,101
Deferred tax liabilities	525,956	150,348	504,489	134,317

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

	31 December 2021	31 December 2020
Deductible tax losses	5,619,342	5,008,396

Deductible tax losses of unrecognised deferred tax assets expiring in:

	31 December 2021	31 December 2020
2021	—	103,206
2022	73,508	106,593
2023	100,192	372,143
2024	115,342	341,724
2025	314,465	314,604
Beyond 2026	5,015,835	3,770,126
	5,619,342	5,008,396

The Group recognises deferred tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible tax loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible tax loss and tax allowance.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

20. Other current assets/other non-current assets

Other current assets

	31 December 2021	31 December 2020
Prepaid output tax and credit tax available for set off	7,747,024	8,024,888
Others	71,573	68,027
	7,818,597	8,092,915

Other non-current assets

	31 December 2021	31 December 2020
Prepayments for projects, equipment and land	675,261	967,600
Risk compensation fund	197,803	261,394
Guarantee deposit	346,398	351,623
Restricted cash (Note 1)	2,632,130	2,692,163
Prepaid income tax	193,783	241,137
Others	2,004,982	1,765,940
	6,050,357	6,279,857

Note 1: Restricted funds represented deposits in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed. For details, please refer to Note XII.2.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

21. Short-term loans

		31 December 2021		31 December 2020	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	2,872,000	2,872,000	4,631,452	4,631,452
	USD	385,100	2,455,012	531,948	3,468,509
	EUR	25,694	185,513	125,817	1,009,251
	TRY	311,150	152,848	266,000	236,282
Bills discounting loans	RMB	271,562	271,562	748,180	748,180
Letter of credit loans	RMB	3,000,000	3,000,000	300,000	300,000
Pledged loans ^{Note 1}	RMB	10,000	10,000	30,000	30,000
Guarantee loans	RMB	—	—	20,000	20,000
Secured loans	RMB	—	—	115,486	115,486
		8,946,935		10,559,160	

As at 31 December 2021, the annual interest rate of the above loans ranged from 1.11%–20.00% (31 December 2020: 0.80%–19.50%), except for TRY loans which were subject to an annual interest rate of 17.75%–20.00% (31 December 2020: 9.30%–19.50%).

Note 1: The guaranteed loan comprised mainly loans extended to ZTE ICT Company Limited secured by trade receivables of Wanzhou Project with a book value of RMB40,253,000.

22. Derivative financial liabilities

	31 December 2021	31 December 2020
Financial liabilities at fair value through current profit and loss	27,729	153,961

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.3.

23A. Bills payable

	31 December 2021	31 December 2020
Bank acceptance bills	5,281,279	5,624,190
Commercial acceptance bills	6,276,097	5,739,866
	11,557,376	11,364,056

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

23B. Trade payables

Trade payables

An aging analysis of the trade payables are as follows:

	31 December 2021	31 December 2020
0 to 6 months	20,964,976	16,404,105
6 to 12 months	200,629	371,996
1 year to 2 years	212,073	181,788
2 years to 3 years	147,694	155,278
Over 3 years	191,895	38,566
	21,717,267	17,151,733

Trade payables are interest-free and repayable normally within 6 months.

As at 31 December 2021, there were no material trade payables aged over 1 year (31 December 2020: Nil).

24. Contract liabilities

	31 December 2021	31 December 2020
Contracted consideration received	16,101,652	14,998,172

Contract liabilities refer to the obligation to transfer goods to customers in consideration of payments received or receivable from customers. Contract liabilities are incurred when the payment schedule agreed under the contract is ahead of the performance of contract obligations.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

25. Salary and welfare payables and provision for retirement benefits

Salary and welfare payables

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	10,383,922	24,156,470	(23,047,532)	11,492,860
Retirement benefits (Defined contribution scheme)	126,395	1,612,573	(1,567,143)	171,825
Termination benefits	35,178	209,995	(218,435)	26,738
	10,545,495	25,979,038	(24,833,110)	11,691,423

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	8,800,736	21,677,370	(20,094,184)	10,383,922
Retirement benefits (Defined contribution scheme)	143,866	808,532	(826,003)	126,395
Termination benefits	9,403	272,837	(247,062)	35,178
	8,954,005	22,758,739	(21,167,249)	10,545,495

Short-term remuneration analysed as follows:

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	8,443,244	21,784,178	(20,924,117)	9,303,305
Staff welfare	14,973	31,237	(33,045)	13,165
Social insurance	61,668	936,149	(959,403)	38,414
Including: Medical	58,421	868,449	(891,272)	35,598
Work injuries	1,373	21,594	(22,293)	674
Maternity	1,874	46,106	(45,838)	2,142
Housing funds	33,405	711,633	(742,539)	2,499
Labour union fund and employee education fund	1,830,632	693,273	(388,428)	2,135,477
	10,383,922	24,156,470	(23,047,532)	11,492,860

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

25. Salary and welfare payables and provision for retirement benefits (continued)

Salary and welfare payables (continued)

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	7,322,241	19,338,887	(18,217,884)	8,443,244
Staff welfare	16,880	25,380	(27,287)	14,973
Social insurance	62,202	731,430	(731,964)	61,668
Including: Medical	55,308	686,624	(683,511)	58,421
Work injuries	2,913	8,413	(9,953)	1,373
Maternity	3,981	36,393	(38,500)	1,874
Housing funds	22,725	683,172	(672,492)	33,405
Labour union fund and employee education fund	1,376,688	898,501	(444,557)	1,830,632
	8,800,736	21,677,370	(20,094,184)	10,383,922

Defined contribution plans are analysed as follows:

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	123,944	1,570,017	(1,523,600)	170,361
Unemployment insurance	2,451	42,556	(43,543)	1,464
	126,395	1,612,573	(1,567,143)	171,825

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	136,591	789,947	(802,594)	123,944
Unemployment insurance	7,275	18,585	(23,409)	2,451
	143,866	808,532	(826,003)	126,395

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

25. Salary and welfare payables and provision for retirement benefits (continued)

Provision for retirement benefits

	31 December 2021	31 December 2020
Net liabilities from defined benefit plan	147,539	144,250

The Group operates for all qualifying employees a defined benefit plan that has yet to receive capital injection. Under the plan, an employee is entitled to retirement benefits ranging from 0% to 50% of his/her last salary at the retirement age.

The scheme is subject to interest rate risks and the risk of change in the life expectancy of the pension beneficiaries.

The latest actuarial valuation of assets under the plan and the present value of obligations under defined benefit plans were determined by 韜睿惠悅管理諮詢 (深圳) 有限公司 using the expected benefit accrual unit approach at 31 December 2021.

Major actuarial assumptions applied as at the balance sheet date are as follows:

	31 December 2021	31 December 2020
Discount rate	2.75%	3.25%
Estimated salary growth rate	5.50%	5.50%

A quantitative sensitivity analysis of significant assumptions applied is set out as follows:

2021

	Increase	Increase/ (decrease) in obligations under defined benefit plan	Decrease	Increase/ (decrease) in obligations under defined benefit plan
Discount rate	0.25%	(3,184)	0.25%	3,279
Expected salary increase	1.00%	8,775	1.00%	(8,110)

2020

	Increase	Increase/ (decrease) in obligations under defined benefit plan	Decrease	Increase/ (decrease) in obligations under defined benefit plan
Discount rate	0.25%	(3,315)	0.25%	3,420
Expected salary increase	1.00%	14,425	1.00%	(12,983)

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

25. Salary and welfare payables and provision for retirement benefits (continued)

Provision for retirement benefits (continued)

The above sensitivity analysis is based on inference of the impact of reasonable changes in key assumptions at the balance sheet date on the net amount of defined benefits. Sensitivity analysis is based on the change of the material assumption on the premise that other assumptions remain unchanged. As the changes of the assumptions are often correlated, the sensitivity analysis may not represent the actual changes of the obligations under defined benefit plans.

Relevant plans recognised in the income statement are as follows:

	31 December 2021	31 December 2020
Net interest	4,611	4,601
Charged to administrative expenses	4,611	4,601

Change in the present value of obligations under defined benefit plan:

	31 December 2021	31 December 2020
Opening balance	144,250	144,505
Charged to current profit or loss		
Service costs for the current period	—	—
Service costs for the previous period	—	—
Settlement gains or loss	—	—
Interest expenses	4,611	4,601
Charged to other comprehensive income		
Actuary gains or loss	—	—
Other changes	—	—
Liabilities eliminated on settlement	—	—
Pension paid	(4,761)	(4,506)
Benefit costs recognised in other comprehensive income	3,439	(350)
Closing balance	147,539	144,250

Net liabilities under defined benefit plan

	31 December 2021	31 December 2020
Opening balance	144,250	144,505
Net interest	4,611	4,601
Charged to other comprehensive income		
Actuary loss	3,439	(350)
Experience-based adjustments	—	—
Other changes		
Benefit paid	(4,761)	(4,506)
Closing balance	147,539	144,250

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

26. Tax payable

	31 December 2021	31 December 2020
Value-added tax	433,126	118,864
Enterprise income tax	361,341	445,022
Including: PRC tax	307,359	424,621
Overseas tax	53,982	20,401
Personal income tax	276,507	213,819
City maintenance and construction tax	73,038	30,996
Education surcharge	54,718	27,643
Other taxes	17,604	41,857
	1,216,334	878,201

27. Other payables

	31 December 2021	31 December 2020
Interest payables	55,379	28,561
Dividend payables	11,797	4,677
Other payables	3,438,243	4,319,564
	3,505,419	4,352,802

Dividend payables

	31 December 2021	31 December 2020
Dividend payables to holders of restricted shares	225	225
Dividend payables to minority shareholders	11,572	4,452
	11,797	4,677

Other payables

	31 December 2021	31 December 2020
Accruals	1,059,029	881,389
Deferred income from staff housing due in 1 year	44,162	633,222
Payables to external parties	2,130,813	2,483,236
Deposits	144,780	8,105
Others	59,459	313,612
	3,438,243	4,319,564

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

28. Provisions

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Expected contract loss (Note 1)	1,756,267	1,560,442	(967,372)	2,349,337
Outstanding litigation (Note 2)	172,964	169,167	(97,873)	244,258
Provision for warranties	156,003	56,276	(64,338)	147,941
	2,085,234	1,785,885	(1,129,583)	2,741,536

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Expected contract loss (Note 1)	1,619,216	1,185,309	(1,048,258)	1,756,267
Outstanding litigation (Note 2)	166,491	60,538	(54,065)	172,964
Provision for warranties	180,757	127,260	(152,014)	156,003
	1,966,464	1,373,107	(1,254,337)	2,085,234

Note 1: Unavoidable cost for the performance of contract in excess of expected economic benefits of the contract.

Note 2: Provisions in respect of likely compensation amounts for cases as assessed based on the advice from appointed legal counsel and the progress of such cases.

29. Non-current liabilities due within one year

	31 December 2021	31 December 2020
Long-term loans due within one year	588,140	1,651,543
Lease liabilities	389,196	453,134
	977,336	2,104,677

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

30. Long-term loans

		31 December 2021		31 December 2020	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	23,118,200	23,118,200	16,269,550	16,269,550
	USD	555,000	3,538,125	572,500	3,732,929
	EUR	363	2,619	363	2,909
	TRY	5,816	2,857	23,502	20,876
Guaranteed loans ^{Note 1}	USD	499,000	3,181,125	350,000	2,282,140
Secured loans ^{Note 2}	RMB	65,515	65,515	206,190	206,190
Pledged loans	RMB	—	—	99,710	99,710
		29,908,441		22,614,304	

Note 1: The loan comprised mainly bank loans extended to ZTE (H.K.) Limited and guaranteed by ZTE Corporation (31 December 2020: RMB350,000,000).

Note 2: The secured loans comprised mainly an RMB5,000,000 loan extended to 安徽皖興通信息技術有限公司 secured by land use rights with a book value of RMB14,385,000. Repayment by instalment was stipulated under contract, and a loan amount of RMB3,250,000 was outstanding as at 31 December 2021. An RMB62,265,000 (31 December 2020: RMB201,189,000) loan extended to Zhongxing Smart Auto Company Limited secured by land use rights with a book value of RMB220,589,000 and fixed asset with a book value of RMB495,234,000.

As at 31 December 2021, the annual interest rate of the above loans ranged from 0.75%–9.00% (31 December 2020: 0.75%–12.06%), and the interest rate for TRY loans was 9.00% (31 December 2020: 9.00%–12.06%).

Aging profile of long-/short-term bank borrowings

	2021	2020
Listed as:		
Bank loan repayable:		
Within one year	9,535,075	12,221,705
Within the second year	13,467,751	9,914,007
Within the third to fifth years, inclusive	16,384,650	12,625,577
After five years	56,040	74,719
Total bank loans	39,443,516	34,836,008

31. Lease liabilities

	31 December 2021	31 December 2020
Lease liabilities	531,983	718,186

32. Other non-current liabilities

	31 December 2021	31 December 2020
Deferred income relating to staff housing	222,835	236,408
Long-term payable	3,644,581	3,668,911
Amounts payable to third parties	61,812	19,290
	3,929,228	3,924,609

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

33. Share capital

31 December 2021

	Opening balance	Increase/decrease during the year				Closing balance
		Issue of new share	Transfer from reserves	Others	Sub-total	
Restricted shares						
Domestic corporation	43,032	39,379	—	(43,032)	(3,653)	39,379
Other domestic shareholdings	338,067	45,942	—	(338,067)	(292,125)	45,942
Senior management shares	580	22	—	(14)	8	588
Total number of restricted shares	381,679	85,343	—	(381,113)	(295,770)	85,909
Unrestricted shares						
RMB Ordinary shares	3,476,254	32,018	—	381,113	413,131	3,889,385
Overseas listed foreign shares	755,502	—	—	—	—	755,502
Total number of unrestricted shares	4,231,756	32,018	—	381,113	413,131	4,644,887
Total number of shares	4,613,435	117,361	—	—	117,361	4,730,796

31 December 2020

	Opening balance	Increase/decrease during the year				Closing balance
		Issue of new share	Transfer from reserves	Others	Sub-total	
Restricted shares						
Domestic corporation	—	43,032	—	—	43,032	43,032
Other domestic shareholdings	—	338,067	—	—	338,067	338,067
Senior management shares	494	86	—	—	86	580
Total number of restricted shares	494	381,185	—	—	381,185	381,679
Unrestricted shares						
RMB Ordinary shares	3,471,534	4,720	—	—	4,720	3,476,254
Overseas listed foreign shares	755,502	—	—	—	—	755,502
Total number of unrestricted shares	4,227,036	4,720	—	—	4,720	4,231,756
Total number of shares	4,227,530	385,905	—	—	385,905	4,613,435

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

34. Capital reserves

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	22,716,657	1,681,654	(114,766)	24,283,545
Share-based payment (Note 2)	479,153	871,497	(354,231)	996,419
Other capital investment	80,000	—	—	80,000
	23,275,810	2,553,151	(468,997)	25,359,964

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	11,774,076	11,480,688	(538,107)	22,716,657
Share-based payment	290,356	235,705	(46,908)	479,153
Other capital investment	80,000	—	—	80,000
	12,144,432	11,716,393	(585,015)	23,275,810

Note 1: The issuance of new shares for the acquisition of non-controlling interests resulted in the increase in the shareholders' premium of the capital reserve by RMB811,475,000. The exercise of the Company's share options resulted in the increase of shareholders' premium of the capital reserve by RMB860,921,000. The capital injection by minority shareholders resulted in the dilution of equity interests and increase in the shareholders' premium of the capital reserve by RMB9,258,000. In 2021, the treasury stock lock-up period for the treasury stocks under the Management Stock Ownership Scheme expired and the capital reserve was reduced by RMB114,766,000.

Note 2: The Company issued share option incentives in July 2017, which were divided into three tranches according to the exercise periods. Share option expenses for the period of RMB47,171,000 were recognised during the year in respect of share options for the third period. The exercise of share options under the 2017 Share Option Incentive Scheme reduced the capital reserve by RMB354,178,000. The Company issued share option incentives in November 2020, which were divided into three tranches according to the exercise periods. Share option expenses for the current period of RMB746,653,000 were recognised during the year in respect of share options for the three periods. The exercise of share options under the 2020 Share Option Incentive Scheme reduced the capital reserve by RMB53,000. The Company's Management Stock Ownership Scheme was implemented in December 2020, divided into two tranches based on the exercise periods. Expenses for the period of RMB71,147,000 were recognised in respect of Management Stock Ownership Scheme. The Company issued reserved share options under the 2020 Share Option Incentive Scheme in September 2021, divided into two tranches according to the exercise periods. Expenses of RMB6,526,000 were recognised during the year in respect of the reserved share options. For details please refer to Note XI.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

35. Treasury stock

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Management Stock Ownership Scheme (Note)	114,766	—	114,766	—
	114,766	—	114,766	—

Note: In 2021, Treasury stock under the Management Stock Ownership Scheme was reduced by RMB114,766,000 after the expiry of the lock-up period for subject shares granted under the scheme.

36. Other comprehensive income

Cumulative balance of other comprehensive income on the consolidated balance sheet attributable to shareholders of the parent company:

	1 January 2020	Increase/ decrease	31 December 2020	Increase/ decrease	31 December 2021
Changes arising from the re-measurement of defined benefit plans	(73,277)	350	(72,927)	(3,439)	(76,366)
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods	44,350	—	44,350	—	44,350
Effective portion of hedging instruments	(67,982)	—	(67,982)	—	(67,982)
Differences arising from foreign currency translation	(2,696,840)	(269,992)	(2,966,832)	(12,960)	(2,979,792)
Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value	792,769	—	792,769	—	792,769
	(2,000,980)	(269,642)	(2,270,622)	(16,399)	(2,287,021)

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

36. Other comprehensive income (continued)

Other comprehensive income on the income statement incurred during the current period:

2021

	Amount before taxation	Less: amount recognised in other Comprehensive income for the previous period and profit and loss for the current period	Less: income tax	Attributable to shareholders of the parent company	Attributable to non-controlling interests
Other comprehensive income that cannot be subsequently reclassified to profit or loss					
Changes arising from the re-measurement of defined benefit plans	(3,439)	—	—	(3,439)	—
Other comprehensive income to be subsequently reclassified to profit or loss					
Differences on translation of financial statements expressed in foreign currency	(21,306)	—	—	(12,960)	(8,346)
	(24,745)	—	—	(16,399)	(8,346)

2020

	Amount before taxation	Less: amount recognized in other Comprehensive income for the previous period and profit and loss for the current period	Less: income tax	Attributable to shareholders of the parent company	Attributable to non-controlling interests
Other comprehensive income that cannot be subsequently reclassified to profit or loss					
Changes arising from the re-measurement of defined benefit plans	350	—	—	350	—
Other comprehensive income to be subsequently reclassified to profit or loss					
Differences arising from foreign currency translation	(295,680)	—	—	(269,992)	(25,688)
	(295,330)	—	—	(269,642)	(25,688)

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

37. Surplus reserves

31 December 2021

	Opening balance	Opening balance as adjusted	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	2,968,473	—	58,681	—	3,027,154

31 December 2020

	Opening balance	Opening balance as adjusted	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	2,775,521	—	192,952	—	2,968,473

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capital of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the Company's share capital upon approval.

38. Retained profits

	31 December 2021	31 December 2020
Retained profits at the beginning of the year	14,824,478	11,680,365
Net profit attributable to shareholders of the parent	6,812,941	4,259,752
Surplus reserve	(58,681)	(192,952)
Distributions to shareholders	(927,542)	(922,687)
Retained profits at the end of the year	20,651,196	14,824,478

According to the resolution of the general meeting held on 25 June 2021: a dividend of RMB0.2 in cash per share (2020: RMB0.2) shall be distributed to all shareholders based on the total share capital of 4,637,709,675 shares (2020: 4,613,434,898 shares) as at the record date. Profit distribution with a total amount of RMB927,541,935 (2020: RMB922,686,980) was completed on 20 August 2021.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

39. Operating revenue and costs

	2021		2020	
	Revenue	Cost	Revenue	Cost
Principal business	111,307,880	71,952,245	98,918,919	67,475,634
Other business	3,213,761	2,207,601	2,531,751	1,903,581
	114,521,641	74,159,846	101,450,670	69,379,215

Operating revenue is analysed as follows:

	2021	2020
Revenue from customer contract	114,394,839	101,312,606
Rental income — operating leases	126,802	138,064
	114,521,641	101,450,670

Breakdown of revenue from customer contracts:

	2021	2020
Major operating area		
PRC	77,939,665	67,913,117
Asia (excluding PRC)	14,379,464	14,729,300
Africa	4,937,822	4,822,622
Europe and Oceania	17,137,888	13,847,567
	114,394,839	101,312,606
Types of key products		
Sale of products	37,350,292	26,183,343
Provision of service	8,764,486	11,158,807
Telecommunications system contracts with customers	68,280,061	63,970,456
	114,394,839	101,312,606
Recognised revenue in time		
Transferred at a point in time	105,630,353	90,153,799
Transferred over a period	8,764,486	11,158,807
	114,394,839	101,312,606

Revenue included in the opening book value of contract liabilities recognised for the year is set out as follows:

	2021	2020
Revenue included in the opening book value of contract liabilities recognised for the year	13,377,757	13,664,562

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

40. Taxes and surcharges

	2021	2020
City maintenance and construction tax	262,435	225,489
Education surcharge	200,402	171,736
Property tax	106,616	85,445
Land use tax	21,800	18,539
Stamp duty	92,316	88,868
Others	103,898	94,540
	787,467	684,617

41. Selling and distribution costs

	2021	2020
Wages, welfare and bonuses	4,874,433	4,686,431
Consulting and services charges	624,865	689,508
Travelling expenses	595,126	536,690
Hospitality expenses	214,461	170,330
Office expense	243,212	256,010
Advertising and promotion expenses	1,216,745	777,779
Others	964,310	462,089
	8,733,152	7,578,837

42. Administrative expenses

	2021	2020
Wages, welfare and bonuses	2,313,837	2,047,556
Office expenses	194,345	106,476
Amortization and depreciation charges	552,865	550,224
Rental fees	14,218	47,691
Travelling expenses	65,855	66,478
Audit fees	11,928	11,055
Others	2,291,565	2,165,516
	5,444,613	4,994,996

43. Research and development expenses

	2021	2020
Wages, welfare and bonuses	13,102,360	9,633,362
Direct material costs	508,094	584,068
Amortization and depreciation charges	2,583,960	2,103,338
Office expenses	366,686	296,306
Technical cooperation fee	1,319,693	997,171
Others	923,219	1,182,780
	18,804,012	14,797,025

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

44. Financial expenses

	2021	2020
Interest expenses	1,481,221	1,495,660
Including: Interest expenses on lease liabilities	48,221	72,545
Interest expenses on long-term payables	56,511	26,169
Interest expense of SCPs	85,725	90,599
Less: Interest income	1,497,096	1,238,753
Loss/(gain) on foreign currency exchange	848,213	(17,461)
Bank charges	130,568	181,091
	962,906	420,537

Breakdown of interest income is as follows:

	2021	2020
Interest income on cash	1,266,392	1,012,366
Interest income on finance contracts	163,555	193,825
Interest income on finance leases	67,149	32,562
	1,497,096	1,238,753

45. Other income

	2021	2020	Relating to asset/income
Refund of VAT on software products (Note 1)	1,238,142	943,399	Relating to income
Refund of handling charges for personal tax	21,600	15,348	Relating to income
Others	681,657	613,919	Relating to income
	1,941,399	1,572,666	

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

46. Investment income

	2021	2020
Income/(loss) from long-term equity investment under equity method	65,713	(420,515)
Investment income from financial assets at fair value through profit or loss during the period of holding	24,471	24,146
Investment income/(loss) arising from the disposal of derivative investment	125,941	(99,570)
Investment income from the disposal of long-term equity Interests	1,251,651	955,174
Investment income arising from the disposal of financial assets at fair value through profit or loss	321,178	634,696
Loss on derecognition of financial assets at amortised cost	(224,761)	(187,525)
	1,564,193	906,406

47. Gain/(loss) from changes in fair values

	2021	2020
Financial assets at fair value through profit or loss	802,329	137,495
Derivative financial instruments	299,604	(100,230)
Investment properties at fair value	(2,569)	1,758
	1,099,364	39,023

48. Credit impairment losses

	2021	2020
Impairment loss of trade receivables	218,448	181,604
Impairment losses/(reversal) on receivable financing	1,889	(497)
Impairment loss of other receivables	56,801	120,353
(Reversal)/loss of impairment of long-term receivables	(9,772)	125,687
Loss of impairment of factored trade receivables	352	617
Loss of impairment of long-term factored receivables	1,224	5,339
	268,942	433,103

49. Asset impairment losses

	2021	2020
Inventories impairment losses	818,246	112,427
Impairment loss of contract assets	84,267	70,300
Fixed asset impairment losses	58,027	457
Intangible asset impairment losses	358,481	12,205
Impairment loss of construction in progress	—	6,591
Goodwill impairment losses	186,206	—
Long-term equity investment impairment losses	16,071	7,735
	1,521,298	209,715

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

50. Gains from asset disposal

	2021	2020
Gains from the disposal of fixed assets	74,479	—
Gains from the disposal of intangible assets	157,265	—
	231,744	—

51. Non-operating income/non-operating expenses

Non-operating income

	2021	2020	Amount of extraordinary gain/loss recognized for January to December 2021
Income from contract penalty and reward	26,624	35,795	26,624
Others	223,467	201,964	223,467
	250,091	237,759	250,091

Non-operating expenses

	2021	2020	Amount of extraordinary gain/loss recognized for January to December 2021
Compensation	199,476	71,697	199,476
Others	227,794	572,616	227,794
	427,270	644,313	427,270

52. Expenses by nature

Supplementary information of the Group's operating costs, selling and distribution costs, research and development expenses and administration expenses by nature were as follows:

	2021	2020
Cost of goods and services	71,145,299	66,428,034
Staff remuneration (including share-based payment)	22,538,404	18,492,468
Depreciation and amortization	4,513,913	3,971,297
Rental not included in the measurement of lease liabilities	171,371	234,305
Others	8,772,636	7,623,969
	107,141,623	96,750,073

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

53. Income tax

	2021	2020
Current income tax	1,196,259	1,177,799
Deferred income tax	266,777	(835,325)
	1,463,036	342,474

Reconciliation between income tax and total profit was as follows:

	2021	2020
Total profit	8,498,926	5,064,166
Tax at statutory tax rate ^(Note 1)	2,124,732	1,266,042
Effect of different tax rates applicable to certain subsidiaries	(512,077)	(487,273)
Adjustment to current tax in previous periods	62,818	22,704
Profits and losses attributable to jointly-controlled entities and associates	(9,857)	63,090
Income not subject to tax	(4,422)	(8,814)
Additional deduction for R&D expenses, interest on perpetual instruments and non-deductible tax expenses	(675,279)	(877,779)
Unrecognised tax losses	490,504	398,863
Utilisation of tax losses from previous years	(13,383)	(34,359)
Tax charge at the Group's effective rate	1,463,036	342,474

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits and applicable tax rates arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

54. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to holder of ordinary shares of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

54. Earnings per share (continued)

Calculations of basic and diluted earnings per shares were as follows:

	2021	2020
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	6,812,941	4,259,752
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	4,641,905	4,612,335
Diluting effect — weighted average number of ordinary shares ('000 shares) ^(Note 1)		
Stock option	2,568	21,153
Adjusted weighted average number of ordinary shares of the Company ('000 shares)	4,644,473	4,633,488

Note 1: The calculation of the diluted earnings/(losses) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares.

55. Notes to major items in cash flow statement

	2021	2020
Cash paid in connection with other operating activities:		
Interest income	1,067,369	948,477
Cash paid in connection with other operating activities:		
Selling and distribution costs	3,259,620	3,095,475
Administrative expenses and research and development costs	5,706,207	3,892,727
Bank charges	143,574	182,551
Cash received in connection with other investing activities:		
Net cash outflow from disposal of ZTE (Wenzhou) Railway Communication Technology Limited	45,398	—
Net cash outflow from disposal of ZTE Gaoneng Technology Company Limited	2	—
Net cash outflow on disposal of Zhongxin New Energy	—	34,009
Other cash received in relation to financing activities:		
Disposal of minority interests in subsidiaries	—	6,540
Cash paid in connection with other financing activities:		
Acquisition of ZTE Microelectronics equity from China Integrated Circuit Investment Industry Fund	—	3,315,287
Refund of investment by non-controlling interests	—	297,420
Share repurchase for Management Stock Ownership Scheme	—	114,766
Cash payment of operating lease principal amount	449,889	490,551

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

56. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2021	2020
Net profit	7,035,890	4,721,692
Add: Credit impairment losses	268,942	433,103
Asset impairment losses	1,521,298	209,715
Depreciation of fixed assets	1,670,720	1,464,921
Depreciation of right-of-use assets	405,324	406,103
Amortisation of intangible assets	2,511,827	2,100,273
Gain on disposal of fixed assets, intangible assets and other long-term assets	(231,744)	—
Gain from changes in fair value	(1,099,364)	(39,023)
Finance costs	1,331,557	1,936,072
Investment income	(1,564,193)	(906,406)
Decrease/(increase) in deferred tax assets	242,360	(925,729)
Increase/(decrease) in deferred tax liabilities	16,031	(37,743)
Increase in inventories	(3,445,693)	(5,950,631)
(Increase)/decrease in operating receivables	(2,578,038)	3,922,920
Increase in operating payables	8,380,813	1,026,649
Cost of share-based payment	871,497	235,704
Decrease in cash not readily available for payments	386,300	1,635,031
Net cash flow from operating activities	15,723,527	10,232,651

Net change in cash and cash equivalents:

	2021	2020
Closing cash balance	1,685	1,655
Less: opening cash balance	1,655	2,269
Add: closing balance of cash equivalents	39,068,898	31,401,401
Less: opening balance of cash equivalents	31,401,401	28,503,531
Net increase in cash and cash equivalents	7,667,527	2,897,256

(2) Information on subsidiaries and other business units acquired or disposed of:

	2021	2020
Price at which subsidiaries and other business units were disposed of	1,408,422	563,830
Cash and cash equivalents received on disposal of subsidiaries and other business units	1,319,322	251,702
Cash and cash equivalents held by subsidiaries and other business units disposed of	204,066	—
Net cash received on disposal of subsidiaries and other business units	1,115,256	251,702

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

56. Supplemental information on cash flow statement (continued)

(3) Cash and cash equivalents

	2021	2020
Cash		
Including: Cash on hand	1,685	1,655
Bank deposit readily available for payment	39,068,898	31,401,401
Cash and cash equivalents at end of year	39,070,583	31,403,056

57. Assets under restrictions on ownership or right of use

		31 December 2021	31 December 2020
Cash	Note 1	1,421,057	1,683,733
Trade receivables and contract assets	Note 2	68,638	188,303
Fixed assets	Note 3	495,234	608,213
Work in progress		—	6,356
Intangible assets	Note 4	234,974	282,266
Other non-current assets restricted cash	Note 5	3,176,331	3,305,180
		5,396,234	6,074,051

Note 1: As at 31 December 2021, the Group's cash subject to ownership restriction amounted to RMB1,421,057,000 (31 December 2020: RMB1,683,733,000), including acceptance bill deposits of RMB212,344,000 (31 December 2020: RMB115,095,000), letter of credit deposits of RMB604,519,000 (31 December 2020: RMB421,498,000), deposit for guarantee letter of RMB63,247,000 (31 December 2020: RMB185,796,000), dues from the People's Bank of China of RMB177,497,000 (31 December 2020: RMB180,812,000) and technology grants of RMB363,450,000 (31 December 2020: RMB767,435,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 31 December 2021, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB197,803,000 (31 December 2020: RMB261,394,000), which were funds to be released after one year and accounted for as other non-current assets.

Note 2: As at 31 December 2021, trade receivables and contract assets with a carrying value of RMB68,638,000 (31 December 2020: RMB188,303,000) were pledged to secure bank borrowing.

Note 3: As at 31 December 2021, fixed assets with a total carrying value of RMB495,234,000 (31 December 2020: RMB608,213,000) were pledged to secure bank borrowing. No fixed assets were pledged in connection with asset acquisitions (31 December 2020: Nil).

Note 4: As at 31 December 2021, intangible assets with a total carrying value of RMB234,974,000 (31 December 2020: RMB282,266,000) were pledged to secure bank borrowing. No intangible assets were pledged in connection with asset acquisitions (31 December 2020: Nil).

Note 5: As at 31 December 2021, restricted funds represented a RMB2,632,130,000 (31 December 2020: 2,692,163,000) deposit in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed, the details of which are set out in Note XII. The RMB346,398,000 (31 December 2020: 351,623,000) performance bond with a term of over 1 year was paid to a project partner by ZTE; and risk compensation fund to be released after one year amounted to RMB197,803,000 (31 December 2020: RMB261,394,000).

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

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

58. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		31 December 2021			31 December 2020		
		Original currency	Exchange rate	RMB Equivalent	Original currency	Exchange rate	RMB Equivalent
Cash	USD	119	6.3750	759	144	6.5204	939
	DZD	1,081	0.0460	50	1,054	0.0493	52
	EGP	—	0.4045	—	90	0.3671	33
Bank deposit	USD	747,348	6.3750	4,764,344	635,033	6.9830	4,434,435
	EUR	201,941	7.2201	1,458,034	167,128	7.8271	1,308,128
	JPY	1,863,205	0.0554	103,222	1,612,927	0.0642	103,550
	PKR	3,624,417	0.0358	129,754	2,713,750	0.0450	122,119
	MYR	39,938	1.5306	61,129	18,701	1.6976	31,747
	ETB	279,807	0.1296	36,263	244,354	0.2196	53,660
	NPR	473,009	0.0535	25,306	307,507	0.0612	18,819
	DZD	473,647	0.0460	21,788	577,232	0.0586	33,826
	GBP	4,906	8.6100	42,241	1,698	9.1651	15,562
	RUB	1,109,203	0.0858	95,170	995,793	0.1128	112,325
	IDR	146,874,147	0.0004	58,750	128,779,835	0.0005	64,390
	HKD	61,296	0.8174	50,103	20,127	0.8968	18,050
	CAD	9,830	5.0284	49,429	6,632	5.3473	35,463
	BRL	14,060	1.1424	16,062	15,514	1.7326	26,880
	THB	279,486	0.1910	53,382	158,926	0.2318	36,839
	EGP	13,743	0.4045	5,559	110,864	0.4352	48,248
	COP	16,718,943	0.0016	26,750	3,696,697	0.0021	7,763
	CLP	3,459,718	0.0075	25,948	431,037	0.0093	4,009
Other cash	USD	4,352	6.3750	27,744	21,773	6.9830	152,041
Trade receivable	USD	835,553	6.3750	5,326,650	683,372	6.5204	4,455,859
	EUR	163,925	7.2201	1,183,555	180,735	8.0216	1,449,784
	INR	5,991,072	0.0858	514,034	10,581,764	0.0890	941,777
	THB	567,576	0.1910	108,407	308,237	0.2172	66,949
	BRL	23,100	1.1424	26,389	34,430	1.2548	43,203
Other receivables	USD	33,661	6.3750	214,589	39,587	6.5204	258,123
	EUR	8,230	7.2201	59,421	7,536	8.0216	60,451
	NPR	597,080	0.0535	31,944	578,757	0.0556	32,179
	NGN	1,571,797	0.0155	24,363	3,855,065	0.0172	66,307
	PKR	484,920	0.0358	17,360	841,309	0.0406	34,157
Trade payables	USD	851,980	6.3750	5,431,373	703,148	6.5204	4,584,806
	IDR	2,040,060,674	0.0004	816,024	2,121,098,139	0.0005	1,060,549
	EUR	69,022	7.2201	498,346	89,483	8.0216	717,797
	MXN	1,449,260	0.3115	451,444	—	—	—
Other payables	PHP	1,277,975	0.1250	159,747	1,299,128	0.1358	176,422
	USD	139,507	6.3750	889,357	103,414	6.5204	674,301
	EUR	42,041	7.2201	303,540	85,214	8.0216	683,553
	JPY	82,112	0.0554	4,549	—	—	—
	SAR	1,236	1.7000	2,101	10,116	1.7388	17,590

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

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

58. Monetary items in foreign currencies (continued)

		31 December 2021			31 December 2020		
		Original currency	Exchange rate	RMB Equivalent	Original currency	Exchange rate	RMB Equivalent
Short-term loan	USD	385,100	6.3750	2,455,012	531,948	6.5204	3,468,507
	EUR	25,694	7.2201	185,513	125,817	8.0216	1,009,254
	TRY	311,150	0.4912	152,848	412,174	0.8883	366,134
Long-term loan	USD	1,054,000	6.3750	6,719,250	922,500	6.5204	6,015,069
	TRY	5,816	0.4912	2,857	23,502	0.8883	20,877
	EUR	363	7.2201	2,619	363	8.0216	2,909

The Group's principal places of business overseas include the United States, Indonesia and India, among others. Its operating entities in these countries adopt their respective principal currency for conducting business as their functional currencies.

VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

	Place of registration	Business nature	Percentage of the Group's shareholding in aggregate (%)	Percentage of the Group's voting rights in aggregate (%)	Reasons for ceasing to be a subsidiary
Caltta Technologies Co., Ltd.	Beijing	Mobile communication system equipment	90%	90%/100%	Note 1
NetRD Bilgi Teknolojiler ve Telekomunikasyon A.S.	Istanbul	IT and communication technology	100%	100%/100%	Note 2
ZTE (Wenzhou) Railway Communication Technology Limited	Wenzhou	Software and information technology	51%	51%/100%	Note 3
Shenzhen Zhongxing SI Technology Company Limited	Shenzhen	Underground railway transport communication system	90%	90%/100%	Note 4
ZTE Gaoneng Technology Company Limited	Wuhan	Power battery	100%	100%/100%	Note 5

Note 1: The Company entered into an equity transfer agreement with Beijing E-town Semiconductor Industrial Investment Centre (Limited Partnership) ("E-town Semiconductor") on 11 January 2021 for the disposal of 90% equity interests in Caltta Technologies Co., Ltd. held by the Company for a consideration of RMB1,035,000,000. The disposal was completed in March 2021. Hence, as from March 2021, the Group has ceased to include Caltta Technologies Co., Ltd. in its consolidated financial statements. The relevant financial information of Caltta Technologies Co., Ltd. is set out as follows:

	31 March 2021 Carrying value
Current assets	441,539
Non-current assets	66,829
Current liabilities	(259,692)
Non-current liabilities	—
	248,676
Non-controlling interests	(24,867)
Gain/loss from disposal	811,191
Consideration for disposal	1,035,000

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

1. Disposal of subsidiaries

Note 1: (continued)

	January to March 2021
Operating income	63,498
Operating cost	39,271
Net profit	(40,276)

Note 2: Netas Bilisim Teknolojileri Anonim Sirketi, a subsidiary of the Group, completed the disposal of 100% equity interest in NetRD Bilgi Teknolojiler ve Telekomunikasyon A.S. to MERA Switzerland AG in March 2021. Hence, as from March 2021, the Group has ceased to include NetRD Bilgi Teknolojiler ve Telekomunikasyon A.S. in its consolidated financial statements.

Note 3: The Group and Ningbo Xinxian Corporate Management Partnership Enterprise (Limited Partnership) s completed the disposal of 5.1% equity interest in ZTE (Wenzhou) Railway Communication Technology Limited in October 2021. ZTE (Wenzhou) Railway Communication Technology Limited had been excluded from the consolidated financial statements of the Group as from October 2021. The relevant financial information of Shenzhen Zhongxing SI Technology Company Limited is set out as follows:

Note 4: The Group and Southern Galaxy Valley Co., Ltd completed the disposal of 90% equity interest in Shenzhen Zhongxing SI Technology Company Limited in December 2021. Shenzhen Zhongxing SI Technology Company Limited had been excluded from the consolidated financial statements of the Group as from December 2021. The relevant financial information of Shenzhen Zhongxing SI Technology Company Limited is set out as follows:

	31 December 2021 Carrying value
Current assets	1,050,251
Non-current assets	4,027
Current liabilities	(994,937)
Non-current liabilities	—
	59,341
Non-controlling interests	(5,934)
Gain/loss from disposal	243,593
Consideration for disposal	297,000

	January to December 2021
Operating income	720,942
Operating cost	652,480
Net profit	16,654

Note 5: On 10 December 2021, Wuhan Xihu District People's Court of Wuhan granted approval for the commencement of bankruptcy procedure of Zhongxing Gaoneng Technology Company Limited, a subsidiary of the Company. Zhongxing Gaoneng Technology Company Limited had been excluded from the consolidated financial statements of the Group as from December 2021.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

2. Changes to the scope of consolidation for other reasons

New subsidiaries established by the Company during the year included: tier-one subsidiaries Zhongxing Intelligent Technology (Nanjing) Company Limited, Nanjing Zhongxing Zhiyuan Technology Company Limited, Nanjing Chunjun Innovative Technology Company Limited, Zhongxing (Chengdu) Intelligent Technology Company Limited, Jinzhuan Xinke Company Limited; and tier-two subsidiary Chengdu Cris Semiconductor Technology Company Limited.

Xi'an Zhongxing Jingcheng Technology Company Limited, a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 5 February 2021 and had been excluded from the consolidated financial statements of the Group as from 5 February 2021; ZTE Switzerland AG, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 17 March 2021 and had been excluded from the consolidated financial statements of the Group as from 17 March 2021; Xiamen Zhenkun NEV Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 30 June 2021 and had been excluded from the consolidated financial statements of the Group as from 30 June 2021; ZTE Luxembourg, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 15 November 2021 and had been excluded from the consolidated financial statements of the Group as from 15 November 2021; Nubia (Indonesia) Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 20 November 2021 and had been excluded from the consolidated financial statements of the Group as from 20 November 2021; Chengdu Xingxin NEV Company Limited a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 22 December 2021 and had been excluded from the consolidated financial statements of the Group as from 22 December 2021; Wuhan Baicheng Shun'an Auto Sales Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 29 December 2021 and had been excluded from the consolidated financial statements of the Group as from 29 December 2021.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the major subsidiaries of the Group are as below:

Type of subsidiary	Place of registration/ principal places of business	Business nature	Registered capital	Percentage of shareholding%	
				Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen	Manufacturing	RMB1,755 million	100%	—
ZTE (H.K.) Limited	Hong Kong	Information technology	HKD995 million	100%	—
Shenzhen Zhongxing Software Company Limited	Shenzhen	Service industry	RMB51.08 million	100%	—
Xi'an ZTE Terminal Technology Company Limited	Xi'an	Manufacturing	RMB300 million	100%	—
ZTE Microelectronics Technology Co., Ltd.	Shenzhen	Manufacturing	RMB131,578,947	87.22%	12.78%
Xi'an Zhongxing New Software Company Limited	Xi'an	Service industry	RMB600 million	100%	—
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%
Shenzhen ZTE Capital Management Company Limited	Shenzhen	Investment fund	RMB30 million	55%	—

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Joint Ventures						
Puxing Mobile Tech Company Limited	PRC	R&D, production and sales of communications equipment	RMB128,500,000	50%	—	Equity method
德特賽維技術有限公司	PRC	Software development, information technology consultant and information systems integration	RMB60,000,000	49%	—	Equity method
重慶百德行置業有限公司*	PRC	Real estate	RMB70,000,000	10%	—	Equity method
Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Venture investment, equity investment, investment management and investment consultation	RMB100,000,000	39%	1%	Equity method
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Equity investment, investment management and asset management	RMB1,000,000,000	40%	—	Equity method

* The Group had 10% shareholdings in 重慶百德行置業有限公司, which was accounted for as joint venture mainly owing to the fact that the articles of association of this company stipulates that its board of director shall comprise 5 members, 2 of which shall be nominated by Chongqing Zhongxing ICT Company Limited and 3 of which shall be nominated by 建歷有限公司, and that board resolutions can only be passed with the approval of over two-thirds of the directors. Hence the Group and 建歷有限公司 exercised joint control over its production and operational decisions or its finances.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Associates						
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	RUB30,628,836,562.2	34.04%	—	Equity method
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	—	Equity method
中興耀維科技江蘇有限公司	PRC	Energy	RMB20,000,000	23%	—	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ringtone and other telecommunication VAS	USD500	49%	—	Equity method
中山優順置業有限公司	PRC	Real estate	RMB10,000,000	20%	—	Equity method
鐵建聯合 (北京) 科技有限公司	PRC	Technology promotion and application services	RMB20,000,000	30%	—	Equity method
廣東中城信息技術有限公司	PRC	Software and IT services	RMB30,000,000	39%	—	Equity method
上海博色信息科技有限公司	PRC	Professional technical services	RMB1,894,100	29%	—	Equity method
南京寧網科技有限公司	PRC	Manufacturing of computers, communication and other electronic equipment	RMB25,487,370	21.26%	—	Equity method
New Idea Investment Pte. Ltd	Singapore	Investment company	USD10,200,000 + SGD1	20%	—	Equity method
Xingchen Smart Tech Industry Company Limited*	PRC	Manufacturing of computers and related equipment	RMB200,000,000	19%	—	Equity method
Hengyang ICT Real Estate Co., Ltd	PRC	Real estate	RMB20,000,000	30%	—	Equity method
貴州中安雲網科技有限公司*	PRC	Technology and innovative IOT inter-network services	RMB61,224,500	9.31%	—	Equity method

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of shareholding%		Accounting method
				Direct	Indirect	
Associates						
陝西 高端裝備與智能製造產業研究院有限公司*	PRC	High-end equipment and smart manufacturing, product research, consultation service and technology development	RMB16,000,000	12.5%	—	Equity method
Kron Telekomunikasyon Hizmetleri A.S.*	Turkey	Communication and Internet service	TRY14,268.513	10%	—	Equity method
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	—	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd	PRC	Education	RMB50,000,000	25%	—	Equity method
Shijiazhuang Smart Industry Company Limited*	PRC	Smart City construction and operation	RMB400,000,000	12%	—	Equity method
Whale Cloud Technology Co., Ltd.	PRC	Scientific research and technical service	RMB754,108,771	28.99%	—	Equity method
江西國投信息科技有限公司*	PRC	Smart city operation	RMB100,000,000	15%	—	Equity method
安徽奇英智能科技有限公司	PRC	Intelligent technology, automobile and Information technology	RMB20,000,000	35%	—	Equity method
Zhongxing Feiliu Information Technology Company Limited	PRC	Development of computer software/ and hardware, development of big data technology	RMB118,153,846	31.69%	—	Equity method
Xingyun Times Technology Company Limited	PRC	Internet and related services	RMB290,000,000	23.26%	—	Equity method
ZTE (Wenzhou) Railway Communication Technology Limited	PRC	Software and Information Technology Services	RMB50,000,000	45.9%	—	Equity method

* Companies in which the Group had a shareholding percentage less than 20% were listed as associates, mainly in view of the Group's right to participate in the decision-making of the financial and operational policies of the investees.

During the reporting period, the Group had no subsidiaries with significant minority interests nor individual material joint ventures or associates which had a significant influence on the Group.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

The following table sets out summarized financial information of insignificant joint ventures and associates of the Group:

	31 December 2021	31 December 2020
Joint ventures		
Aggregate carrying value of investments	498,020	205,022
	2021	2020
Aggregate amounts of the following attributable to shareholdings:		
Net loss	(7,002)	(9,493)
Other comprehensive income	—	—
Total comprehensive income	(7,002)	(9,493)
	31 December 2021	31 December 2020
Associates		
Aggregate carrying value of investments	1,186,889	1,508,781
	2021	2020
Aggregate amounts of the following attributable to shareholdings:		
Net gain/(loss)	72,715	(411,022)
Other comprehensive income	(224)	(1,156)
Total comprehensive income	72,491	(412,178)

As at 31 December 2021, there were no contingent liabilities associated with the investments in joint ventures and associates (31 December 2020: Nil).

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

31 December 2021

Financial assets

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
Cash	—	50,713,310	—	50,713,310
Derivative financial assets	209,352	—	—	209,352
Trading financial assets	1,360,697	—	—	1,360,697
Trade receivables	—	17,509,059	—	17,509,059
Long-term trade receivables	—	2,356,413	—	2,356,413
Factored trade receivables and factored long-term receivables	—	444,693	—	444,693
Financial assets in other receivable	—	1,078,676	—	1,078,676
Receivable financing	—	—	5,196,458	5,196,458
Financial assets in other non-current assets	—	3,176,331	—	3,176,331
Other non-current financial assets	1,175,249	—	—	1,175,249
	2,745,298	75,278,482	5,196,458	83,220,238

Financial liabilities

	Financial assets at fair value through current profit and loss	Financial liabilities at amortised cost	Total
Derivative financial liabilities	27,729	—	27,729
Bank loans	—	39,443,516	39,443,516
Lease liabilities	—	921,179	921,179
Bills payable	—	11,557,376	11,557,376
Trade payables	—	21,717,267	21,717,267
Bank advances on factored trade receivables and long-term trade receivables	—	452,701	452,701
Other payables (excluding accruals and staff housing fund contributions)	—	2,335,052	2,335,052
Other non-current liabilities	—	3,703,324	3,703,324
	27,729	80,130,415	80,158,144

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

31 December 2020

Financial assets

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
Cash	—	35,659,832	—	35,659,832
Derivative financial assets	36,118	—	—	36,118
Trading financial assets	1,036,906	—	—	1,036,906
Trade receivables	—	15,891,020	—	15,891,020
Long-term trade receivables	—	2,679,578	—	2,679,578
Factored trade receivables and factored long-term receivables	—	547,792	—	547,792
Financial assets in other receivable	—	994,141	—	994,141
Receivable financing	—	—	1,970,624	1,970,624
Financial assets in other non-current assets	—	3,305,180	—	3,305,180
Other non-current financial assets	1,536,741	—	—	1,536,741
	2,609,765	59,077,543	1,970,624	63,657,932

Financial liabilities

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Total
Derivative financial liabilities	153,961	—	153,961
Bank loans	—	34,825,007	34,825,007
Lease liabilities	—	1,171,320	1,171,320
Bills payable	—	11,364,056	11,364,056
Trade payables	—	17,151,733	17,151,733
Bank advances on factored trade receivables and long-term trade receivables	—	554,930	554,930
Other payables (excluding accruals and staff housing fund contributions)	—	2,804,953	2,804,953
Other non-current liabilities	—	3,668,911	3,668,911
	153,961	71,540,910	71,694,871

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets

Financial assets transferred but not derecognised in their entirety

During the year, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that no bills receivable (31 December 2020: nil) retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognised to the extent of trade receivables transferred under continuous involvement. As at 31 December 2021, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB19,257,274,000 (31 December 2020: RMB22,950,261,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortised cost) Trade receivables/ long-term receivables	
	31 December 2021	31 December 2020
Carrying value of assets under continuous involvement	444,693	547,792
Carrying value of liabilities under continuous involvement	452,701	554,930

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 31 December 2021, the amount of factored trade receivables was RMB444,693,000 (31 December 2020: RMB547,792,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 31 December 2021, the amount of bank advances on factored trade receivables was RMB452,701,000 (31 December 2020: RMB554,930,000).

Financial assets transferred and derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the year. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB1,017,956,000 (31 December 2020: RMB2,983,900,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognised at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognised bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognised bills receivable is not significant. For the relevant period, the Group recognised discounted interests of RMB5,159,000 (2020: RMB44,285,000) in respect of the derecognised bills receivable as at the date of transfer.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments

The Group's daily activities expose it to the risk of a variety of financial instruments, mainly including credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's major financial instruments included cash and bank balances, equity investments, borrowings, notes receivable and trade receivables, notes payable and trade payables, etc. The risks related to these financial instruments and the risk management strategy adopted by the Group to reduce these risks are described as follows.

The Company management is responsible for planning and establishing the risk management framework of the Group, formulating risk management policies and related guidelines of the Group and supervising the implementation of risk management measures. The Group has already developed risk management policies to identify and analyse the risks faced by the Group, which have clearly identified specific risks, covering numerous aspects such as market risk, credit risk and liquidity risk management. The Group regularly assesses the market environment and changes in the Group's business activities to determine whether or not to update its risk management policies and systems. The risk management of the Group is conducted by the operations and management department according to the policy approved by the Company management. The operations and management department identifies, evaluates and avoids related risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports to the Audit Committee of the Group.

The Group spreads the risks of financial instruments by means of the appropriate diversification of its investment and business portfolios, and reduces the risks of concentration on any single industry, particular region or specific trading counterparty by formulating corresponding risk management policies.

Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group is not exposed to significant bad debts. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the special approval of the credit control department of the Group.

Since cash and bank balances, bank acceptance bills receivable and derivative financial instruments are placed with the well-established banks with high credit ratings, the credit risk of these financial instruments is relatively low.

The Group's other financial assets, which comprise cash, equity investments, other receivables and certain derivatives. The credit risk associated with such financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

Criteria for judging significant increases in credit risk

The Company assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Company takes into account the reasonable and substantiated information that is accessible without exerting undue extra cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Company compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to determine changes in the risk of default during the expected lifetime of financial instruments.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met:

- Quantitative criteria are primarily represented by the increase in the probability of default for the remaining lifetime at the reporting date is considered significant comparing with the one at initial recognition.
- Qualitative criteria are primarily represented by the significant adverse change in the debtor's operational or financial status and the watch list for potential default, among others.

Definition of credit-impaired financial assets

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the principal factors considered are as follows:

- Significant financial difficulty of the issuer or debtor;
- Debtors' breach of contract, such as defaulting or becoming overdue on interest or principal payments;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or debtor;
- The purchase or origination of a financial asset at a deep discount that reflects the incurrence of credit losses;

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

Parameters of ECL measurement

Based on whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish PD, LGD and EAD models.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the expected credit loss model, taking into account the forward-looking information to reflect the debtor's PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Company should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL.

The impact of these economic indicators on the PD and the LGD varies according to different business sectors. The Group applies experts' judgement in this process and predicts these economic indicators on a monthly basis according to the result of the experts' judgement to determine the impact of these economic indicators on the PD and the LGD.

For trade receivables and contract assets for which impairment provision for expected credit loss for the entire period has been made, a risk matrix model may be provided in lieu of credit risk rating. The risk matrix may follow the example shown in Note V.4A and V.8.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Liquidity risk

The Group monitors its risk to the shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans.

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarised as follows:

31 December 2021

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	9,648,849	4,952,372	23,497,988	3,468,016	41,567,225
Lease liabilities	—	389,196	334,597	174,043	299,284	1,197,120
Derivative financial liabilities	—	27,729	—	—	—	27,729
Bills payable	—	11,557,376	—	—	—	11,557,376
Trade payables	21,717,267	—	—	—	—	21,717,267
Bank advances on factored trade receivables and factored long-term trade receivable	—	202,249	91,809	10,829	147,814	452,701
Other payables (excluding accruals and staff housing fund contributions)	2,335,052	—	—	—	—	2,335,052
Other non-current liabilities	—	13,871	1,428,379	12,674	2,303,710	3,758,634
	24,052,319	21,839,270	6,807,157	23,695,534	6,218,824	82,613,104

31 December 2020

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	12,455,544	10,356,144	13,069,761	444,609	36,326,058
Lease liabilities	—	453,134	428,583	211,222	276,437	1,369,376
Derivative financial liabilities	—	153,961	—	—	—	153,961
Bills payable	—	11,364,056	—	—	—	11,364,056
Trade payables	17,151,733	—	—	—	—	17,151,733
Bank advances on factored trade receivables and factored long-term trade receivable	—	239,672	150,365	63,440	102,182	555,659
Other payables (excluding accruals and staff housing fund contributions)	2,804,953	—	—	—	—	2,804,953
Other non-current liabilities	86,266	13,238	13,871	1,480,971	2,398,617	3,992,963
	20,042,952	24,679,605	10,948,963	14,825,394	3,221,845	73,718,759

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 31 December 2021, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR and Euribor. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 0.75% to 20.00%. Approximately 18.97% (31 December 2020: 9.50%) of the Group's interest bearing borrowings were subject to interests at fixed rates. In addition, the Group borrowed an approximately USD1,412 million loan at floating interest rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2021	25	(67,914)	—	(67,914)
	(25)	67,914	—	67,914
2020	25	(67,023)	—	(67,023)
	(25)	67,023	—	67,023

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

*Market risk (continued)**Foreign currency risk*

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's net profit or loss, with all other variables held constant, as at the balance sheet date.

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2021				
Weaker RMB against USD	5%	(64,974)	—	(64,974)
Stronger RMB against USD	(5%)	64,974	—	64,974
2020				
Weaker RMB against USD	5%	87,787	—	87,787
Stronger RMB against USD	(5%)	(87,787)	—	(87,787)
	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2021				
Weaker RMB against EUR	5%	73,920	—	73,920
Stronger RMB against EUR	(5%)	(73,920)	—	(73,920)
2020				
Weaker RMB against EUR	5%	81,539	—	81,539
Stronger RMB against EUR	(5%)	(81,539)	—	(81,539)

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group makes adjustments in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the current year ended 31 December 2021.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	31 December 2021	31 December 2020
Interest-bearing bank borrowings	39,443,516	34,825,007
Lease liabilities	921,179	1,171,320
Bank advances on factored receivables and long-term trade receivables	452,701	554,930
Total interest-bearing liabilities	40,817,396	36,551,257
Owners' equity	53,287,660	46,122,506
Total equity and interest-bearing liabilities	94,105,056	82,673,763
Gearing ratio	43.4%	44.2%

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

31 December 2021

	Input applied in the measurement of fair value			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Continuous measurement of fair value				
Derivative financial assets	—	209,352	—	209,352
Trading financial assets	220,126	—	1,140,571	1,360,697
Other non-current financial assets	—	—	1,175,249	1,175,249
Receivable financing	—	5,196,458	—	5,196,458
Investment properties				
Leased buildings	—	—	2,013,927	2,013,927
	220,126	5,405,810	4,329,747	9,955,683
Derivative financial liabilities	—	(27,729)	—	(27,729)
	220,126	5,378,081	4,329,747	9,927,954

31 December 2020

	Input applied in the measurement of fair value			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Continuous measurement of fair value				
Derivative financial assets	—	36,118	—	36,118
Trading financial assets	312,925	529,085	194,896	1,036,906
Other non-current financial assets	—	—	1,536,741	1,536,741
Receivable financing	—	1,970,624	—	1,970,624
Investment properties				
Leased buildings	—	—	2,035,234	2,035,234
	312,925	2,535,827	3,766,871	6,615,623
Derivative financial liabilities	—	(153,961)	—	(153,961)
	312,925	2,381,866	3,766,871	6,461,662

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value

Fair value of financial assets

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values approximates the book values as the remaining terms are not long.

Fair value of financial assets and financial liabilities refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of long-term receivables and long/short-term loans are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics, risk profiles and outstanding term. As at 31 December 2021, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices. The fair values of equity investments in listed companies during the lock-up period is arrived at based on quotations in an active market discounted at a percentage reflecting the lack of liquidity during lock-up.

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

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include forward exchange contracts. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of a forward exchange contract is identical with its fair value.

For financial products at fair value through profit or loss, the Group estimates the fair value based on the discounted cash flow model using market interest rates of instruments with similar terms and risks.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value (continued)

Fair value of investment properties under the fair value model

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 31 December 2021 was RMB2,013,927,000 (31 December 2020: RMB2,035,234,000).

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

31 December 2021

	Fair value at end of year	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB2,013,927,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Discount rate	RMB43-RMB500 3%-6% 7.25%-8%
Equity instrument investment	RMB2,315,820,000	Market method	Liquidity discount rate P/E P/B EV/Revenue EV/EBIT	20%-30% 7-53 0.8 2-8 11-13

31 December 2020

	Fair value at end of period	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB2,035,234,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate Discount rate	RMB43-RMB513 2%-5% 0.5%-5.9% 7.50%-8.25%
Equity instrument investment	RMB1,731,637,000	Market method	Liquidity discount rate P/E EV/Revenue EV/EBIT	4%-30% 7-43 1-6 11-13

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

IX. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorised within Level 3 of the fair value hierarchy:

31 December 2021

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in unrealised profit or less for the period of assets held at end of year included in profit and loss
Investment properties	2,035,234	—	(18,738)	(2,569)	—	—	2,013,927	(2,569)
Trading financial assets	194,896	166,060	(186,266)	964,402	—	—	1,139,092	964,402
Other non-current financial assets	1,536,741	895	(166,060)	62,399	—	(258,726)	1,175,249	(35,195)
Total	3,766,871	166,955	(371,064)	1,024,232	—	(258,726)	4,328,268	926,638

31 December 2020

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in unrealised profit or less for the year of assets held at end of year included in profit and loss
Investment properties	1,957,242	—	—	1,758	76,234	—	2,035,234	1,758
Trading financial assets	407,007	182,815	(407,005)	(4,743)	16,822	—	194,896	(4,743)
Other non-current financial assets	1,594,254	—	(59,937)	177,638	11,018	(186,232)	1,536,741	150,263
Total	3,958,503	182,815	(466,942)	174,653	104,074	(186,232)	3,766,871	147,278

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets is analyzed as follows:

	2021 Relating to non-financial assets	2020 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	(2,569)	1,758
Change in unrealised profit or loss for the period of assets held at year-end included in profit and loss as at the end of the period	(2,569)	1,758

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

IX. DISCLOSURE OF FAIR VALUES (continued)

5. Transfers between levels of fair value measurement

During the year, there were no transfers of fair value measurements between Level 1 and Level 2.

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Place of registration	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)
Zhongxingxin Telecom Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	21.30%	21.30%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Zhongxingxin Telecom Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

	Relationship
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxingxin Cloud Service Company Limited	Subsidiary of the Company's controlling shareholder
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
安徽中興聚力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited* ¹	Subsidiary of the Company's controlling shareholder
Shenzhen Xingkai Communication Equipment Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Subsidiary of the Company's controlling shareholder
Zhongxing Development Company Limited	Company for which a connected natural person of the Company acted as director and executive vice president
Huatong Technology Co., Ltd	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
Huatong Software Technology (Nanjing) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
ZTE Software Technology (Nanchang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Zhongxing Software Technology (Shenyang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
重慶中興中投物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
深圳中興和泰海景酒店投資發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company
Shenzhen ZTE International Investment Company Limited	Company for which a connected natural person of the Company acted as chairman
Tianjin ZTE International Investment Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
Shenzhen Zhongxing WXT Equipment Company Limited 北京中興協力科技有限公司	Company for which a connected natural person of the Company acted as director Subsidiary of a company for which a connected natural person of the Company acted as director
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as director
Shenzhen Aerospace Guangyu Industrial Company Limited	Company for which a connected natural person of the Company acted as senior management
CASIC Shenzhen (Group) Company Limited 航天歐華信息技術有限公司	Company for which a connected natural person of the Company acted as director Subsidiary of a company for which a connected natural person of the Company served as senior management
廣東歐科空調製冷有限公司	Company for which a connected natural person of the Company had previously acted as director
深圳市中興宜和投資發展有限公司	Company for which a connected natural person of the Company had previously acted as chairman
Xi'an Microelectronics Technology Research Institute	Entity at which a connected natural person of the Company had previously acted as head
Lishan Microelectronics Corporation	Company for which a connected natural person of the Company acted as executive director and general manager
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
上海中興科源實業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as vice chairman
Whale Cloud Technology (Changsha) Co., Ltd.	Subsidiary of an associate of the Company
Nanjing Zhongxing Ruanchuang Software Technology	Subsidiary of an associate of the Company
玄雀數據科技(南京)有限公司	Subsidiary of an associate of the Company

*1 The company was deregistered on 17 November 2020.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) Transaction of goods and labour service with related parties

Sales of goods and rendering of service to related parties

	2021	2020
Zhongxingxin Telecom Company Limited	41	32
Puxing Mobile Tech Company Limited	1,622	2,914
Zhongxing Development Company Limited	93	376
航天歐華信息技術有限公司	576,961	835,576
Shenzhen Zhongxingxin Cloud Service Company Limited	—	231
Shenzhen Zhongxing Information Company Limited	16,758	15,986
Whale Cloud Technology (Changsha) Co., Ltd.	—	3
Sindi Technologies Co., Ltd.	22	186
上海中興思枯通訊有限公司	—	439
南京中興和泰酒店管理有限公司	22	—
西安中興和泰酒店管理有限公司	2,395	—
Telecom Innovations	—	285
江西國投信息科技有限公司	979	7,451
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	51	63
Huanggang Education Valley Investment Holdings Co., Ltd.	13	—
Nubia Technology Limited	—	483,231
上海市和而泰酒店投資管理有限公司	1,643	1,415
上海博色信息科技有限公司	2,104	3,075
Whale Cloud Technology Co., Ltd.	3,277	335
Shenzhen Zhongxin New Energy Technology Company Limited	5	1,281
Shenzhen Xingkai Communication Equipment Limited	29,635	5,749
ZTE Energy Limited	—	3
安徽奇英智能科技有限公司	—	11,321
Nanjing Zhongxing Ruanchuang Software Technology Company Limited	1,024	—
	636,645	1,369,952

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods and labour service with related parties (continued)

Purchases of goods and services from related parties

	2021	2020
Sindi Technologies Co., Ltd.#	146,183	145,452
Shenzhen Xinyu Tengyue Electronics Co., Ltd#	30,776	20,542
Huatong Technology Company Limited	59,145	67,470
ZTE Software Technology (Nanchang) Company Limited	46,117	30,619
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	9,931	10,852
南京中興和泰酒店管理有限公司	7,159	7,884
上海市和而泰酒店投資管理有限公司	5,053	5,147
西安中興和泰酒店管理有限公司	5,930	4,676
廣東歐科空調製冷有限公司	23,574	1,925
Pylon Technologies Co., Ltd.#	125,100	36,359
Nubia Technology Limited	—	281,234
深圳市中興新力精密機電技術有限公司#	124,602	127,111
Zhongxing Software Technology (Shenyang) Company Limited	3,395	6,799
安徽中興聚力精密機電技術有限公司#	1,587	816
Whale Cloud Technology Co., Ltd.	310,027	583,601
北京中興協力科技有限公司	5,150	4,296
深圳中興和泰海景酒店投資發展有限公司	2,511	2,052
Shenzhen Aerospace Guangyu Industrial Company Limited	9	10
CASIC Shenzhen (Group) Company Limited	—	2,957
	906,249	1,339,802

Continuing connected transactions subject to annual reporting under the Hong Kong Listing Rules.

Note: For the year, the Group conducted commodity trade with connected parties based on market prices.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

As lessor

	Type of property leased	2021 Lease income	2020 Lease income
深圳中興節能環保股份有限公司	Office	168	176
上海中興思枯通訊有限公司	Office	222	336
上海中興科源實業有限公司	Office	405	421
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property, equipment and facilities	10,790	17,914
南京中興和泰酒店管理有限公司	Property, equipment and facilities	7,060	8,406
上海市和而泰酒店投資管理有限公司	Property, equipment and facilities	14,389	20,005
西安中興和泰酒店管理有限公司	Property, equipment and facilities	17,395	27,065
Huatong Software Technology (Nanjing) Company Limited	Office	367	367
Shenzhen Zhongxingxin Cloud Service Company Limited	Office	3,388	1,586
深圳市中興新力精密機電技術有限公司	Quarters	—	7
Zhongxing Feiliu Information Technology Company Limited	Office	703	600
Shenzhen ZTE International Investment Company Limited	Office	146	—
		55,033	76,883

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

As lessee

	Type of property leased	2021 Lease expense	2020 Lease expense
Zhongxingxin Telecom Company Limited	Office	9,386	10,225
Zhongxing Development Company Limited	Office	827	1,791
Chongqing Zhongxing Development Company Limited	Office	8,481	8,432
三河中興物業服務有限公司	Office	3,160	3,390
三河中興發展有限公司	Office	14,124	14,823
Tianjin ZTE International Investment Company Limited	Office	4,500	4,428
重慶中興中投物業服務有限公司	Office	18	27
		40,496	43,116

Note: The Group recognised lease income of RMB55,033,000 (2020: RMB76,883,000) for the year according to the lease contracts for the lease of office and equipment to the aforesaid connected parties.

The Group recognised lease expenses of RMB40,496,000 (2020: RMB43,116,000) for the year according to the lease contracts for the lease of office from the aforesaid connected parties.

(3) Other major related transactions

Remuneration of key management personnel

	2021	2020
Short-term staff remuneration	61,290	55,996
Retirement benefit	280	189
	61,570	56,185

Note: Share option expenses or share-based payment expenses recognized in 2021 in respect of grants to key management personnel of the Company under the 2017 Share Option Incentive Scheme, 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme amounted to RMB43,995,000 (2020: RMB3,800,000). For details, please refer to Note XI. 2 and 3.

Some of the said key management personnel were also entitled to defined benefit schemes granted by the Group, the amount of which was not included in the aforesaid remuneration.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties

- (1) In December 2021, the Group entered into a 1-year purchase agreement with Zhongxingxin Telecom Company Limited and its subsidiaries for the purchase of raw materials for use in production. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of total purchases by the Group from the aforesaid related parties for 2022 are estimated at RMB550 million (before VAT).
- (2) In December 2021, the Group entered into a 2-year purchase agreement with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries for the purchase of hotel services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of total purchases of hotel services by the Group from the aforesaid related parties for 2022–2023 are estimated at RMB46 million and RMB48 million respectively (before VAT).
- (3) In January 2020, the Group entered into a 3-year purchase agreement with Huatong Software Technology Company Limited for the purchase of software outsource services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amount of software outsource service purchased by the Group from the aforesaid related parties for 2022 is estimated at RMB98,380,000 (before VAT), respectively.
- (4) In January 2020, the Group entered into a 3-year purchase agreement with ZTE Software Technology (Nanchang) Company Limited for the purchase of software outsource services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amount of software outsource services by the Group from the aforesaid related parties for 2022 is estimated at RMB66 million (before VAT).
- (5) In December 2021, the Group entered into a 1-year sales agreement with 航天歐華信息技術有限公司 for the sales of the full range of government and corporate products. For details of sales incurred during the year, please refer to Note X.5 (1). The maximum amounts of sales by the Group to the aforesaid related parties for 2022 is estimated at RMB1.2 billion (before VAT).
- (6) In December 2021, the Group entered into a 2-year property and equipment lease contract with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries. For details of lease income incurred during the year, please refer to Note X.5 (2). The maximum amounts of rental income received by the Group from the aforesaid related parties for 2022–2023 are estimated at RMB57,540,000 and RMB57,540,000, respectively.
- (7) In July 2020, the Group entered into a 2-year property lease contract with 上海中興科源實業有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2022 to be RMB202,000.
- (8) In June 2020, the Group entered into a 2-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2022 to be RMB439,000.
- (9) In July 2020, the Group entered into a 26-month property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2022 to be RMB627,000.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

- (10) In November 2020, the Group entered into a 27-month property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2022 and 2023 to be RMB1,016,000 and RMB130,000, respectively.
- (11) In June 2021, the Group entered into a 1-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2022 to be RMB221,000.
- (12) In November 2020, the Group entered into a 7-year property lease assignment with Shenzhen ZTE International Investment Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB146,000 and RMB146,000, respectively.
- (13) In August 2020, the Group entered into a 2-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2022 to be RMB116,000.
- (14) In January 2021, the Group entered into a 2-year property lease contract with Zhongxing Feiliu Information Technology Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2022 to be RMB703,000.
- (15) In April 2021, the Group entered into a 2-year lease agreement with Zhongxingxin Telecom Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB10,455,000 and RMB3,107,000, respectively.
- (16) In April 2021, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB2,669,000 and RMB2,669,000, respectively.
- (17) In April 2021, the Group entered into a 1-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 to be RMB101,000.
- (18) In April 2021, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB1,288,000 and RMB1,288,000, respectively.
- (19) In May 2021, the Group entered into a 1-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 to be RMB94,000.
- (20) In December 2021, the Group entered into a 30-month lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB573,000 and RMB573,000.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

- (21) In June 2019, the Group entered into a 5-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB758,000 and RMB758,000, respectively.
- (22) In March 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB9,400,000 and RMB1,567,000, respectively.
- (23) In March 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB1,869,000 and RMB311,000, respectively.
- (24) In December 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 and 2023 to be RMB1,547,000 and RMB1,418,000, respectively.
- (25) In January 2021, the Group entered into a 3-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental 2022 and 2023 to be RMB7,402,000 and RMB7,402,000, respectively.
- (26) In December 2020, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2022 to be RMB50,000.

7. Balances of amounts due from/to related parties

Item	Name of related parties	31 December 2021 Amount	31 December 2020 Amount
Receivable financing	航天歐華信息技術有限公司	88,689	149,436
	Shenzhen Zhongxing Information Company Limited	10,586	4,932
		99,275	154,368
Trade receivable	Puxin Mobile Tech Company Limited	14,213	9,513
	Shenzhen Zhongxing Information Company Limited	—	2,105
	Xi'an Microelectronics Technology Research Institute	9	9
	航天歐華信息技術有限公司	4,179	7,319
	ZTE Software Technology (Nanchang) Company Limited	225	650
	Shenzhen Zhongxin New Energy Technology Company Limited	—	687
	Huanggang Education Valley Investment Holdings Co., Ltd.	—	202
	Shenzhen Zhongxingxin Cloud Service Company Limited	—	241
	Whale Cloud Technology Co., Ltd.	3,359	152,139
	鐵建聯和(北京)科技有限公司	7,560	—
	西安中興和泰酒店管理有限公司	518	—
	Telecom Innovations	404	—
		30,467	172,865

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	31 December 2021 Amount	31 December 2020 Amount
Other receivables	南京中興和泰酒店管理有限公司	2	10,438
	Shenzhen Xingkai Communication Equipment Limited	22,060	—
	Shenzhen Zhongxing Information Company Limited	14	14
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	26,231	17,821
	西安中興和泰酒店管理有限公司	5,066	24,340
	山東興濟置業有限公司	20,591	20,591
	上海中興思桔通訊有限公司	—	77
	Shenzhen Zhongxin New Energy Technology Company Limited	—	760
	上海市和而泰酒店投資管理有限公司	52,295	45,024
		126,259	119,065
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd	11,592	312
	Sindi Technologies Co., Ltd.	69,835	59,822
	深圳市中興新力精密機電技術有限公司	61,123	57,225
	廣東歐科空調製冷有限公司	12,863	—
	Pylon Technologies Co., Ltd.	90,904	—
		246,317	117,359
Trade payables	Shenzhen Xinyu Tengyue Electronics Co., Ltd	8,489	1,778
	Sindi Technologies Co., Ltd.	32,132	1,116
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	—	183
	Shenzhen Zhongxing WXT Equipment Company Limited	483	327
	Shenzhen Zhongxing Information Company Limited	13,120	1,729
	Puxing Mobile Tech Company Limited	217	217
	深圳市中興新力精密機電技術有限公司	29,772	17,996
	Xi'an Microelectronics Technology Research Institute	—	192
	廣東歐科空調製冷有限公司	3,224	94
	玄雀數據科技(南京)有限公司	—	47,264
	Whale Cloud Technology Co., Ltd.	257,751	907,612
	Pylon Technologies Co., Ltd.	37,287	9,051
	安徽中興聚力精密機電技術有限公司	1,065	305
	Shenzhen Zhongxin New Energy Technology Company Limited	—	1,908
	ZTE Software Technology (Nanchang) Company Limited	—	135
		383,540	989,907

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	31 December 2021 Amount	31 December 2020 Amount
Contract liabilities	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327
	Puxing Mobile Tech Company Limited	739	2,002
	Xi'an Microelectronics Technology Research Institute	1,628	1,628
	北京中興協力科技有限公司	155	155
	航天歐華信息技術有限公司	79,774	19,112
	ZTE Software Technology (Shenyang) Company Limited	3	13
	Jiangxi Guotou Information Technology Company Limited	4,014	—
	Whale Cloud Technology Co., Ltd.	11,407	24,717
	Huanggang Education Valley Investment Holdings Co., Ltd.	—	20
	深圳市中興宜和投資發展有限公司	—	40
		103,047	53,014
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	12	12
	Zhongxingxin Telecom Company Limited	318	308
	深圳中興新源環保股份有限公司	4	4
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	4,878	4,970
	中山優順置業有限公司	2,000	2,000
	Huanggang Education Valley Investment Holdings Co., Ltd.	178	158
	Hengyang ICT Real Estate Co., Ltd	198	198
	山東興濟置業有限公司	272	272
	Lishan Microelectronics Corporation	—	65
	ZTE Software Technology (Nanchang) Company Limited	—	50
	Shenzhen Zhongxingxin Cloud Service Company Limited	45	186
	深圳市中興宜和投資發展有限公司	—	1,680
	Shenzhen Xingkai Communication Equipment Limited	—	2,597
	南京中興和泰酒店管理有限公司	—	2,062
	Whale Cloud Technology Co., Ltd.	2,354	70,767
	Shenzhen Zhongxin New Energy Technology Company Limited	—	300
	西安中興和泰酒店管理有限公司	—	65
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	—	17
	深圳中興節能環保股份有限公司	29	—
	深圳市中興國際投資有限公司	26	—
		10,314	85,711

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivables from related parties were interest-free and unsecured with a usual credit term of 0-90 days, which may be extended to up to 1 year.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

Interest expense

	2021 Amount	2020 Amount
Zhongxing Feiliu Information Technology Company Limited	—	1
Shenzhen Zhongxin New Energy Technology Company Limited	—	54
	—	55

XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:	2021	2020
Cumulative balance of equity-settled share-based payments credited to capital reserves	996,419	479,153
Transfer of cost of equity-settled share-based payments to share premium in capital reserve upon exercise of share options	(354,231)	(46,908)
Total costs of equity-settled share-based payments for the year	871,497	235,705

2. Share option incentive scheme

(1) 2017 Share Option Incentive Scheme

Pursuant to the “Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company’s business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 5 years from the date of grant subject to a 2-year vesting period. Thereafter, one-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The initial exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the business performance conditions or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(1) 2017 Share Option Incentive Scheme (continued)

The performance indicators for the exercise of the share options include:

- (1) Rate of Return on Common Stockholders' Equity ("ROE");
- (2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/3	2019.7.6–2020.7.5	ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million
Second exercise period ("Second Period")	1/3	2020.7.6–2021.7.5	ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million
Third exercise period ("Third Period")	1/3	2021.7.6–2022.7.5	ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825 million

The fair value of the share options granted amounted to RMB1,477,496,000. Due to the expiry of the first exercise period share options in July 2020 and non-fulfilment of exercise conditions for the second exercise period, the Group recognised share option expenses of RMB47,171,000 for 2021 based the best estimates of expected number of exercisable options the third period at the end of the period.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(1) 2017 Share Option Incentive Scheme (continued)

Share options issued and outstanding under the Scheme are as follows:

	31 December 2021		31 December 2020	
	Weighted average exercise price* RMB/share	Number of share options In'000	Weighted average exercise price* RMB/share	Number of share options In'000
At the beginning of the year	16.86	39,726	17.06	44,532
Exercised during the year		(32,033)		(4,806)
Lapsed		(2,437)		—
At the end of the year	16.66	5,256	16.86	39,726

Note: The grant under the Company's 2017 Share Option Incentive Scheme was completed in July 2017. The initial exercise price of the share options was RMB17.06 per A share. The exercise price of the 2017 Share Option Incentive Scheme was adjusted to RMB16.86/share after the implementation of 2019 profit distribution plan in August 2020. The exercise price of the 2017 Share Option Incentive Scheme was adjusted to RMB16.66/share after the implementation of 2020 profit distribution plan in August 2021.

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

31 December 2021			
Number of share options In'000	Exercise price RMB/share	Valid exercise period	
5,256	16.66	6 July 2021 to 5 July 2022	
5,256			
31 December 2020			
Number of share options In'000	Exercise price RMB/share	Valid exercise period	
39,726	16.86	6 July 2021 to 5 July 2022	
39,726			

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(1) 2017 Share Option Incentive Scheme (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second	Third
Estimated dividend payment (RMB)	0.18	0.18	0.18
Volatility (%)	43.35	42.2	42.9
Risk-free interest rate (%)	3.498	3.506	3.517

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

(2) 2020 Share Option Incentive Scheme – Initial Grant

Pursuant to the “Resolution on Matters pertaining to the grant of shares options under the 2020 Share Option Incentive Scheme” considered and passed at the Twenty-seventh Meeting of the Eighth Session of the Board of Directors and the Twentieth Meeting of the Eighth Session of the Supervisory Committee held on 6 November 2020, it was confirmed that 158,472,000 share options would be granted to 6,123 participants under the initial grant. In accordance with ASBE 11 – Share-based Payment, the date of grant should be the date of approval of the share-based payment agreement. Hence, the date of grant for the initial grant of the share option incentive scheme was set for 6 November 2020. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company’s business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options under the initial grant shall be valid for a period of 4 years from the date of grant, subject to a 1-year vesting period. Thereafter, one-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the business performance conditions or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(2) 2020 Share Option Incentive Scheme – Initial Grant (continued)

The performance indicators for the exercise of the share options include: the net profit attributable the shareholders of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options for each exercise period:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period (“First Period”)	1/3	2021.11.6–2022.11.5	Net Profit for 2020 shall be no less than RMB3.0 billion
Second exercise period (“Second Period”)	1/3	2022.11.6–2023.11.5	Cumulative net profit for 2020 and 2021 shall be no less than RMB6.47 billion
Third exercise period (“Third Period”)	1/3	2023.11.6–2024.11.5	Cumulative net profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

The fair value of the share options under the initial grant was RMB1,444,549,000. The Company recognised share option expenses of RMB746,653,000 in 2021 based on the best estimates of the expected number of exercisable options at the end of the period.

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

31 December 2021 Number of options '000	Exercise price* RMB per share	Exercise period
51,436	34.47	6 November 2021 to 5 November 2022
51,616	34.47	6 November 2022 to 5 November 2023
51,616	34.47	6 November 2023 to 5 November 2024
154,668		

31 December 2020 Number of options '000	Exercise price* RMB per share	Exercise period
52,824	34.47	From 6 November 2021 to 5 November 2022
52,824	34.47	From 6 November 2022 to 5 November 2023
52,824	34.47	From 6 November 2023 to 5 November 2024
158,472		

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(2) 2020 Share Option Incentive Scheme – Initial Grant (continued)

Share options issued and outstanding under the Scheme are as follows:

	31 December 2021		31 December 2020	
	Weighted average exercise price* RMB/share	Number of share options In'000	Weighted average exercise price* RMB/share	Number of share options In'000
At the beginning of the year	34.47	158,472	34.47	158,472
Exercised during the year		(7)		—
Lapsed		(3,797)		—
At the end of the year	34.47	154,668	34.47	158,472

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second	Third
Proposed dividend (RMB)	0.20	0.20	0.20
Volatility (%)	34.40	33.57	30.33
Risk-free interest rate (%)	2.775	2.846	2.909

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

(3) 2020 Share Option Incentive Scheme – Reserved Options

Pursuant to the “Resolution on Matters pertaining to the Grant of Reserved Share Options under the 2020 Share Option Incentive Scheme” considered and passed at the Fortieth Meeting of the Eighth Session of the Board of Directors of the Company and the Thirty-first Meeting of the Eighth Session of the Supervisory Committee held on 23 September 2021, 5,000,000 reserved share options shall be granted to 410 participants. In accordance with ASBE No. 11 – Share-based payment, the date of grant shall be the date on which the agreement governing the share-based payment is approved. Therefore, the date of grant for the reserved share options under the Company's 2020 Share Option Incentive Scheme shall be 23 September 2021. Participants of the reserved share options shall be key business personnel who have a direct impact or make outstanding contributions to the overall results and sustainable development of the Company.

The reserved share options shall be valid for a period of 3 years subject to a 1-year vesting period from the date of grant. Thereafter, one half of the options shall become exercisable in each of the two exercise periods, namely, the first and the second exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the business performance conditions or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(3) 2020 Share Option Incentive Scheme – Reserved Options (continued)

Business performance indicator for the exercise of the share options: net profit attributable to holders of ordinary shares of the listed company.

The conditions for the exercise of share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/2	2022.9.23–2023.9.22	Cumulative net profit for 2020 and 2021 shall be no less than RMB6.47 billion
Second exercise period ("Second Period")	1/2	2023.9.23–2024.9.22	Cumulative net profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

The fair value of the reserved share options was RMB39,913,000. The Company recognised share option expenses of RMB6,526,000 in 2021 based on the best estimates of the expected number of exercisable options at the end of the period.

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

31 December 2021 Number of share options In'000	Exercise price RMB/share	Valid exercise period
2,500	34.92	23 September 2022 to 22 September 2023
2,500	34.92	23 September 2023 to 22 September 2023
5,000		

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second
Estimated dividend payment (RMB)	0.20	0.20
Volatility (%)	29.53	31.46
Risk-free interest rate (%)	2.393	2.499

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

3. 2020 Management Stock Ownership Scheme

Pursuant to the “Resolution on the Management Stock Ownership Scheme (Draft) and its Summary” considered and passed at the Twenty-fifth Meeting of the Eighth Session of the Board of Directors and Eighteenth Meeting of the Eighth Session of the Supervisory Committee on 12 October 2020 and the Second Extraordinary General Meeting of 2020 held on 6 November 2020, the total number of participants in this plan does not exceed 27, the share of this plan does not exceed 114,766,000 (including 114,766,000), and the price of each share is RMB1.00. Among them, there are a total of 8 directors, supervisors and senior executives of the company, and the total shares do not exceed 62,606,000, accounting for 54.55% of the total amount of the scheme. The total shares of other participants do not exceed 52,160,000, accounting for 45.45% of the total amount of the scheme. This management shareholding incentive scheme is the company’s medium and long-term incentive policy, and the source of the stock is company’s A shares in the company’s repurchase securities account.

On 1 September 2020, the Company has paid RMB114,766,000 (excluding transaction fees) at a maximum price of RMB38.85 per share and a minimum price of RMB38.40 per share to repurchase a total of 2,973,900 A shares, accounting for 0.06% of the company’s total share capital.

On 17 December 2020, the Company received a Securities Transfer Registration Confirmation from China Securities Depository and Clearing Corporation Shenzhen Branch. The company’s stock held in the company’s special securities account for repurchase was non-trading transferred to the securities account of the “ZTE Corporation-Phase I Employee Stock Ownership Plan” (securities account number: 089925****) on 16 December 2020. The number of transferred shares is 2,973,900 shares, accounting for 0.06% of the company’s current total share capital. In accordance with the requirements of the ZTE Corporation Management Stock Ownership Scheme (Draft), a lock up period of not less than 12 months shall apply from the date of announcement of the completion of transfer of subject shares from the designated repurchase account. The shares under the Management Stock Ownership Scheme were subject to a lock up period from 18 December 2020 to 17 December 2021. The lock-up period for subject shares under the Management Stock Ownership Scheme had expired as at 18 December 2021.

The Management Stock Ownership Scheme shall be valid for 3 years from the date of approval of the Management Stock Ownership Scheme at the general meeting. The scheme will terminate automatically upon maturity, or it may be extended upon approval by the Board at the request of the management committee.

The lock-up period of the target stocks obtained in this Management Stock Ownership Scheme is 12 months, calculated from the date when the company announces the completion of the transfer of the company’s stock from the company’s special securities account. Shares derived from share capital increase by conversion of capital reserves shall also be subject to the aforesaid lock up.

The performance indicator for the Management Stock Ownership Scheme is a net profit attributable to ordinary shareholders of the listed company for 2020 of not less than RMB3.0 billion. The number of share options to be granted is based on the operating results of the business segment which the management personnel is in charge of and his/her personal appraisal, and the confirmed number of options will be vested in the holder in 2 periods separated by an interval of 12 months, with 50% vested in each period.

The Group recognised share option expense of RMB71,147,000. for 2021 based on the best estimates of expected number of exercisable shares at the end of the year and the fair value per share on the date of grant.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	31 December 2021	31 December 2020
Contracted but not provided of		
Capital commitments	2,534,033	2,837,222
Investment commitments	26,500	28,272
	2,560,533	2,865,494

2. Contingent events

2.1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB35,819,500). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB35,671,600), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB35,671,600) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB35,671,600) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB94,792,700). The Company has appointed legal counsel to conduct active defence in respect of the said case.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Company is currently not able to make reliable estimates on outcome of the litigation.

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2021 where BRL amounts are translated at the exchange rate of BRL1: RMB1.1424.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

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

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

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

On 25 January 2021, the aforesaid natural person filed an appeal demanding the Guangdong Higher Court to withdraw the first trial judgement and rule in support of all the claims of the aforesaid natural person instead. On 16 August 2021, the Supreme People's Court ruled for the appeal to be automatically withdrawn and the first trial judgement to remain in effect on the grounds the aforesaid natural person had not furnished the prepayment of the second trial case admission fee within the stipulated period.

On 26 December 2021, the aforesaid natural person filed an application for retrial to the Guangdong Higher Court appealing for the withdrawal of first trial judgement and ruling in support of all the claims of the aforesaid natural person instead, and that the litigation fees for the primary trial should be borne by the Company in full.

On 7 February 2022, the Company received a summons for hearing on the application for civil case retrial from the Guangdong Higher Court. The Company has been working actively in response to the case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

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

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.3. (continued)

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

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

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

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

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

- 2.4 On 10 August 2021, Xi'an Zhongxing New Software Company Limited ("Xi'an Zhongxing Software") filed litigation at Xi'an Intermediary People's Court against China Construction No. 8 Engineering Bureau Company Limited ("China Construction No. 8 Bureau") on the grounds that China Construction No. 8 Bureau had not completed and delivered project work within the agreed timeframe, demanding payment of delay penalty, rental loss and construction penalty with an aggregate amount of approximately RMB257 million to Xian Zhongxing Software by China Construction No. 8 Bureau.

On 26 October 2021, China Construction No. 8 Bureau filed a counter-claim against Xian Zhongxing Software on the grounds that Xian Zhongxing Software had repeatedly made variations to its requirements, failed to honour payments in a timely manner and caused delay in work schedules owing to force majeure resulting in substantial loss for China Construction No. 8 Bureau, and demanded payment of project work amounts and work suspension and stalling loss with an aggregate amount of approximately RMB400 million by Xian Zhongxing Software to China Construction No. 8 Bureau.

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

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

- 2.5 On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) ("ZTE") from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644) on 23 April 2018.

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017 ("2017 Settlement Agreement"). The 2018 Superseding Settlement Agreement came into effect via a superseding order relating to ZTE on 8 June 2018 (the "8 June 2018 Order"). In accordance with the 2018 Superseding Settlement Agreement, the Company had paid civil monetary penalties totalling USD1.4 billion, including a lump sum payment of USD1 billion and an additional penalty of USD0.4 billion placed in an escrow account with a U.S. bank suspended during the period of ten years from the issuance of the 8 June 2018 Order (the "Probationary Period") (The USD0.4 billion penalty will be waived after the end of Probationary Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the 2018 Superseding Settlement Agreement and 2017 Settlement Agreement, the Company is required to provide and implement a comprehensive and updated export control compliance programme that covers all levels of ZTE.

In the event of the Company's violation of obligations under the 2018 Superseding Settlement Agreement or 2017 Settlement Agreement, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; (ii) the USD0.4 billion placed in an escrow account with a U.S. bank shall become payable immediately and shall be paid in full or in part.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.5 (continued)

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and export control compliance team members with global coverage and engaged a number of counsels and consultants; established and enhanced the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System to automate key aspects of export compliance management; carried out ECCN Publication Project, which makes available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the EAR via a public website; continued to provide online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring and compliance audits; and made continuous investment on the work on export control compliance.

In 2021, the Company has complied with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses.

Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as a foundation for the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually build its value for its customers, shareholders, and employees, and build a compliant and healthy business environment with customers and partners through the dedication and vigilance to export compliance of every employee.

During the period from 1 January 2021 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent events will not have any material adverse impact on the current financial conditions and operating results of the Group.

- 2.6 As at 31 December 2021, an amount of RMB12,974,135,000 (31 December 2020: RMB12,832,332,000) was outstanding under the bank guarantee letters issued by the Group.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XIII. POST-BALANCE SHEET DATE EVENTS

1. The Company has received an order from a court of the United States of America ("U.S.") on 3 March 2022 (U.S. time) to notify the Company that it shall participate in a revocation of probation hearing, currently scheduled for 14 March 2022 (U.S. time). The Company understands that the hearing is related to the indictment dated 18 March 2021 of Jianjun Yu, a former employee of ZTE (TX) Inc., a subsidiary of the Company, allegedly for involvement with a conspiracy to commit visa fraud (the "Visa Case"). To the knowledge of the Company having made all reasonable enquiries: The Visa Case involves charges against Jianjun Yu, who has already left from the Group years ago. As of the date of publication of this report, no corporate member of the Group has been charged in the Visa Case.

At present, the Company's production and operation activities are carried out normally.

2. On 8 March 2022, according to the proposal for profit distribution recommended by the Board of Directors, a dividend of RMB3 in cash (before tax) for every 10 shares will be distributed to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. In the event of changes in the Company's total share capital after the announcement of the Company's profit distribution proposal for 2021 but before its implementation, the total amount of distribution shall be readjusted in accordance with the law on the basis of the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2021 according to the existing proportion for distribution. The aforesaid matter is subject to consideration and approval at the general meeting.

XIV. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee

	2021	2020
Interest expense on lease liabilities	48,221	72,545
Short-term leases through current profit or loss using simplified approach	171,371	234,305
Cash outflow relating to leases	449,889	490,551

Lease assets rented by the Group included houses and buildings, transportation equipment and other equipment required in the course of business. Houses and buildings are typically leased for terms of 1 year to 10 years, transportation equipment and other equipment are typically leased for terms of 1 to 5 years, and other equipment are typically leased for terms of 1 to 2 years. Some lease contracts provide for options of renewal and termination.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

1. Leases (continued)

As lessor

Finance leasing:

Profit or loss relating to finance leases is set out as follows:

	2021	2020
Interest income from finance leases	67,149	32,562

As at 31 December 2021, the balance of unrealised finance income amounting to RMB142,794,000 was amortised over the respective periods in the lease period using the effective interest rate method. According to the lease contract signed with the lessees, minimum lease payments under non-cancellable operating leases falling due are as follows:

	31 December 2021	31 December 2020
In the first to second years (including second year)	1,824,100	—
In the second to third years (including third year)	—	1,824,100
Less: unrealised finance income	142,794	209,943
Lease investment, net	1,681,306	1,614,157

Operating lease:

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

	2021	2020
Lease income	126,802	138,064

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

	31 December 2021	31 December 2020
Within 1 year (including 1 year)	65,500	132,843
1 to 2 years (including 2 years)	56,117	58,788
2 to 3 years (including 3 years)	57,847	49,811
3 to 4 years (including 4 years)	58,724	51,472
4 to 5 years (including 5 years)	58,244	52,302
More than 5 years	166,167	164,453
	462,599	509,669

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

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting

Operating segment

For management purposes, the Group is organised into business units based on its products and services and has 3 reportable operating segments as follows:

- (1) Carriers' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, telecommunication software systems and services and other innovative technologies and product solutions;
- (2) The Consumer Business is focused on bringing experience in smart devices to customers, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, as well as the provision of related software application and value-added services;
- (3) The Government and Corporate Business is focused on meeting requirements of government and corporate clients, providing informatisation solutions for the government and corporations through the application of products such as "communications networks, IOT, Big Data and cloud computing".

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profit from continuing operations, which is consistent with the Group's total profit from continuing operations, except for the exclusion of finance costs, research and development costs, impairment losses, fair value gains from financial instruments, investment income as well as head office and corporate expenses.

Segment assets exclude derivative financial instruments, deferred tax assets, cash and cash equivalents, long-term equity investments, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, borrowings, other payables, short-term bonds payable, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segment (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
2021				
Revenue from external transactions	75,711,611	25,730,783	12,952,445	114,394,839
Rental income	—	—	126,802	126,802
Sub-total	75,711,611	25,730,783	13,079,247	114,521,641
Segment results	25,845,673	2,544,657	2,450,846	30,841,176
Unallocated revenue				2,191,490
Unallocated cost				(24,735,911)
Finance costs				(962,906)
Gain from changes in fair values				1,099,364
Investment gain from associates and joint ventures				65,713
Total profit				8,498,926
Total assets				
31 December 2021				
Segment assets	45,860,402	14,625,857	7,922,424	68,408,683
Unallocated assets				100,354,742
Sub-total				168,763,425
Total liabilities				
Segment liabilities	11,487,916	3,081,890	1,984,547	16,554,353
Unallocated liabilities				98,921,412
Sub-total				115,475,765
Supplemental information				
2021				
Depreciation and amortisation expenses	3,008,418	1,022,419	519,707	4,550,544
Capital expenditure	3,293,634	1,119,350	568,978	4,981,962
Asset impairment losses	(1,005,748)	(341,806)	(173,744)	(1,521,298)
Credit impairment loss	(177,801)	(60,426)	(30,715)	(268,942)

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segment (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
2020				
Revenue from external transactions	74,018,198	16,160,267	11,134,141	101,312,606
Rental income	—	—	138,064	138,064
Sub-total	74,018,198	16,160,267	11,272,205	101,450,670
Segment results	18,983,391	2,494,201	2,330,409	23,808,001
Unallocated revenue				1,810,425
Unallocated cost				(19,752,231)
Finance costs				(420,537)
Gain from changes in fair values				39,023
Investment loss from associates and joint ventures				(420,515)
Total profit				5,064,166
Total assets				
31 December 2020				
Segment assets	47,217,457	9,296,544	7,190,730	63,704,731
Unallocated assets				86,930,175
Sub-total				150,634,906
Total liabilities				
Segment liabilities	11,852,008	1,896,156	1,804,938	15,553,102
Unallocated liabilities				88,959,298
Sub-total				104,512,400
Supplemental information				
2020				
Depreciation and amortisation expenses	2,897,450	632,595	441,252	3,971,297
Capital expenditure	6,180,656	1,349,412	941,250	8,471,318
Asset impairment losses	(153,008)	(33,406)	(23,301)	(209,715)
Credit impairment loss	(315,991)	(68,990)	(48,122)	(433,103)

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Group Information

Geographic information

Revenue from external customers

	2021	2020
The PRC	78,066,467	68,051,181
Asia (excluding the PRC)	14,379,464	14,729,300
Africa	4,937,822	4,822,622
Europe, America and Oceania	17,137,888	13,847,567
	114,521,641	101,450,670

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	31 December 2021	31 December 2020
The PRC	22,993,371	23,868,451
Asia (excluding the PRC)	1,477,536	1,903,610
Africa	454,790	543,826
Europe, America and Oceania	445,927	113,328
	25,371,624	26,429,215

Non-current assets, excluding long-term receivables, factored long-term receivables, long-term equity investments, other non-current financial assets, deferred tax assets, goodwill and other non-current assets, are analysed by geographic locations where the assets are located.

Information of major customers

Operating revenue of RMB36,409,812,000 in 2021 was derived from Carriers' network and consumer business revenue from one major customer (2020: RMB31,153,932,000 from one major customer).

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

3. #Directors' and Supervisors' remuneration

section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Directors' and Supervisors' remuneration is as follows:	2021	2020
Other remuneration		
Other emoluments of Directors and Supervisors:		
Salaries, bonuses, allowances and welfare*	8,159	7,963
Retirement benefit scheme contributions	31,074	29,193
	220	163
	39,453	37,319

* Certain Executive Directors of the Company are entitled to bonus payments which are determined based on their work performance.

During the year, no remuneration was paid by the Group to the Directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2020: nil).

(a) Independent non-executive directors

Independent non-executive directors in office as at the end of the year:

	2021	2020
Cai Manli	250	250
Gordon Ng	250	250
Zhuang Jiansheng	250	132
	750	632

There were no other emoluments payable to the Independent Non-executive Directors during the year (2020: Nil).

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

3. #Directors' and Supervisors' remuneration (continued)

(b) Executive Directors, Non-executive Directors and Supervisors

Executive Directors, Non-executive Directors and Supervisors in office as at the end of the year:

	Director's fee	Salary, bonus, allowance and benefits	Performance-related bonus	Retirement benefit scheme contributions	Total	Share Incentive Scheme
2021						
Executive directors:						
Li Zixue	—	1,678	6,740	32	8,450	Note 2、Note 3 Note 1、
Xu Ziyang (President)	—	1,621	9,461	38	11,120	Note 2、Note 3
Gu Junying	—	1,496	7,260	54	8,810	Note 2、Note 3
	—	4,795	23,461	124	28,380	
Non-executive directors:						
Li Buqing	—	100	—	—	100	Note 2
Zhu Weimin	—	100	—	—	100	Note 2
Fang Rong	—	100	—	—	100	Note 2
	—	300	—	—	300	
Supervisors:						
Xie Daxiong	—	1,149	5,500	39	6,688	Note 3
Xia Xiaoyue	—	532	1,091	39	1,662	—
Li Quancai	—	633	1,022	18	1,673	—
Shang Xiaofeng	—	—	—	—	—	—
Zhang Sufang	—	—	—	—	—	—
	—	2,314	7,613	96	10,023	—
	—	7,409	31,074	220	38,703	—
2020						
Executive directors:						
Li Zixue	—	1,652	6,817	32	8,501	Note 2、Note 3 Note 1、
Xu Ziyang (President)	—	1,609	9,570	3	11,182	Note 2、Note 3
Gu Junying	—	1,473	6,034	50	7,557	Note 2、Note 3
	—	4,734	22,421	85	27,240	
Non-executive directors:						
Li Buqing	—	100	—	—	100	Note 2
Zhu Weimin	—	100	—	—	100	Note 2
Fang Rong	—	100	—	—	100	Note 2
	—	300	—	—	300	
Supervisors:						
Xie Daxiong	—	1,124	4,842	26	5,992	Note 3
Xia Xiaoyue	—	491	847	26	1,364	—
Li Quancai	—	564	1,083	26	1,673	—
Shang Xiaofeng	—	—	—	—	—	—
Zhang Sufang	—	—	—	—	—	—
	—	2,179	6,772	78	9,029	—
	—	7,213	29,193	163	36,569	—

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

3. #Directors' and Supervisors' remuneration (continued)

(b) Executive Directors, Non-executive Directors and Supervisors (continued)

Note 1 : As at the end of this year, Mr. Xu Ziyang, Executive director, holds 84,000 share options under the 2017 Share Option Incentive Scheme of the Company. The fair value of the share options granted under the 2017 Share Option Incentive Scheme amounted to RMB1,477,496,000, and the share option expense recognised by the Company in 2021 amounted to RMB47,171,000 (2020: RMB191,790,000), among which the share option expense related to executive directors amounted to approximately RMB116,000 (2019: RMB232,000).

Note 2 : As at the end of this year, Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying, who are Executive directors of the Company, hold 180,000 share options under the First Granted under the 2020 Share Option Incentive Scheme of the Company respectively; Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong, who are Non-executive directors of the Company, hold 50,000 share options under the First Granted under the 2020 Share Option Incentive Scheme of the Company respectively. The fair value of the share options granted under the First Granted under the 2020 Share Option Incentive Scheme amounted to RMB1,444,549,000, and the share option expense recognised by the Company in 2021 amounted to RMB746,653,000 (2020: RMB128,336,000), among which the share option expense related to executive directors and non-executive directors amounted to approximately RMB3,366,000 (2020: RMB611,000).

Note 3 : As at the end of this year, Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying, who are Executive directors of the Company, and Mr. Xie Daxiong, Supervisor of the Company, subscribe for 12,000,000 units, 12,000,000 units, 9,000,000 units and 3,026,000 units under the 2020 Management Stock Ownership Scheme of the Company. The share expense recognized by the Company in 2021 amounted to RMB71,147,000 (2020: RMB3,049,000), among which share expense related to executive directors and supervisors amounted to approximately RMB22,340 (2020: RMB957,000).

Details for the aforesaid matters included the 2017 Share Option Incentive Scheme, 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership Scheme, please refer to Note XI. 2 and 3.

4. #Five Highest Paid Employees

The five highest paid employees during the year included one executive directors (2020: two), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021	2020
Other emoluments of Directors and Supervisors:	6,613	6,907
Salaries, bonuses, allowances and welfare	45,035	38,689
Retirement benefit scheme contributions	194	112
	51,842	45,708

Remuneration of the aforesaid five employees did not include the share option expense or share expense recognized by the Company under the 2017 Share Option Incentive Scheme, 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership Scheme, which amounted to RMB27,636,000 (2020: RMB1,856,000).

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XIV. OTHER SIGNIFICANT MATTERS (continued)

4. #Five Highest Paid Employees (continued)

The number of non-director and non-supervisor highest paid employees whose remuneration (after personal income tax) fell within the following bands is as follows:

	2021	2020
RMB8,000,001-RMB8,500,000	—	2
RMB8,500,001-RMB9,000,000	1	—
RMB9,000,001-RMB9,500,000	—	—
RMB9,500,001-RMB10,000,000	1	1
RMB10,000,001-RMB10,500,000	—	—
RMB10,500,001-RMB11,000,000	2	—
	4	3

During the year, no Director or Supervisor waived or agreed to waive any remuneration, and no remuneration was paid by the Group to the Directors or Supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

5. # Net current assets/(liabilities)

	31 December 2021 Group	31 December 2020 Group	31 December 2021 Company	31 December 2020 Company
Current assets	127,871,085	106,977,275	107,161,255	112,656,042
Less: current liabilities	78,685,256	74,394,975	80,474,462	98,071,551
Net current assets/ (liabilities)	49,185,829	32,582,300	26,686,793	14,584,491

6. # Total assets less current liabilities

	31 December 2021 Group	31 December 2020 Group	31 December 2021 Company	31 December 2020 Company
Total assets	168,763,425	150,634,906	148,700,059	152,675,237
Less: current liabilities	78,685,256	74,394,975	80,474,462	98,071,551
Total assets less current liabilities	90,078,169	76,239,931	68,225,597	54,603,686

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

The aging analysis of trade receivables is set out as follows:

	31 December 2021		31 December 2020	
Within 1 year	15,015,331		12,342,423	
1–2 years	2,110,408		2,519,343	
2–3 years	1,104,192		1,837,180	
Over 3 years	8,906,033		11,273,053	
	27,135,964		27,971,999	
Less: bad debt provision for trade receivables	6,165,477		8,192,867	
	20,970,487		19,779,132	

	31 December 2021				31 December 2020			
	Book balance		Expected credit loss for the entire subsisting period		Book balance		Expected credit loss for the entire subsisting period	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	1,905,415	7	1,905,415	100	3,737,658	13	3,737,658	100
For which bad debt provision has been collectively made								
0–6 months	12,585,587	46	154,720	1	9,221,426	34	129,412	1
6–12 months	1,774,953	6	53,205	3	2,340,710	8	71,040	3
12–18 months	1,344,145	5	93,285	7	1,507,580	5	124,598	8
18–24 months	702,067	3	27,757	4	808,692	3	93,918	12
2–3 years	979,226	4	266,225	27	1,517,661	5	484,827	32
Over 3 years	7,844,571	29	3,664,870	47	8,838,272	32	3,551,414	40
	25,230,549	93	4,260,062	17	24,234,341	87	4,455,209	18
	27,135,964	100	6,165,477	23	27,971,999	100	8,192,867	29

Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision/reversal for the year	Write off for the year	Effect of exchange rate movement	Closing balance
31 December 2021	8,192,867	24,190	(1,914,186)	(137,394)	6,165,447
31 December 2020	10,974,675	(319,383)	(2,462,425)	—	8,192,867

As at 31 December 2021, RMB176,984,000 (2020: RMB118,758,000) was reversed and RMB1,593,497,000 (31 December 2020: RMB2,048,437,000) was written off in respect of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately.

Transfer of trade receivables that did not qualify for derecognition was separately classified as “Factored trade receivables” and “Bank advances on factored trade receivables”.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

2. Other receivables

	31 December 2021	31 December 2020
Interest receivable	266,150	62,806
Dividend receivable	1,056,533	1,752,847
Other receivables	27,449,570	38,456,207
	28,772,253	40,271,860

Other receivables

The aging analysis of other receivables:

	31 December 2021	31 December 2020
Within 1 year	21,449,993	30,724,995
1-2 years	2,201,432	3,442,527
2-3 years	2,767,257	2,850,118
Over 3 years	1,040,327	1,457,698
	27,459,009	38,475,338
Bad debt provision	(9,439)	(19,131)
Total	27,449,570	38,456,207

Other receivables are analysed as follows:

	31 December 2021	31 December 2020
Staff loans	50,680	282,353
Transactions with third parties	27,398,890	38,173,854
Total	27,449,570	38,456,207

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

3. Long-term trade receivables

	31 December 2021	31 December 2020
Loans granted to subsidiaries (Note 1)	4,045,099	4,073,135
Installment payments for the provision of telecommunication system construction projects	2,176,930	2,393,718
Less: Bad debt provision for long-term receivables	21,846	27,841
	6,200,183	6,439,012

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the year are as follows:

	Opening balance	Provision/ (reversal) for the year	Closing balance
31 December 2021	27,841	(5,995)	21,846
31 December 2020	29,594	(1,753)	27,841

The interest rate of long-term trade receivables ranged from 4.50%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as “Factored long-term trade receivables” and “Bank advances on factored long-term trade receivables”.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments

		31 December 2021	31 December 2020
Equity method			
Joint Ventures	(1)	440,481	158,022
Associates	(2)	895,369	1,155,088
Less: Provision for impairment in long-term equity Investments		—	7,241
		1,335,850	1,305,869
Cost method			
Subsidiaries	(3)	16,007,470	12,571,262
Less: Provision for impairment in long-term equity investments	(4)	385,757	401,859
		15,621,713	12,169,403
		16,957,563	13,475,272

31 December 2021

(1) Joint Ventures

	Movements during the year								Closing book balance	Impairment provision at the end of the year
	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses undue equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision		
Puxing Mobile Tech Company Limited	31,343	—	—	(20,591)	—	—	—	—	10,752	—
德特賽維技術有限公司 Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	26,768	—	—	1,759	—	—	—	—	28,527	—
	99,911	300,000	—	1,291	—	—	—	—	401,202	—
	158,022	300,000	—	(17,541)	—	—	—	—	440,481	—

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2021 (continued)

(2) Associates

	Movements during the year										
										Closing book balance	Impairment provision at the end of the year
	Opening book balance	Investment gains/losses			Allowance for						
		Increase of investment	Decrease of investment	undue equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	provision	Other		
KAZNURTEL Limited Liability Company*	—	—	(2,477)	—	—	—	—	2,477	—	—	—
ZTE Energy Limited*	447,009	—	(486,198)	48,377	—	—	(9,188)	—	—	—	—
ZTE Software Technology (Nanchang) Company Limited*	—	—	—	—	—	—	—	—	—	—	—
北京億科三友科技發展有限公司*	—	—	(4,764)	—	—	—	—	4,764	—	—	—
上海中興思秸通訊有限公司*	—	—	—	—	—	—	—	—	—	—	—
中興耀維科技江蘇有限公司	1,492	—	—	(1,062)	—	—	—	—	—	430	—
廣東中城信息技術有限公司	4,687	—	—	—	—	—	—	—	—	4,687	—
上海博色信息技術有限公司	4,137	—	—	(1,342)	—	(4)	—	—	—	2,791	—
南京寧網科技有限公	3,811	—	—	(159)	—	—	—	—	—	3,652	—
Whale Cloud Technology Co., Ltd.	652,476	—	—	49,707	—	—	—	—	—	702,183	—
Shijiazhuang Smart Industries Company Limited	16,172	—	—	(8,343)	—	—	—	—	—	7,829	—
Zhongxing Feiliu Information Technology Company Limited	18,063	—	—	(1,208)	—	—	—	—	—	16,855	—
Xingyun Times Technology Company Limited	—	133,514	—	(1,820)	—	—	—	—	—	131,694	—
ZTE (Wenzhou) Railway Communication Technology Limited	—	21,047	—	4,201	—	—	—	—	—	25,248	—
	1,147,847	154,561	(493,439)	88,351	—	(4)	(9,188)	7,241	—	895,369	—

* KAZNURTEL Limited Liability Company, ZTE Energy Company Limited (renamed Zonergy Corporation as from 2 November 2021), ZTE Software Technology (Nanchang) Company Limited, 北京億科三友科技發展有限公司 and 上海中興思結通訊有限公司 were no longer accounted for as associates for the year owing to the loss of significant influence full disposal of equity interests held in these companies.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2021 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	—	263,293	100.0%	100.0%	1,410,000
Shanghai ZXELINK Co., Ltd.	37,382	37,382	—	37,382	90.0%	90.0%	—
ZTE Kangxun Telecom Company Limited	580,000	580,000	—	580,000	100.0%	100.0%	—
ZTE Microelectronics Technology Company Limited	2,702,784	91,957	2,610,827	2,702,784	87.22%	87.22%	—
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	—	179,767	90.0%	90.0%	7,200
ZTE Integration Telecom Limited	41,250	41,250	—	41,250	75%	75%	—
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	—	40,500	83.0%	83.0%	4,565
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	—	13,110	90.0%	90.0%	—
深圳市興意達通訊技術有限公司	5,000	5,000	—	5,000	100.0%	100.0%	46,000
Xi'an Zhongxing New Software Company Limited	600,000	600,000	—	600,000	100.0%	100.0%	650,000
ZTE ICT Company Limited	157,019	157,019	—	157,019	90.0%	90.0%	—
中興國通通訊裝備技術(北京)有限公司	22,160	22,160	—	22,160	100.0%	100.0%	—
PT. ZTE Indonesia	—	15,275	(15,275)	—	***	—	—
ZTE Wistron Telecom AB (European research institute)	2,137	2,137	—	2,137	100.0%	100.0%	—
ZTE Holdings (Thailand) Co., Ltd****	10	10	—	10	49%	95.05%	—
ZTE (Thailand) Co., Ltd.*****	5,253	5,253	—	5,253	49%	49%	—
ZTE (USA) Inc.	190,133	190,133	—	190,133	100.0%	100.0%	—
ZTE Do Brasil LTDA	18,573	18,573	—	18,573	100.0%	100.0%	—
ZTE Romania S.R.L	827	827	(827)	—	***	—	—
ZTE Telecom India Private Ltd.	335,759	335,759	—	335,759	100.0%	100.0%	—
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	—	6,582	100.0%	100.0%	—
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	—	5,279	93.0%	93.0%	—
ZTE (H.K.) Limited	853,800	853,800	—	853,800	100.0%	100.0%	—
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	—	16,500	55.0%	55.0%	23,100
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100.0%	100.0%	—
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise (Limited Partnership)	—	—	—	—	—	**	10,800

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2021 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	750,000
深圳市百維技術有限公司	16,000	16,000	—	16,000	100.0%	100.0%	—
北京中興網捷科技有限公司	289,341	289,341	—	289,341	100.0%	100.0%	—
Caltta Technologies Co., Ltd.	—	42,750	(42,750)	—	***	—	—
Shenzhen Zhongxing Cloud Service Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—
Shenzhen Zhongxing SI Technology Company Limited	—	27,000	(27,000)	—	***	—	—
福建海絲路科技有限公司	47,500	47,500	—	47,500	95.0%	95.0%	—
Zhongxing New Energy Technology Automobile Company Limited	232,360	232,360	—	232,360	100.0%	100.0%	—
Xi'an ZTE Terminal Technology Company Limited	300,000	300,000	—	300,000	100.0%	100.0%	—
Zhongxing Health Technology Company Limited	15,000	15,000	—	15,000	50.0%	50.0%	—
Shenzhen Zhongxing Smart Valley Technology Company Limited	15,000	15,000	—	15,000	100.0%	100.0%	—
Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)	45,000	45,000	—	45,000	28.9%	**	6,400
中興捷維通訊技術有限責任公司	51,530	51,530	—	51,530	100.0%	100.0%	—
西安中興精誠科技有限公司	—	9,393	(9,393)	—	***	—	—
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	—	19,500	65.0%	65.0%	—
Changsha Zhongxing Smart Technologies Company Limited	350,000	350,000	—	350,000	100.0%	100.0%	—
Shenzhen Zhongxing Videocom Technologies Company Limited	31,400	31,400	—	31,400	44.0%	*	—
ZTE (Wenzhou) Railway Communication Technology Limited	—	25,500	(25,500)	—	***	—	—
Zhongxing (Shenyang) Financial Technology Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	—	2,000	100.0%	100.0%	—
ZTE Gaoneng Technology Company Limited	—	400,000	(400,000)	—	***	—	—
ZTE Smart Auto Company Limited	790,500	790,500	—	790,500	86.4%	86.4%	—
Zhongxing Opto-electronic Technology Company Limited	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	21,000	21,000	—	21,000	25.0%	**	78,000

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2021 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
ZTE Kela Technology (Suzhou) Co., Ltd.	48,661	41,650	7,011	48,661	100.0%	100.0%	—
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	—	49,000	100.0%	100.0%	—
ZTE (Xi'an) Co., Ltd.	500,000	500,000	—	500,000	100.0%	100.0%	—
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	52,270	52,270	—	52,270	100.0%	100.0%	—
Xi'an Zhongxing Electronic Technology Company Limited [*]	45,000	45,000	—	45,000	100.0%	100.0%	—
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	—	3,000	100.0%	100.0%	—
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	10,000	10,000	—	10,000	100.0%	100.0%	—
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
Nanjing Yingbo Super Computer Technology Company Limited	23,600	23,600	—	23,600	50.1%	50.1%	—
Nubia Technology Limited	1,124,402	1,124,402	—	1,124,402	78.33%	78.33%	—
深圳市仁興科技有限責任公司	720,000	720,000	—	720,000	100.0%	100.0%	—
Zhongxing Terminal Co., Ltd.	100,000	100,000	—	100,000	100.0%	100.0%	—
中興智能科技南京有限公司	1,000,000	—	1,000,000	1,000,000	100.0%	100.0%	—
Nanjing Zhongxing Zhiyuan Technology Company Limited,	100,000	—	100,000	100,000	100.0%	100.0%	—
Nanjing Chunjun Innovative Technology Company Limited	55,000	—	55,000	55,000	100.0%	100.0%	—
Jinzhuang Xinke Company Limited	83,759	—	83,759	83,759	70.66%	70.66 %	—
ZTE (Congo) Company Limited	356	—	356	356	100.0%	100.0%	—
Zhongxing (Chengdu) Intelligent Technology Company Limited	100,000	—	100,000	100,000	100.0%	100.0%	—
	12,571,262	3,436,208	16,007,470				2,986,065

* This subsidiary is a company with limited liability in which the Company had a shareholding of less than 50%. It is accounted for as a subsidiary mainly for the reason that the articles of association of this company stipulate that its board of directors should comprise 5 members, all of which shall be appointed by the Company. As board resolutions are approved by a majority vote of the directors, the Company is in a position to control the company.

** This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

*** The company was disposed of prior to 31 December 2021 and the Company has ceased to be in control of the company.

**** The articles of association of ZTE Holdings (Thailand) Co., Ltd provide that ZTE Corporation's shareholding percentage is different from its percentage of voting rights in the company.

***** The shareholding ratio of this company is less than 50%, but ZTE (Thailand) Holding Co., Ltd. (51%) can control this company, so the Company is in a position to control the company.

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2021 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
ZTE DoBrasil LT DA	18,572	—	18,572
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (European research institute)	2,030	—	2,030
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE(Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	335,759	—	335,759
ZTE Romania S.R.L	827	(827)	—
PT ZTE Indonesia	15,275	(15,275)	—
ZTE-Communication Technologies, Ltd. (Russia)	6,582	—	6,582
	401,859	(16,102)	385,757

31 December 2020

(1) Joint Ventures

	Movements during the year									
	Opening balance	Closing book balance	Impairment provision at the end of the year	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision
Puxing Mobile Tech Company Limited	45,706	—	—	(14,363)	—	—	—	—	31,343	—
德特賽維技術有限公 司	21,809	—	—	4,959	—	—	—	—	26,768	—
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	—	100,000	—	(89)	—	—	—	—	99,911	—
	67,515	100,000	—	(9,493)	—	—	—	—	158,022	—

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(2) Associates

	Movements during the year										
	Opening balance	Increase of investment	Decrease of investment	Investment	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance	Others	Closing book balance	Impairment
				gains/ losses under equity method				for impairment provision			provision at the end of the year
KAZNURTEL Limited Liability Company	—	—	—	—	—	—	—	—	—	—	(2,477)
ZTE Software Technology (Nanchang) Company Limited	3,763	—	—	(3,763)	—	—	—	—	—	—	—
ZTE Energy Limited	426,768	—	—	25,264	—	—	(5,023)	—	—	447,009	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	1,324	—	—	(1,324)	—	—	—	—	—	—	—
北京億科三友科技發展有限公司	—	—	—	—	—	—	—	—	—	—	(4,764)
上海中興思枯通訊有限公司	2,181	—	—	(2,181)	—	—	—	—	—	—	—
中興江蘇耀維科技	2,862	—	—	(1,370)	—	—	—	—	—	1,492	—
廣東中城信息技術有限公司	4,862	—	—	(175)	—	—	—	—	—	4,687	—
上海博色信息科技有限公司	26,782	—	(20,700)	(1,945)	—	—	—	—	—	4,137	—
南京寧網科技有限公司	2,860	—	—	951	—	—	—	—	—	3,811	—
Nubia Technology Limited	665,048	553,700	—	(94,347)	—	—	—	—	(1,124,401)	—	—
Whale Cloud Technology Co., Ltd.	679,373	—	—	(301,363)	—	274,466	—	—	—	652,476	—
Shijiazhuang Smart Industries Company Limited	32,080	—	—	(15,908)	—	—	—	—	—	16,172	—
Zhongxing Feiliu Information Technology Company Limited	20,849	—	—	(2,786)	—	—	—	—	—	18,063	—
	1,868,752	553,700	(20,700)	(398,947)	—	274,466	(5,023)	—	(1,124,401)	1,147,847	(7,241)

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	—	263,293	100.0%	100.0%	1,060,000
Shanghai ZXELINK Co., Ltd	37,382	37,382	—	37,382	90.0%	90.0%	—
ZTE Kangxun Telecom Company Limited	580,000	580,000	—	580,000	100.0%	100.0%	—
ZTE Microelectronics Technology Company Limited	91,957	91,957	—	91,957	68.4%	68.4%	—
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	—	179,767	90.0%	90.0%	5,400
ZTE Integration Telecom Limited	41,250	41,250	—	41,250	75.0%	75.0%	—
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	—	40,500	83.0%	83.0%	—
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	—	13,110	90.0%	90.0%	—
深圳市興意達通訊技術有限公司	5,000	5,000	—	5,000	100.0%	100.0%	—
Xi'an Zhongxing New Software Company Limited	600,000	600,000	—	600,000	100.0%	100.0%	500,000
ZTE ICT Company Limited	157,019	157,019	—	157,019	90.0%	90.0%	—
中興國通通訊裝備技術(北京)有限公司	22,160	22,160	—	22,160	100.0%	100.0%	—
Shenzhen Guoxin Electronics Development Company Limited	—	29,700	(29,700)	—	***	—	—
PT. ZTE Indonesia	15,275	15,275	—	15,275	100.0%	100.0%	—
ZTE Wistron Telecom AB (European research institute)	2,137	2,137	—	2,137	100.0%	100.0%	—
ZTE Holdings (Thailand) Co., Ltd	10	10	—	10	49.0%	95.05%	—
ZTE (Thailand) Co., Ltd.	5,253	5,253	—	5,253	49.0%	49.0%	—
ZTE (USA) Inc.	190,133	190,133	—	190,133	100.0%	100.0%	—
ZTE Corporation Mexico S.DER.LDEC.V.	—	42	(42)	—	***	—	—
ZTE Do Brasil LTDA	18,573	18,573	—	18,573	100.0%	100.0%	—
ZTE Romania S.R.L	827	827	—	827	100.0%	100.0%	—
ZTE Telecom India Private Ltd.	335,759	335,759	—	335,759	100.0%	100.0%	—
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	—	6,582	100.0%	100.0%	—
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	—	5,279	93.0%	93.0%	—

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
ZTE (H.K.) Limited	853,800	853,800	—	853,800	100.0%	100.0%	—
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	—	16,500	55.0%	55.0%	41,250
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100.0%	100.0%	—
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	—	—	—	—	—	**	19,200
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
深圳市百維技術有限公司	16,000	16,000	—	16,000	100.0%	100.0%	—
北京中興網捷科技有限公司	289,341	289,341	—	289,341	100.0%	100.0%	—
Caltta Technologies Co., Ltd.	42,750	42,750	—	42,750	90.0%	90.0%	—
Shenzhen Zhongxing Cloud Service Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—
Shenzhen Zhongxing SI Technology Company Limited	27,000	30,000	(3,000)	27,000	90.0%	90.0%	—
福建海絲路科技有限公司	47,500	47,500	—	47,500	95.0%	95.0%	—
Zhongxing New Energy Automobile Company Limited	232,360	232,360	—	232,360	100.0%	100.0%	—
Xi'an ZTE Terminal Technology Company Limited	300,000	300,000	—	300,000	100.0%	100.0%	—
Zhongxing Health Technology Company Limited	15,000	15,000	—	15,000	50.0%	50.0%	—
Shenzhen Zhongxing Smart Valley Technology Company Limited	15,000	15,000	—	15,000	100.0%	100.0%	—
Jiaxing Xinghe Equity Investment Partnership	45,000	56,800	(11,800)	45,000	28.9%	**	18,400
中興捷維通訊技術有限公司	51,530	51,530	—	51,530	100.0%	100.0%	—
西安中興精誠科技有限公司	9,393	9,393	—	9,393	100.0%	100.0%	—
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	—	19,500	65.0%	65.0%	—
Changsha Zhongxing Smart Technologies Company Limited	350,000	350,000	—	350,000	100.0%	100.0%	—
Shenzhen Zhongxing Videocom Technologies Company Limited	31,400	35,400	(4,000)	31,400	44.0%	*	—
ZTE (Wenzhou) Railway Communication Technology Limited	25,500	25,500	—	25,500	51.0%	51.0%	5,400
Zhongxing (Shenyang) Financial Technology Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	—	2,000	100.0%	100.0%	—
ZTE Gaoneng Technology Company Limited	400,000	400,000	—	400,000	100.0%	100.0%	—
ZTE Smart Auto Company Limited	790,500	790,500	—	790,500	86.4%	86.4%	—
Zhongxing Opto-electronic Technology Company Limited	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	21,000	120,000	(99,000)	21,000	25.0%	**	36,000
Shenzhen Zhongrui Detection Technology Co., Ltd.	—	10,000	(10,000)	—	—	—	—
ZTE Kela Technology (Suzhou) Co., Ltd.	41,650	44,100	(2,450)	41,650	85.0%	85.0%	—
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	—	49,000	100.0%	100.0%	—
ZTE (Xi'an) Co., Ltd.	500,000	500,000	—	500,000	100.0%	100.0%	—
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	52,270	36,000	16,270	52,270	100.0%	100.0%	—
Xi'an Zhongxing Electronic Technology Company Limited*	45,000	45,000	—	45,000	100.0%	100.0%	—
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	—	3,000	100.0%	100.0%	—
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	10,000	10,000	—	10,000	100.0%	100.0%	—
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	400,000
Nanjing Yingbo Super Computer Technology Company Limited	23,600	13,000	10,600	23,600	56.4%	56.4%	—
Nubia Technology Limited	1,124,402	—	1,124,402	1,124,402	78.3%	78.3%	—
深圳市仁興科技有限責任公司	720,000	—	720,000	720,000	100%	100%	—
Zhongxing Terminal Co., Ltd.	100,000	—	100,000	100,000	100%	100%	—
	10,759,982	1,811,280	12,571,262				2,085,650

* This subsidiary is a company with limited liability in which the Company had a shareholding of less than 50%. It was accounted for as a subsidiary mainly owing to the fact that the board of directors of such subsidiary comprises 5 members in accordance with its articles of association and all of them were nominated by the Company. As board resolutions are passed by a majority vote of the directors, the Company was in a position to exercise control over this subsidiary.

** This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

*** The Company has ceased to exercise control over this company following its disposal in 2020.

Notes to Financial Statements

31 December 2021
 (Prepared under PRC ABSEs)
 (English translation for reference only)
 RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	(23,767)	—
ZTE DoBrasil LT DA	18,572	—	18,572
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (European research institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	(41)	—
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE(Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	335,759	—	335,759
ZTE Romania S.R.L	827	—	827
PT ZTE Indonesia	15,275	—	15,275
ZTE-Communication Technologies Ltd. (Russia)	6,582	—	6,582
	425,667	(23,808)	401,859

5. Operating revenue and costs

	2021		2020	
	Revenue	Cost	Revenue	Cost
Principal operations	96,590,434	90,225,835	81,181,914	80,626,523
Other businesses	13,878,631	395,208	12,965,366	420,762
	110,469,065	90,621,043	94,147,280	81,047,285

Notes to Financial Statements

31 December 2021
(Prepared under PRC ABSEs)
(English translation for reference only)
RMB'000

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

6. Investment income

	2021	2020
Investment gain/loss from long-term equity investment under equity method	70,810	(408,440)
Investment income from long-term equity investment under cost method	2,986,065	2,085,650
Investment gain earned during the period of holding financial assets at fair value through profit or loss for the period	16,949	14,894
Investment income from the disposal of long-term equity investment	1,037,421	501,713
Investment gain/loss from disposal of derivative investments	125,375	(62,747)
Loss on derecognition of financial assets at amortised cost	(96,182)	(65,131)
	4,140,438	2,065,939

7. Gain from asset disposal

	2021	2020
Gain from disposal of fixed assets	74,479	—
Gain from disposal of intangible assets	157,265	—
	231,744	—

Supplementary Information to Financial Statements

Year ended 31 December 2021
(English translation for reference only)

RMB'000

1 BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	2021
Gain from the disposal of non-current assets	231,744
Investment gain from the disposal of long-term equity investments	1,251,651
Gain / loss from fair-value change arising from derivative financial assets and derivative financial liabilities held and investment gain from disposal of derivative financial assets and derivative financial liabilities, other than effective value protection hedges relating to the Company's ordinary course of business (Note 2)	53,913
Reversal of impairment provision for individually tested receivables	295,016
Gain/loss from change in fair value of investment properties	(2,569)
Other income (other than software VAT refund and refund of tax handing fees)	681,657
Net amount of other non-operating income and expenses and others other than the above	(177,179)
Other profit or loss items meeting the criteria for extraordinary profit or loss	1,781,401
	4,115,634
Effect of income tax	(617,345)
Effect of non-controlling interests (net of tax)	8,755
	3,507,044

Note 1: The Group recognises extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	2021	Reason
Refund of VAT on software products	1,238,142	In compliance with national policies and occurring on an ongoing basis
Return of tax refund fee	21,600	In compliance with national policies and occurring on an ongoing basis
Gain from disposal of equity interests and gain/loss from fair-value change in ZTE Capital	1,169,784	Business within the scope of operation

Note 2: The Company has entered into a series of forward exchange contracts. Subject to compliance with conditions for hedge accounting, the Company has elected not to apply hedge accounting. The gain/loss of hedging instruments was included in recurring gain/loss to the extent of the exchange gain/loss of the hedged items. Gain/loss arising from hedge items for the year amounted to RMB371,632,000.

Supplementary Information to Financial Statements

Year ended 31 December 2021
(English translation for reference only)

2 RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

31 December 2021

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	14.49%	RMB1.47	RMB1.47
Net profit after extraordinary items attributable to ordinary shareholders of the Company	7.03%	RMB0.71	RMB0.71

31 December 2020

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	10.18%	RMB0.92	RMB0.92
Net profit after extraordinary items attributable to ordinary shareholders of the Company	2.47%	RMB0.22	RMB0.22

3 RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs for the year.

Documents Available for Inspection

- (I) Text of the 2021 annual report signed by the Chairman of the Board of Directors;
- (II) Original copies of the Group's audited financial reports and consolidated financial statements for the year ended 31 December 2021 duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;
- (III) Original copy of the auditors' report affixed with seal of the accountants' firm and duly signed under the hand and seal of the certified public accountants;
- (IV) Original copies of all of the Company's documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News and posted on <http://www.cninfo.com.cn> during the year; and
- (V) Articles of Association.

By order of the Board
Li Zixue
Chairman

9 March 2022

