ZTE 中兴通讯股份有限公司

ZTE CORPORATION

stock code : 000063.SZ 763.HK

Interim Report 2019

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 accept individual and collective legal responsibility.

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

This report has been considered and approved at the Eighth Meeting of the Eighth Session of the Board of Directors of the Company. Mr. Gu Junying, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Li Zixue, Chairman, to vote on his behalf. Mr. Zhu Weimin, Director, was unable to attend the Meeting due to work reasons and has authorised Ms. Fang Rong, Director, to vote on his behalf.

The interim financial reports of the Group for the six months ended 30 June 2019 were unaudited.

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

No profit distribution will be implemented in respect of the interim period of 2019.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors should beware of investment risks. The attention of investors is drawn to the potential risks inherent in the operations of the Company described in the section headed "Report of the Board of Directors (VI) Business outlook for the second half of 2019 and risk exposures" in this report.

This report has been prepared in Chinese and English respectively. In case of discrepancy in the interpretation of this report, the Chinese version shall prevail, except for the financial statements prepared in accordance with Hong Kong Finance Reporting Standards, of which the English version shall prevail.

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

Contents

Definitions

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

Company or ZTE	ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
Articles of Association	The Articles of Association of ZTE Corporation
Company Law	Company Law of the People's Republic of China
Securities Law	Securities Law of the People's Republic of China
Group	ZTE and one or more of its subsidiaries
Board of Directors	The board of directors of the Company
Directors	Members of the board of directors of the Company
Supervisory Committee	The supervisory committee of the Company
Supervisors	Members of the supervisory committee of the Company
China or PRC	The People's Republic of China
MOF	PRC Ministry of Finance
CSRC	China Securities Regulatory Commission
Shenzhen CSRC	The CSRC Shenzhen Bureau
Shenzhen Stock Exchange	The Shenzhen Stock Exchange
Shenzhen Listing Rules	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
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
Great Power	Guangzhou Great Power Energy & Technology Co., Ltd.
Eoptolink	Eoptolink Technology Inc., Ltd.
Giga Device	Giga Device Semiconductor (Beijing) Inc.

Laimu	Shanghai Laimu Electronics Co., Ltd.
Olympic Circuit Technology	Olympic Circuit Technology Co., Ltd.
Mentech Optical	Dongguan Mentech Optical & Magnetic Co., Ltd
Lianchuang Electronic	Lianchuang Electronic Technology Co., Ltd.
Union Optech	Union Optech Co., Ltd.
Shijia Science & Technology	Suzhou Shijia Science & Technology Inc.
Beken	Beken Corporation
Enablence Technologies	Enablence Technologies Inc.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund I	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership)
Jiaxing Fund	Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)
Zhonghe Chunsheng Fund III	Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership)
Zhongxingxin	Zhongxingxin Telecom Company Limited
Zhongxing Hetai	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
航天歐華	深圳市航天歐華科技發展有限責任公司
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 Group Finance	ZTE Group Finance Co., Ltd.
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

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.

4G	Fourth-generation mobile networks operating according to IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, which support theoretical download rates of 1Gbit/s at fixed locations and 100Mbit/s in motion.
4K	A video device having a resolution of 3840*2160, which is 4 times the resolution of a 2K video.
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.
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.
IaaS	Infrastructure as a Service, the service that makes available the capacities of IT infrastructures (such as servers, storage and computation) to users through the Internet, the billing of which is based on the actual usage of such resources by the users.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
IDC	Internet Data Center, the venue where server groups of hosting corporations, tenants or websites are managed; it is the infrastructure facility underpinning the secure operation of various types of e-commerce activities, as well as a platform that supports value chain management by a corporation and its business alliance (such as distributors, suppliers and customers). IDC provides ICPs, corporations, media and websites with large-scale specialised server management service, space leasing, network bandwidth wholesale, as well as ASP and EC services which are safe and reliable and of high quality.
IPTV	Internet Protocol Television is a new technology that utilises the broadband cable TV network and integrates Internet access, multimedia and communications in one device, providing a variety of interactive services, such as digital TV, to home users.
LoRa	A communication technology to create low-power WANs for IOT applications, which is an ultra-long distance wireless transmission solution based on frequency expansion adopted and promoted by Semtech of the United States. Featuring long-distance transmission, long battery life, large capacity and low cost, it is applicable mainly to license-free frequency bands.
LTE	Long Term Evolution, referring to fourth-generation mobile communication technologies with OFDM as its core technology, promoted by 3GPP and under continuous evolution. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division. The mixed operation of FDD-LTE and TDD-LTE is supported. In terms of networking, its supports homogeneous networks formed by macro base stations as well as heterogeneous networks formed by macro base stations and micro base stations.
NB-IoT	Narrow Band Internet of Things, a 3GPP-defined LPWAN standard applicable to 3GPP licensed frequency bands specifically designed for IOT connection. It mainly features: 1) connection by massive number of users; 2) substantially stronger coverage compared to traditional cellular network; 3) low power consumption; 4) simplified and optimised radio frequency that reduces cost for end-users.

NFV	Network Function Virtualisation, a solution for the construction of telecommunication network units using common servers and storage and network equipment promoted by NFV ISG, a group set up by the European Telecommunications Standards Institute (ETSI) in November 2012. NFV is generally perceived as consisting of three stages: first, implementation of network units through virtualisation technologies; second, deployment on cloud to realise centralisation and cloud-based operation; third, the breakdown of NFV network units into components by function, so that flexible network unit functions are facilitated through different configurations of components.
OTN	Optical Transport Network, a transmission network formed at the optical layer based on the wavelength-division multiplexing technology. OTN is a "digital transmission system" and "optical transmission system" regulated by a range of ITU-T recommendations such as G.872, G.709 and G.798, purporting to solve the problems of traditional WDM networks, such as poor modulation in the no-wavelength/sub-wavelength services, weak network formation and weak protection.
PaaS	Platform as a Service, the provision of services relating to the deployment of and operating environment for software based on cloud computing infrastructure facilities. It is capable of supplying resources required for flexible execution of application procedures and billing is based on actual usage.
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. PON can be distinguished into FTTH, FTTDp, FTTB and FTTC, etc based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON, etc based on different standards.
Pre-5G	The adoption of the 5G technology without modifying existing air interfaces standards, providing in advance a 5G-like user experience on existing terminals.
PTN	Packet Transport Network, a network commonly using the MPLS-TP technology, designed to cater to the sudden nature of packet flow and the requirement for statistical multiplexing transmission and support multiple services provision with packet services as core services. PTN offers the advantage of lower total cost of use, while inheriting the traditional strengths of optical transmission, such as availability and reliability, efficient bandwidth management and flow, convenient OAM and network management, scalability and higher security.
RCS	Rich Communication Suite, which helps carriers to develop the integrated ICT communications network business with the database of users' social connections, leveraging carriers' strengths in network communications. By enabling manufacturers and corporations on the Internet to cooperate through integrated communication, RCS integrates existing VoIP and IM channels into an integrated communications network and accumulates assets relating to users' information, thereby adding value to data flow on the Mobile Internet.
SaaS	Software as a Service, an application model for the provision of Internet-based software services that offers commercial services to users at lower costs and eliminates problems of installation, management, support and license, etc relating to the use of software, enabling users to experience services similar to those provided through local operations.
SDN	Software Defined Network is a new network structure that transforms a closed-end telecommunication equipment accommodating hardware and software into a novel architecture that features central control, open access and programmable software by separating the control face and the data face.
WDM	Wavelength Division Multiplexing, a technology that transmits a number of laser signals with different wavelengths simultaneously on a single optical fiber using multiple lasers, resulting in the exponential increase of the transmission capacity of optical fiber.

Glossary

Big bandwidth	Higher bandwidth requirements for networks to facilitate Big Video, such as 50M bandwidth required by standard 4K, such that carriers are required to provide greater bandwidth to video users as compared to traditional video services.
Big Data	A data set that is too large and complex to be processed by existing conventional database management technologies and tools, and that requires the use of new data processing and management technologies in order to create value from the set in a speedy and economic manner. It has revolutionary long-term implications for the development of informatisation, smart applications and business models of the society. Big Data is often characterised by 4Vs: Volume, Variety, Velocity and Value.
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.
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.
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.
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.
Data centre	An Internet-based infrastructure centre that operates and maintains equipment for centralised collection, storage, processing and dispatch of data, and provides related services.
IOT	Internet Of Things, a massive network connecting all sorts of information sensory devices, such as radio frequency identification units, ultra-red sensors, global positioning systems and laser scanners, to the Internet with the aim of connecting all things to the network for easy identification and management.
Virtual Reality or VR	A virtual 3D environment created with the aid of the computer system and sensor technologies, providing the visual experience of a highly simulated reality and immersive human-machine interaction by engaging all senses of users (sight, sound, touch and smell).
Cloud Computing	The concept underlining the fusion of traditional computing technologies such as grid computation and distributed computation with network technology development. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in business models such as SaaS, PaaS and IaaS.
Intelligent manufacturing	An integrated intelligent system comprising intelligent machines and human experts which is capable of intelligent activities such as analysing, inferring, making judgments, postulating and making decisions in the manufacturing process, such that manufacturing automation can reach a higher level in terms of flexibility, intelligence and intensification.
Augmented Reality or AR	A technology that superimposes virtual objects not existing in reality onto the real world through 3D registration and "aug-mediation", facilitating a natural interaction between virtual objects and the reality to create faked reality with real-time images, which are further projected to end-to-end technologies and devices of other media via monitoring devices.

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 Cao Wei Xu Yulong 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 Cao Wei
6.	Media designated for information disclosure by the Company Authorised websites on which this report is made available Place where this report is available for inspection	China Securities Journal, Securities Times, Shanghai Securities News http://www.cninfo.com.cn http://www.hkexnews.hk No. 55, Keji Road South, Shenzhen Guangdong Province The People's Republic of China
7.	Listing information	**A shares** Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 **H shares** Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763
8.	Change in other relevant information	☐ Applicable ✓N/A

Highlights of Accounting Data and Financial Indicators

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

PRC ASBEs

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

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

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

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

HKFRSs

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

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

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

(II) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP PREPARED IN ACCORDANCE WITH PRC ASBEs

Unit: RMB in thousands

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

Unit: RMB in thousands

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

Highlights of Accounting Data and Financial Indicators

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

Note 2: As the 2017 share options granted by the Company have given rise to 30,440,000 and 0 potentially dilutive ordinary share for the six months ended 30 June 2019 and the six months ended 30 June 2018, respectively, dilutive earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

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

Unit: RMB in thousands

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

(III) MAJOR FINANCIAL INDICATORS OF THE GROUP PREPARED IN ACCORDANCE WITH HKFRSs

Item	**Six months ended 30 June 2019**	Six months ended 30 June 2018
Basic earnings per share (RMB/share)[Note]	**0.35**	(1.87)
Weighted average return on net assets	**6.20%**	(29.71%)
Weighted average return on net assets after extraordinary items	**2.58%**	(9.03%)

Item	**30 June 2019**	31 December 2018
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	**5.85**	5.46

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

(IV) THE AMOUNTS OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE GROUP FOR THE SIX MONTHS ENDED AND AS AT 30 JUNE 2019 CALCULATED IN ACCORDANCE WITH PRC ASBEs ARE FULLY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

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 reporting period.

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

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

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

II. THE INDUSTRY IN WHICH WE OPERATE

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

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 "mobile smart interconnection of all things".

III. MAJOR ASSETS

There was no significant change in the major assets of the Group during the reporting period. For an analysis of the Group's assets and liabilities, please refer to the section headed "Report of the Board of Directors — (II) 7. Analysis of the Group's assets and liabilities" in this report.

Summary of the Company's Business

IV. TECHNOLOGICAL INNOVATION

The Group is equipped with the ability to provide a complete range of end-to-end 5G solutions and fully prepared for the commercialisation of wireless products, core networks, bearers, chips, terminals and industrial applications thanks to consistent investment in innovation over the years in line with its core 5G development strategy.

In connection with wireless products, the Group secured 25 5G commercial contracts around the world and commenced 5G cooperation with over 60 global carriers. In future, we will continue to increase our investment in the research and development of 5G, with a strong emphasis on proprietary research on core components and chips. In the second half of 2019, we will launch our third-generation proprietary 7nm 5G chips, featuring a GaN high power amplifier that tops the industry in performance. We are also an industry leader in the implementation of commercial Massive MIMO, a key 5G technology. More than 450 commercial and PoC cases have been established in connection with NFV. Our range of 5G AAU commercial products are capable of covering all frequencies and scenarios. Micro stations such as Pad AAU/BBU which occupy minimal space can be launched swiftly and conveniently to support coverage of hot spots and blind spots in network. The multi-frequency and multi-mode micro stations together with QCell products support indoor seamless coverage under variable conditions. IT-BBU supports 2G/3G/4G/5G and a range of networking models including CRAN and DRAN to provide support for multi-mode integration and long-term evolution. On the basis of 4G/5G dual-mode base stations, we have innovated the 5G NSA/SA dual mode, a base station that simultaneously supports 4G/5G dual mode and simultaneously supports 5G NSA & SA common mode, creating a hardware accommodating three network modes in support of long-term evolution for carriers through one-off construction. Our Common Core allows one integrated core network to simultaneously support 2G/3G/4G/5G and fixed access as well as 3GPP R15 SA and NSA, providing an expandable structure in one build-up that allows flexible addition of functions at an investment cost which is 40% less. At the MWC held in Shanghai in June 2019, the "ATG aerial broadband" of ZTE was honoured with the Best Inter-connected Life Mobile Application in Asia Award. Also in June 2019, ZTE's 5G network slicing commercial city solution, the first of its kind in the industry, received the "Network Slicing — Best Contribution Award" in the 5G World held in London. In February 2019, ZTE was named a "5G Core Leading Supplier" by OVUM.

In the 5G bearer segment, our 5G Flexhaul end-to-end product is ready for commercial launch, as large-scale deployment has started with the completion of more than 30 5G bearer commercial bureau and experiments on networks in operation. FlexE, network processors and the proprietary all-in-one chip support ultra-low time latency and boast significantly higher benchmarks than its peers in actual tests. Their ultra-HD synchronous technical indicator has reached "perfect synchronisation" under the 3GPP definition. Global Data, meanwhile, received the highest rating by the "Established Player". In the area of optical transmission, our multi-dimension reshaping technology and new-generation FEC have facilitated a 30% improvement in B100G transmission distance to significantly reduce the difficulty and upgrade costs for B100G deployment. In Thailand, we have deployed the world's first ultra-long distance wireless relay 200G OTN network. In fixed-line access, TITAN, our flagship product in optical access, leads the industry in capacity and the level of integration. Our first-of-its-kind Combo PON has effectively solved the problem of upgrade bottlenecks, while our uniquely invention of an embedded MEC has enabled the integration of the edge cloud and the access network, facilitating the Access CDN function in many provinces. PON OLT has twice received the National Science and Technology Progress Class II Award. In Big Video, the total capacity of our big video system has exceeded 100 million. Market share has been further increased on the back of the competitive edge of our integrated CDN products and our progress in commercialisation ahead of our peers. We have also launched a 5G video innovative scenario smart stadium solution which is expecting a full-scale commercial launch in important sporting events in the second half of the year.

In connection with the government and corporate business and the energy sector, our efforts were focused on the research and development of GoldenDB, a safe and reliable financial grade trading database, which represents the first down-shifting implementation of large-scale core business systems for joint-stock banks in China's financial sector. In early June, GoldenDB passed the "8th Testing Session for Big Data Products" for the accreditation of database capabilities in the distributed business organised by the China Academy of Information and Communications Technology ("CAICT") with full scores for 50 testing items, being the only manufacturer among all participants achieving this honour. As of now, applications for more than 100 patents relating to the GoldenDB database product have been made. The Group was committed to the creation of a "New Engine for the Finance Sector" in the database segment which would fuel the sector's development with power and energy. Our uSmartCloud data centre solution was serving more than 300 commercial bureaus in the world, providing business support to users on the back of its flexibility, versatility, efficiency and security. The Group has become the world's successful Chinese company in communication energy, as well as an integrated network energy solution provider with global servicing capabilities. In the communication energy sector, the Group has been ahead in market share for domestic carriers' inventory for 10 years in a row. It has also been a pioneer in green smart data centres in the data centre business and a leading supplier in charger modules. As at the end of the first half of 2019, the energy products of the Group served 386 carriers in over 160 countries and regions around the world and over 260 data centre clients.

In the video business, ZTE has pioneered in the proposition of ultra-video, ushering in a new era of the video business featuring extreme speed, definition and intelligence with the support of 5G and AI. The Group has integrated advanced intelligent video technologies, 5G technologies and artificial intelligence to introduce an innovative unmanned search application in Xiong An New Area. Our edge computing hardware platform received the "2018–2019 MEC Technology Innovation Award" at the 2019 MEC Technology and Industry Development Summit, fully indicating ZTE's innovative ability and leading position in video edge computing. At the MWC held in Shanghai in 2019, ZTE helped carriers to facilitate the launch of the world's first 4K ultra-HD video conferencing terminal with a built-in 5G module by a carrier.

In industrial 5G applications, the Group has built a premium network for users employing an SA/NSA + MEC + network slicing as its technical core to create five major platforms serving vertical industries, namely, the 5G cloud XR video industrial application platform, 5G robotic AI platform, 5G industrial application safety platform, 5G industrial IOT platform, and 5G high-definition integrated positioning platform. The Group has formed 5G+ solutions and successfully implemented more than 40 showcase projects in close to 20 sectors including Industrial Internet, Big Video, Internet of Vehicles, Integrated Media, energy, public security, medical care, education, ecological protection and transportation, among others. As a vice president unit of the 5G application block at CAICT, the Group also places a strong emphasis on the development of the industrial ecology. We have established strategic cooperation with more than 300 industry clients to team up in the planning of service applications, while reaching agreement with over 200 leading product suppliers in the industry to cooperate in the launch of 5G-based solutions for different sectors. In this connection, ZTE was honoured with the "5G Industrial Application Leadership Award" in the 5G innovative pioneer awards recently announced by People's Post and Telecommunications News.

As a member of the top-tier camp in global patent ownerships, the Group has been a key participant and contributor in the research of global 5G technologies and standards. As at 30 June 2019, the Group had applied for over 74,000 patented assets, including more than 36,000 patents with global franchise. We had more than 3,700 patents relating to 5G strategic deployment, while more than 1,400 initial disclosures for 3GPP (3rd generation partnership project) and 5G SEP (standard essential patents) and more than 8,000 propositions on 5G NR/NexGenCore international standards had been submitted to the ETSI (European Telecommunication Standard Institute). The Group holds memberships with more than 70 international standardisation organisations and forums, including the ITU (International Telecommunication Union), 3GPP (3rd Generation Partnership Project), ETSI, IEEE (Institute of Electrical and Electronics Engineers), NGMN (Next Generation Mobile Network) and CCSA (China Communications Standards Association), as well as convenorships and presenter roles at major international standardisation organisations through more than 30 experts among its staff.

Report of the Board of Directors

FINANCIAL RESULTS

Please refer to page 68 and page 216 of this report for the results of the Group for the six months ended 30 June 2019 prepared in accordance with PRC ASBEs and HKFRSs.

(I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2019

1. Overview of the domestic telecommunications industry for the first half of 2019

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

2. Overview of the global telecommunications industry for the first half of 2019

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

3. Operating results of the Group for the first half of 2019

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

(1) By market

The domestic market

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

The international market

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

(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 RMB32.485 billion, RMB4.700 billion and RMB7.424 billion, respectively.

Carriers' networks

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

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

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

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

Government and corporate business

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

Consumer business

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

Report of the Board of Directors

(II) DISCUSSION AND ANALYSIS OF OPERATIONS UNDER PRC ASBEs

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

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

Unit: RMB in thousands

Revenue mix	Operating revenue	As a percentage of operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
I. By industry							
Manufacturing of communication equipment	44,609,219	100%	27,119,296	39.21%	13.12%	(1.41%)	8.97
Total	**44,609,219**	**100%**	**27,119,296**	**39.21%**	**13.12%**	**(1.41%)**	**8.97**
II. By business							
Carriers' networks	32,485,158	72.82%	17,955,560	44.73%	38.19%	29.99%	3.49
Government and corporate business	4,700,031	10.54%	2,963,416	36.95%	6.02%	(6.36%)	8.33
Consumer business	7,424,030	16.64%	6,200,320	16.48%	(35.41%)	(41.12%)	8.10
Total	**44,609,219**	**100%**	**27,119,296**	**39.21%**	**13.12%**	**(1.41%)**	**8.97**
III. By region							
The PRC	27,421,729	61.47%	16,375,760	40.28%	6.51%	5.79%	0.41
Asia (excluding the PRC)	7,807,728	17.50%	4,521,661	42.09%	83.16%	48.02%	13.75
Africa	2,715,340	6.09%	1,513,173	44.27%	111.61%	82.11%	9.02
Europe, Americas and Oceania	6,664,422	14.94%	4,708,702	29.35%	(18.14%)	(42.17%)	29.36
Total	**44,609,219**	**100%**	**27,119,296**	**39.21%**	**13.12%**	**(1.41%)**	**8.97**

(1) Analysis of change in revenue

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

Analysed by business segment, the Group reported year-on-year growth in operating revenue for the first half of 2019, reflecting mainly growth in operating revenue from carriers' networks and government and corporate business. For the first half of 2019, the Group reported a 38.19% year-on-year growth in operating revenue from carriers' networks, reflecting mainly growth in operating revenue from FDD system equipment and optical transmission products in the domestic and international markets. For the first half of 2019, the Group reported a 6.02% year-on-year growth in operating revenue from government and corporate business, reflecting mainly growth in operating revenue from data centre products, optical transmission products and FDD system equipment in the international market.

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

Unit: RMB in thousands

Six months ended 30 June 2019			Six months ended 30 June 2018[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)
44,609,219	**27,119,296**	**39.21%**	38,816,051	27,209,823	29.90%	14.92%	(0.33%)	9.31

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

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

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

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

Unit: RMB in thousands

		Six months ended 30 June 2019		Six months ended 30 June 2018		
Industry	**Item**	**Amount**	**As a percentage of operating costs**	Amount	As a percentage of operating costs	Year-on-year increase/ decrease
Manufacturing of communication equipment	Raw materials	**19,859,301**	**73.23%**	21,799,073	79.25%	(8.90%)
	Engineering costs	**6,103,113**	**22.50%**	4,813,474	17.50%	26.79%
	Total	**25,962,414**	**95.73%**	26,612,547	96.75%	(2.44%)

Report of the Board of Directors

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

Unit: RMB in thousands

Item	**Six months ended 30 June 2019**	Six months ended 30 June 2018 (restated)	Year-on-year increase/ decrease
Selling and distribution expenses	**4,025,746**	4,729,622	(14.88%)
Administrative expenses	**2,538,508**	1,359,347	86.74% Note 1
Finance costs	**662,809**	84,013	688.94% Note 2
Income tax	**412,914**	(565,033)	173.08% Note 3

Note 1: Reflecting mainly the increase in legal costs and staff expenses of the Group for the period;

Note 2: Reflecting mainly the increase in interest expense in line with the increasing in financing of the Group for the period;

Note 3: Reflecting mainly deferred tax expenses deductible against loss recognised by the Company for the same period last year.

4. Research and development expense of the Group

Unit: RMB in thousands

Item	**Six months ended 30 June 2019**	Six months ended 30 June 2018	Year-on-year increase/decrease
Amount of R&D expense	**6,471,866**	5,060,624	27.89%
R&D expense as a percentage of operating revenue	**14.51%**	12.83%	Increased by 1.68 percentage points
Amount of capitalised R&D expense	**1,016,546**	969,809	4.82%
Capitalised R&D expense as a percentage of R&D expense	**15.71%**	19.16%	Decreased by 3.45 percentage points

5. Breakdown of the Group's cash flow

Unit: RMB in thousands

Item	**Six months ended 30 June 2019**	Six months ended 30 June 2018	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**49,563,207**	58,836,237	(15.76%)
Sub-total of cash outflows from operating activities	**48,296,590**	63,882,623	(24.40%)
Net cash flows from operating activities	**1,266,617**	(5,046,386)	125.10% Note 1
Sub-total of cash inflows from investing activities	**1,789,932**	1,935,449	(7.52%)
Sub-total of cash outflows from investing activities	**6,657,961**	3,086,793	115.69%
Net cash flows from investing activities	**(4,868,029)**	(1,151,344)	(322.81%) Note 2
Sub-total of cash inflows from financing activities	**23,807,769**	11,429,798	108.30%
Sub-total of cash outflows from financing activities	**14,781,723**	19,590,273	(24.55%)
Net cash flows from financing activities	**9,026,046**	(8,160,475)	210.61% Note 3
Net increase in cash and cash equivalents	**5,502,549**	(14,325,982)	138.41%

Note 1: Reflecting mainly the Company's payment of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 for the same period last year;

Note 2: Reflecting mainly the refund of amounts paid in connection with cooperation with Shenzhen Investment Holdings Co., Ltd. ("SIHC") and the increase in cash paid for the acquisition of fixed assets, intangible assets and other long-term assets;

Note 3: Reflecting mainly the increase in cash received from loans and the decrease in cash paid for debt repayment.

For an explanation of reasons for the difference between net cash flows from operating activities and net profit of the Group for the reporting period, please refer to "Note V 56. Supplemental Information for the Cash Flow Statement" to the financial report prepared under PRC ASBEs.

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

(1) There was no significant change in the principal business and its structure during the reporting period compared to the same period last year.

(2) Changes in the profit mix during the reporting period compared to the same period last year are set out as follows:

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

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

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

7. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in thousands

Item	As at 30 June 2019 Amount	As at 30 June 2019 As a percentage of total assets	As at 31 December 2018 Amount	As at 31 December 2018 As a percentage of total assets	Year-on-year increase/decrease in percentage of total assets (percentage points)
Total assets	**140,742,648**	**100%**	129,350,749	100%	—
Cash	**29,508,813**	**20.97%**	24,289,798	18.78%	2.19
Trade receivables	**21,465,718**	**15.25%**	21,592,325	16.69%	(1.44)
Inventories	**27,257,338**	**19.37%**	25,011,416	19.34%	0.03
Investment properties	**2,015,319**	**1.43%**	2,011,999	1.56%	(0.13)
Long-term equity investments	**2,796,606**	**1.99%**	3,015,295	2.33%	(0.34)
Fixed assets	**8,993,841**	**6.39%**	8,898,068	6.88%	(0.49)
Construction in progress	**2,271,944**	**1.61%**	1,296,044	1.00%	0.61
Short-term loans	**34,605,631**	**24.59%**	23,739,614	18.35%	6.24
Long-term loans due within one year	**822,576**	**0.58%**	1,243,709	0.96%	(0.38)
Long-term loans	**3,330,373**	**2.37%**	2,366,568	1.83%	0.54

Report of the Board of Directors

(2) Assets and liabilities measured at fair value

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased for the period	Amount disposed of for the period	Closing balance
Financial assets							
Including:							
1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	2,979,322	(122,646)	—	—	72,520	1,206,847	2,215,993
2. Derivative financial assets	228,117	(22,992)	(473)	—	—	—	204,652
3. Other debt investments	—	—	—	—	—	—	—
4. Other investments in equity instruments	—	—	—	—	—	—	—
Sub-total of financial assets	3,207,439	(145,638)	(473)	—	72,520	1,206,847	2,420,645
Investment properties	2,011,999	3,320	—	—	—	—	2,015,319
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	**5,219,438**	**(142,318)**	**(473)**	**—**	**72,520**	**1,206,847**	**4,435,964**
Financial liabilities[Note]	101,332	(286)	9,091	—	—	—	92,527

Note: Financial liabilities included 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 and loss, receivables at fair value through other comprehensive income, and investment properties, which are measured at fair value.

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

(3) For details of assets of the Company subject to restrictions in ownership or use as at the end of the reporting period, please refer to Note V 57. "Assets subject to restrictions in ownership or use" to the financial reports prepared under PRC

8. Analysis of investments

(1) Overview

The Group's long-term equity investments at the end of the reporting period amounted to approximately RMB2,796,606,000, representing a decrease of 25.12% compared to approximately RMB3,734,766,000 as at 30 June 2018. Other third-party investments amounted to approximately RMB2,215,993,000, representing a decrease of 29.50% compared to approximately RMB3,143,095,000 as at 30 June 2018.

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

(3) Investment in financial assets

① Investment in securities

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

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gains/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	300438	Great Power[Note 1]	121.41	Fair-value measurement	570.46	0.71	–	–	–	2.84	571.17	Trading financial assets	Issue fund
Stock	300502	Eoptolink[Note 1]	833.03	Fair-value measurement	9,259.67	(8,426.64)	–	–	11,272.00	1,297.73	–	Trading financial assets	Issue fund
Stock	603986	Giga Device[Note 1]	704.18	Fair-value measurement	21,515.36	(1,325.76)	–	–	10,661.92	9,167.03	19,954.87	Trading financial assets	Issue fund
Stock	603633	Laimu[Note 1]	1,616.00	Fair-value measurement	3,508.34	(1,258.56)	–	–	2,880.85	355.09	1,054.38	Trading financial assets	Issue fund
Stock	603920	Olympic Circuit Technology[Note 1]	2,562.00	Fair-value measurement	14,757.50	(7,263.84)	–	–	10,428.02	1,658.97	5,803.02	Trading financial assets	Issue fund
Stock	002902	Mentech Optical[Note 1]	1,548.03	Fair-value measurement	11,382.83	(336.48)	–	–	5,535.17	4,342.37	10,328.09	Trading financial assets	Issue fund
Stock	002036	Lianchuang Electronic[Note 2]	2,921.74	Fair-value measurement	5,298.94	85.45	–	–	3,177.18	1,883.59	4,096.71	Trading financial assets	Issue fund
Stock	300691	Union Optech[Note 2]	3,498.71	Fair-value measurement	9,842.80	(785.41)	–	–	3,873.05	2,091.20	7,950.18	Trading financial assets	Issue fund
Stock	002796	Shijia Science & Technology[Note 2]	1,575.00	Fair-value measurement	3,552.42	324.21	–	–	2,258.35	1,746.36	3,091.31	Trading financial assets	Issue fund
Stock	603068	Beken[Note 3]	2,175.99	Fair-value measurement	2,175.99	3,680.01	–	–	–	3,680.01	5,856.00	Trading financial assets	Issue fund
Stock	ENA: TSV	Enablence Technologies[Note 4]	3,583.26	Fair-value measurement	1,707.99	(736.91)	–	–	–	(736.91)	971.08	Other non-current financial assets	Internal funds
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–	–	–
Total			**21,139.35**	**–**	**83,572.30**	**(16,043.22)**	**–**	**–**	**50,086.54**	**25,488.28**	**59,676.81**	**–**	**–**

Note 1: Figures corresponding to Great Power, Eoptolink, Giga Device, Laimu, Olympic Circuit Technology and Mentech Optical are provided with Zhonghe Chunsheng Fund I as the accounting subject.

Note 2: Figures corresponding to Lianchuang Electronic, Union Optech and Shijia Science & Technology are provided with Jiaxing Fund as the accounting subject.

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

Note 4: The initial investment for the acquisition of Enablence Technologies shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD11,038,100, equivalent to approximately RMB9,710,800 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.87976) on 30 June 2019.

B. Details in investment in securities during the reporting period

a. Shareholdings in Great Power

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund I, a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund I held 353,000 shares in Great Power (a company listed on the GEM Board of the Shenzhen Stock Exchange), accounting for 0.13% of the total share capital of Great Power.

Report of the Board of Directors

b. Shareholdings in Eoptolink

During the first half of 2019, Zhonghe Chunsheng Fund I transferred 4,712,300 shares in Eoptolink (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I no longer held any shares in Eoptolink.

c. Shareholdings in Giga Device

During the first half of 2019, Zhonghe Chunsheng Fund I transferred 1,150,800 shares in Giga Device (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I held 2,301,600 shares in Giga Device, accounting for 0.75% of the total share capital of Giga Device.

d. Shareholdings in Laimu

During the first half of 2019, Zhonghe Chunsheng Fund I transferred 2,590,000 shares in Laimu (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I held 911,300 shares in Laimu, accounting for 0.58% of the total share capital of Laimu.

e. Shareholdings in Olympic Circuit Technology

During the first half of 2019, Zhonghe Chunsheng Fund I transferred 8,176,600 shares in Olympic Circuit Technology (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I held 4,214,300 shares in Olympic Circuit Technology, accounting for 1.03% of the total share capital of Olympic Circuit Technology.

f. Shareholdings in Mentech Optical

During the first half of 2019, Zhonghe Chunsheng Fund I transferred 2,232,200 shares in Mentech Optical (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I held 3,868,200 shares in Mentech Optical (following the implementation of the 2018 equity distribution plan), accounting for 1.84% of the total share capital of Mentech Optical.

g. Shareholdings in Lianchuang Electronic

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Fund, which was a partnership reported in the consolidated financial statements of the Company. During the first half of 2019, Jiaxing Fund transferred 2,717,500 shares in Lianchuang Electronic (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Jiaxing Fund held 4,477,300 shares in Lianchuang Electronic (following the implementation of the 2018 equity distribution plan), accounting for 0.63% of the total share capital of Lianchuang Electronic.

h. Shareholdings in Union Optech

During the first half of 2019, Jiaxing Fund transferred 2,190,900 shares in Union Optech (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Jiaxing Fund held 4,835,900 shares in Union Optech (following the implementation of the 2018 equity distribution plan), accounting for 2.15% of the total share capital of Union Optech.

i. Shareholdings in Shijia Science & Technology

During the first half of 2019, Jiaxing Fund transferred 568,000 shares in Shijia Science & Technology (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Jiaxing Fund held 771,300 shares in Shijia Science & Technology (following the implementation of the 2018 equity distribution plan), accounting for 0.46% of the total share capital of Shijia Science & Technology.

j. Shareholdings in Beken

As at the end of the reporting period, 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. Beken in which Zhonghe Chunsheng Fund III had invested was listed on the Shanghai Stock Exchange on 15 April 2019. As at the end of the reporting period, Zhonghe Chunsheng Fund III held 1,122,200 shares in Beken, accounting for 0.81% of the total share capital of Beken.

k. 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 cash consideration 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 cash consideration of CAD4.62 million. As at the end of the reporting period, ZTE HK held 95 million shares in Enablence Technologies, accounting for 14.80% of its total share capital.

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

C. Securities investment after the end of the reporting period

Anji Microelectronics Technology (Shanghai) Co., Ltd. ("Anji Technology") in which Zhonghe Chunsheng Fund III had invested was listed on the STAR Market of the Shanghai Stock Exchange on 22 July 2019. Zhonghe Chunsheng Fund III held 2,314,509 shares in Anji Technology, accounting for 4.36% of the total share capital of Anji Technology.

② *Derivative investments*

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment[Note 1]	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount[Note 2]	Amount purchased during the period	Amount disposed of during the period	Impairment provision amount (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets[Note 3] of the Company at the end of the period (%)	Actual profit or loss for the reporting period
Financial institution	N/A	No	Foreign exchange forwards	–	2018/9/17	2020/6/3	407,091.08	134,683.84	163,130.70	–	378,644.22	15.44%	578.40
Financial institution	N/A	No	Foreign exchange forwards	–	2018/9/10	2020/6/19	323,752.16	80,987.10	74,447.14	–	330,292.12	13.47%	504.54
Financial institution	N/A	No	Foreign exchange forwards	–	2018/7/27	2020/4/27	375,604.90	111,384.55	249,970.70	–	237,018.75	9.67%	362.06
Other financial institution	N/A	No	Foreign exchange forwards/interest rate swap	–	2018/9/6	2022/12/26	685,612.29	559,962.47	482,643.51	–	762,931.25	31.11%	1,165.41
Total				**–**	**–**	**–**	**1,792,060.43**	**887,017.96**	**970,192.05**	**–**	**1,708,886.34**	**69.69%**	**2,610.41**

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)	"Overseas Regulatory Announcement Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2018," both dated 15 March 2018, and "Announcement Resolutions of the Forty-sixth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2019," both dated 27 March 2019.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement on Resolutions of the 2017 Annual General Meeting" dated 29 June 2018 and "Announcement on Resolutions of the 2018 Annual General Meeting" dated 30 May 2019.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Value-protection derivative investments were conducted by the Company during the first half of 2019. The major risks and control measures are discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company's budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks; 5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.
Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The Company has recognised gains/losses from investments in derivatives during the reporting period. Total gains recognised for the reporting period amounted to RMB26 million, comprising losses from fair-value change of RMB23 million and recognised investment gains of RMB49 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 procedure performed have been in compliance with relevant laws and regulations and the Articles of Association.

Note 1: Derivative investments are classified according to the financial institutions involved and the types of such derivative investments;

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.

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

For details of asset and equity transactions of the Group during the reporting period, please refer to the section headed "Material Matters" in this report.

10. Analysis of principal subsidiaries and investee companies

Unit: RMB in thousands

Name of company	Corporate type	Principal business	Sector	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	Software development	RMB51.08 million	20,919,252	5,337,868	9,322,236	923,811	873,066
ZTE Capital	Subsidiary	Entrusted management of venture investment fund	Investment fund	RMB30 million	1,778,575	1,688,713	–	230,866	218,561
ZTE HK	Subsidiary	Sales of communication products and technical support	Sales of communication products and technical support	HKD995 million	20,476,208	152,005	6,129,043	513,305	395,211
Xi'an Zhongxing New Software Company Limited	Subsidiary	Production and sales of mobile terminals	Production and sales of mobile terminals	RMB1,000 million	4,561,630	2,450,073	1,866,408	213,180	213,096

For information of other subsidiaries and principal investee companies, please refer to Note XV 4 "Long-term equity investments" and Note VII to the financial report prepared in accordance with PRC ASBEs.

Report of the Board of Directors

For the reporting period, 4 subsidiaries made a material impact on the consolidated operating results and 3 of them reported year-on-year difference of more than 30% in operating results: ZTE Capital reported year-on-year growth in net profit of 166.20%, reflecting mainly the increase in income from the disposal of equity interests in listed companies held its subsidiary fund partnership enterprises; ZTE HK reported year-on-year increase in net profit of 177.80% mainly in line with the increase in revenue; Zhongxing Software reported year-on-year decrease in net profit of 57.7%, reflecting mainly the increase in cost.

For details of subsidiaries acquired or disposed of during the reporting period and their impact, please refer to Note VI to the financial statements prepared under ASBEs.

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

(III) MANAGEMENT DISCUSSION AND ANALYSIS UNDER HKFRSs

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

Revenue

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

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

Cost of Sales and Gross Profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

Other Income and Gains

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

Research and Development Costs

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Credit Impairment Loss

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

Loss from Derecognition of Financial Assets at Amortised Cost

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

Other Expenses

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

Profit from Operating Activities

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

Finance Costs

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

Income Tax Expense

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

Profit Attributable to Non-controlling Interests

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

Other Comprehensive Income

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

Debt-Equity Ratio and the Basis of Calculation

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

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

Cash Flow Data

Unit: RMB in millions

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

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

Operating Activities

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

Investing Activities

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

Financing Activities

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

Indebtedness

Unit: RMB in millions

Item	**30 June 2019**	31 December 2018
Secured bank loans	**1,086.2**	1,155.8
Unsecured bank loans	**37,155.3**	26,194.1

Unit: RMB in millions

Item	**30 June 2019**	31 December 2018
Short-term bank loans	**34,911.1**	24,983.3
Long-term bank loans	**3,330.4**	2,366.6

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

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

Contractual Obligations

Unit: RMB in millions

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

Capital Commitments

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

Unit: RMB in millions

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

Details of Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures of the Group

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

Disclosure Required under the Hong Kong Listing Rules

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

(IV) WARNINGS OF AND REASONS FOR ANY PROJECTED ACCUMULATED NET LOSS FROM THE BEGINNING OF THE YEAR TO THE END OF THE NEXT REPORTING PERIOD OR SUBSTANTIAL CHANGE IN ACCUMULATED NET PROFIT FROM THE BEGINNING OF THE YEAR TO THE END OF THE NEXT REPORTING PERIOD AS COMPARED TO THE SAME PERIOD LAST YEAR

✓ Applicable ☐ N/A

Preliminary results announcement	**Turnaround to profit**		
	Beginning of year to end of next reporting period (January to September 2019)	**Same period last year (January to September 2018)**	**Increase/decrease (%)**
Net profit attributable to holders of ordinary shares of the listed company (RMB'000)	Profit: 3,800,000–4,600,000	Loss: 7,259,723	Increased by 152.34%–163.36%
Basic earnings per share (RMB/share)[Note 1]	Profit: 0.90–1.09	Loss: 1.73	Increased by 152.02%–163.01%
Explanatory statement regarding the preliminary results announcement	The significant growth in the Group's results for the nine months ended 30 September 2019 compared to the same period last year was mainly attributable to: (1) loss reported for the same period last year attributable mainly to the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 and operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018; and (2) income pertaining to matters described in the "UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION" published by the Company on 11 July 2019 recognised by the Company for the third quarter of 2019.		

Note 1: Basic earnings per share for the nine months ended 30 September 2019 is computed based on the Company's total share capital of 4,217,247,000 shares on 27 August 2019.

Report of the Board of Directors

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

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

✓ Applicable ☐ N/A

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
External meeting	January 2019	Hangzhou	Guosheng Securities investors' meeting	Customers of Guosheng Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2019	Beijing	Huatai Securities investors' meeting	Customers of Huatai Securities		
	February 2019	Shenzhen	TF Securities investors' meeting	Customers of TF Securities		
	April 2019	Hong Kong	Nomura Securities investors' meeting	Customers of Nomura Securities		
	May 2019	Shenzhen	Credit Suisse investors' meeting	Customers of Credit Suisse		
	May 2019	Shenzhen	Soochow Securities investors' meeting	Customers of Soochow Securities		
	May 2019	Zhuhai	Guosheng Securities investors' meeting	Customers of Guosheng Securities		
	May 2019	Shenzhen	CICC investors' meeting	Customers of CICC		
	June 2019	Shenzhen	Guangfa Securities investors' meeting	Customers of Guangfa Securities		

(VI) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2019 AND RISK EXPOSURES

1. Business outlook for the second half of 2019

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

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

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

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

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

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

2. Risk exposures

(1) Country risks

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

(2) Risk associated with intellectual property rights

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

Report of the Board of Directors

(3) Exchange rate risks

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

(4) Interest rate risk

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

(5) Customer credit risk

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

Material Matters

(I) CORPORATE GOVERNANCE

1. Compliance of the Company's corporate governance with relevant requirements of the CSRC

The Company has been making improvements to its corporate governance regimes and structures, regulating corporate operations and optimising internal control structures on an ongoing basis in accordance with the requirements of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of the CSRC. During the reporting period, the general meeting, Board of Directors and Supervisory Committee of the Company were operated in compliance with the law, and the corporate governance of the Company was in compliance with provisions set out in the regulatory documents on corporate governance of listed companies issued by the CSRC.

In accordance with requirements of the "Notice on the Publication of the Corporate Internal Control Supplementary Guide" (《關於印發企業內部控制配套指引通知》), the Company focused its efforts on the following internal control work in the first half of 2019 to ensure the consistent implementation of internal control regulation and the publication of the internal control assessment report and the internal control audit report in accordance with the "Basic Rules for Corporate Internal Control" (《企業內部控制基本規範》) and "Corporate Internal Control Supplementary Guide" (《企業內部控制配套指引》) and to enhance the Company's internal control standards:

(1) The conclusion and assessment of the internal control work for 2018 was completed, on which basis the internal control work plans for 2019 was formulated and the 2018 Internal Control Audit Work Report and 2018 Internal Control Assessment Report were published. Internal control assessment for 2019 was commenced with the adoption of optimised assessment rules to enhance process auditing for better efficiency and effectiveness of assessment.

(2) Improvements were made to our internal control system and an internal control white paper was published; the Company's derivative investments and investments in securities in 2018 were examined.

(3) Control of significant and material risks was reviewed, duties of risk management units at all levels were strengthened, the risk control process for identifying, assessing and addressing risks was standardised; key internal control tasks for various segments were streamlined and launched, while the operating model of the internal control system was optimised to enhance the management duties of the internal control ability development modules; administrative measures for rectifying internal control deficiencies were further improved.

(4) The organisational ability relating to internal control was enhanced as management officers signed the "internal control undertaking", while activities to foster the culture of internal control among all employees, such as lectures on internal control, seminars on internal control in business operations, sharing of internal control cases and internal control quizzes, were organised on a continuous basis.

2 Information on the convening of general meeting

The Company convened its First Extraordinary General Meeting of 2019, 2018 Annual General Meeting and Second Extraordinary General Meeting of 2019 on 20 March 2019, 30 May 2019 and 29 July 2019, respectively, by way of a combination of on-site and online voting. For details, please refer to the "Announcement of Resolutions of the First Extraordinary General Meeting of 2019", "Announcement of Resolutions of the 2018 Annual General Meeting" and "Announcement of Resolutions of the Second Extraordinary General Meeting of 2019 published by the Company on 20 March 2019, 30 May 2019 and 29 July 2019, respectively, on http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

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

Material Matters

4. **Securities Transactions by Directors and Supervisors**

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

5. **The Audit Committee**

   The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed this report, including the financial statements of the Group for the six months ended 30 June 2019.

(II) PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE

According to the Articles of Association of ZTE, aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years; the profit distribution plan of the Company shall be formulated by the Board of Directors and approved by 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; where 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.

The Company has not conducted any profit distribution in respect of 2018.

The Company's profit distribution in 2016–2018 was in compliance with pertinent provisions under the Articles of Association.

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

The Company does not propose any profit distribution for the six months ended 30 June 2019.

(III) MATERIAL LITIGATION AND ARBITRATION

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

1. On 11 June 2010, A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration award. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the court of appeal of Dallas, Texas in respect of the aforesaid ruling. On 19 November 2018, the court of appeal of Dallas, Texas ruled to overturn the ruling of the district court of Dallas, Texas of annulling the arbitration award and reinstated the arbitration award. On 4 December 2018, UTE made an application to the court of appeal of Dallas, Texas for review. On 4 January 2019, UTE made an application to the court of appeal of Dallas, Texas for the case to be heard by the full court. On 14 February 2019, the court of appeal of Dallas, Texas ruled to reject the aforesaid application of UTE. On 1 April 2019, UTE made an application to the Supreme Court of Texas for Civil Matters for review. As of now, the Supreme Court of Texas for Civil Matters has yet to make a ruling on UTE's application for review.

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. In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its preliminary judgment of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California re-opened the litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The said company filed an appeal with the United States Court of Appeals for the Federal Circuit against the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again against the said verdict of the Federal District Court of California. In February 2019, the United States Court of Appeals for the Federal Circuit ruled to uphold the judgement of the Federal District Court of California that the Company and ZTE USA had not infringed upon the patents under litigation. On 26 April 2019, the United States Court of Appeals for the Federal Circuit ruled to reject the said company's application for the case to be heard by the full court of the United States Court of Appeals for the Federal Circuit.

   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.

Material Matters

3. On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary"). The Sudanese carrier and its Mauritanian Subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

   On 10 August 2017, the Company submitted its written defences to LCIA and DIFC-LCIA, respectively, for the aforementioned arbitrations. In the meantime, the Company filed counter-arbitration petitions against the Mauritanian Subsidiary for an aggregate amount of approximately USD22,711,900.

   In May 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to DIFC-LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD37.45 million and other damages for breach of contract, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to DIFC-LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

   In October 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD31.88 million, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to LCIA.

   In May 2019, the aforesaid arbitration filed with LCIA by the Sudanese carrier was withdrawn.

   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.

4. 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 of all costs of the litigation (including but not limited to litigation costs and legal fees amounting to RMB200,000) by the Company.

   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.

   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.

(IV) APPROPRIATION AND REPAYMENT OF NON-OPERATING CAPITAL OF THE LISTED COMPANY BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES OF THE COMPANY

☐ Applicable ✓N/A

(V) THE COMPANY WAS NOT SUBJECT TO BANKRUPTCY, REORGANISATION OR RELATED ACTIONS DURING THE REPORTING PERIOD

(VI) EXECUTION OF CONTRACTS INCLUDING FRAMEWORK AGREEMENT FOR COOPERATION WITH SIHC AND MATTERS PERTAINING TO THIRD-PARTY GUARANTEE

On 19 September 2018, the Company entered into the Framework Agreement for Cooperation with SIHC in relation to the proposed transaction with SIHC in respect of land and property assets located in North Zone, Xili Industrial Park of Nanshan District of Shenzhen (which refers to North Zone, ZTE Industry Park situated alongside Liuxian Avenue, Nanshan District, Shenzhen) and Buji Sub-district of Longgang District of Shenzhen, respectively, held directly or indirectly by the Company. The aforesaid matter was considered and approved at the Thirty-sixth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Thirty-sixth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement of execution of contracts including Framework Agreement for Cooperation with Shenzhen Investment Holdings Co., Ltd. and matters pertaining to Third-party Guarantee" published by the Company on 19 September 2018.

The Company and SIHC entered into the "Memorandum of Understanding on the Termination of the 'Framework Agreement for Cooperation and Related Matters'" in respect of arrangements for the termination of the Framework Agreement for Cooperation and related matters on 19 March 2019. The aforesaid matter was considered and approved at the Forty-fifth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Forty-fifth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on the signing of the 'Memorandum of Understanding on the Termination of the Framework Agreement for Cooperation and Related Matters' with Shenzhen Investment Holdings Co., Ltd." published by the Company on 19 March 2019.

(VII) MATTERS PERTAINING TO THE SHENZHEN BAY SUPER HEADQUARTERS BASE

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

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

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

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

Material Matters

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

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

The 2017 Share Option Incentive Scheme implemented by the Company has been approved by the Remuneration and Evaluation Committee, the Seventeenth Meeting of the Seventh Session of the Board of Directors, the Fourteenth Meeting of the Seventh Session of Supervisory Committee, the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 of the Company. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members). Pursuant to the "Resolution on Matters pertaining to the grant of share options under the 2017 Share Option Incentive Scheme" and "Resolution on Adjustments to the list of participants and the number of share options to be granted under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday). Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The exercise price of the share options granted shall be RMB17.06 per A share. The number of options granted is set out in the following table:

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 cancelled during the reporting period	Number of options lapsed during the reporting period	Number of outstanding options at the end of the reporting period
Xu Ziyang	President	252,000	0	0	0	0	252,000
Wang Xiyu	Executive Vice President	262,400	0	0	0	0	262,400
Li Ying	Executive Vice President and Chief Financial Officer	158,400	0	0	0	0	158,400
Other participants	—	148,928,400	0	0	0	0	148,928,400
Total	**—**	**149,601,200**	**0**	**0**	**0**	**0**	**149,601,200**

For details of the 2017 Share Option Incentive Schemes of the Company, please refer to the section headed "Material Matters — (VI) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in the 2018 Annual Report of the Company.

On 1 July 2019, the "Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme", "Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme", "Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme" and "Resolution on the cancellation of certain share options", among others, were considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company, pursuant to which the adjustments to participants and number of share options granted under the 2017 Share Option Incentive Scheme, confirmation of the fulfillment of exercise conditions for the first exercise period and non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of share options previously granted to original participants who no longer fulfilled the conditions to be a participant or share options that did not meet the exercise conditions were approved. The number of participants under the 2017 Share Option Incentive Scheme was adjusted from 1,996 to 1,687. A total of 70,210,561 share options, comprising share options previously granted to original participants who no longer qualified as participants and share options for which exercise conditions had not been fulfilled. 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.

On 5 July 2019, the Company completed the cancellation of the 70,210,561 granted share options, as verified and confirmed by China Central Depository & Clearing Corporation Limited, Shenzhen Branch. 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.

The first exercise period under the 2017 Share Option Incentive Scheme of the Company officially commenced on 16 July 2019, with 1,684 participants entitled to exercise a total of 39,664,153 share options exercisable. 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 at the date of this report, 24,575,275 share options had been exercised during the first exercise period.

(IX) NON-PUBLIC ISSUANCE OF A SHARES BY THE COMPANY

The Company proposed to issue not more than 686,836,019 A shares to not more than 10 specific investors compliant with the provisions of the China Securities Regulatory Commission ("CSRC"). Gross proceeds from the non-public issuance of A Shares will not exceed RMB13 billion. Net proceeds after deduction of issue expenses will be applied towards the "technology research and product development relating to 5G network evolution" and as "replenishment of working capital". The aforesaid matter has been considered and passed at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2018. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-sixth Meeting of the Seventh Session of the Board of Directors", "(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE AND (2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION" published on 31 January 2018 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2018" published on 28 March 2018 by the Company.

Pursuant to the "UPDATE ON THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE" issued by the Company on 1 February 2018, the issue price of the non-public issuance of A shares shall be no less than RMB30/share.

On 10 April 2018, the Company received a "Form of Admission of Application for CSRC Administrative Approval" issued by the CSRC, stating that CSRC had made a decision to admit the application for administrative approval of the non-public issuance of new shares by a listed company submitted by the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement on Admission by CSRC of the Application for Non-public Issuance of A Shares" published by the Company on 10 April 2018.

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The Company published the "Overseas Regulatory Announcement Announcement on the Receipt of 'Notice Regarding the China Securities Regulatory Commission's First Feedback on the Review of Administrative Permission Items'" and the "Overseas Regulatory Announcement Announcement on Extension of Deadline for Reply to the 'Notice Regarding the China Securities Regulatory Commission's First Feedback on the Review of Administrative Permission Items'" on 29 October 2018 and 19 November 2018, respectively. The Company worked with relevant intermediaries to study and deliberate on issues raised in the notice and furnished an item-by-item response. Please refer to the "Overseas Regulatory Announcement Announcement on Reply to the "Notice Regarding the China Securities Regulatory Commission's First Feedback on the Review of Administrative Permission Items" published by the Company on 23 January 2019 and "Overseas Regulatory Announcement Announcement on Reply (Revised Draft) to the Feedback on Application Materials for the Approval of Non-public Issuance of A Shares" published by the Company on 25 February 2019.

The "Resolution on the Extension of the Validity Period for the Shareholders' Resolutions in relation to the Non-public Issuance of A Shares of 2018", "Resolution on the Authorisation in relation to the Non-public Issuance of A Shares of 2018" and "Resolution on the Arrangement of the Floor Price of the Non-public Issuance of A Shares of 2018" were considered and approved at the Forty-fourth Meeting of the Seventh Session of the Board of Directors held on 17 January 2019 and the Company's First Extraordinary General Meeting of 2019 held on 20 March 2019. For details, please refer to the "Announcement Resolutions of the Forty-fourth Meeting of the Seventh Session of the Board of Directors" and "(1) REVISED TERMS OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER THE GENERAL MANDATE (2) EXTENSION OF VALIDITY PERIOD OF THE SHAREHOLDERS' RESOLUTIONS IN RELATION TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND (3) NEW AUTHORIZATION TO THE BOARD IN RELATION TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES " published on 17 January 2019 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2019" published by the Company on 20 March 2019.

As stated in the "Overseas Regulatory Announcement Announcement in relation to Reply to Notification Letter on Preparation Works for Stock Issuance Examination and Verification Committee Meeting on Non-public Issuance of A Shares" published by the Company on 5 August 2019, the Company had conducted studies and deliberations in respect of issues raised in the Notification Letter in consultation with relevant intermediaries, and had furnished replies to the relevant questions. For such replies, please refer to the "Overseas Regulatory Announcement Reply to the 'Letter on Careful Preparation for the Application for the Stock Issuance Examination and Verification Committee Meeting on Non-public Issuance of Shares of ZTE Corporation'" published by the Company on 5 August 2019.

The Company has given an undertaking in accordance with pertinent requirements of the "Answers to Certain Questions on Refinancing Business" published by the CSRC. For details, please refer to the "Overseas Regulatory Announcement Announcement on Undertaking in respect of not Committing New Funds into the Quasi-financial Business" published by the Company on 7 August 2019.

On 22 August 2019, the CSRC Stock Issuance Examination and Verification Committee conducted verification in respect of the Company's application for non-public issuance of A shares. According to the outcome of verification, the Company's application for non-public issuance of A shares has been verified and approved. The Company has yet to receive the written approval of CSRC, and will make a separate announcement when it receive the official document of CSRC approval. For details, please refer to the "ANNOUNCEMENT IN RELATION TO APPROVAL BY THE ISSUANCE EXAMINATION AND VERIFICATION COMMITTEE OF THE CSRC ON APPLICATION FOR NON-PUBLIC ISSUANCE OF A SHARES" published by the Company on 22 August 2019.

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

(1) Connected transactions in the ordinary course of business

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

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	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
Zhongxingxin and its subsidiaries and companies in which it held equity interests of 30% or above	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	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 by the Company from the connected party	Purchase of raw materials by the Company and its subsidiaries from connected parties were conducted at prices 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 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.	14,312.67	0.67%	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		Special-grade engineer at a price ranging from RMB970 – 1350 per head/day; Supervisory engineer at a price ranging from RMB830 – 1040 per head/day; Senior engineer at a price ranging from RMB520 – 935 per head/day Common engineer at a price ranging from RMB440 – 570 per head/day; Assistant engineer at a price ranging from RMB230 – 450 per head/day; Technician at a price ranging from RMB280 – 400 per head/day.	1,941.47	0.09%	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"
ZTE Software Technology (Nanchang) Company Limited ("Nanchang Software")	Subsidiary of 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		Special-grade engineer at a price ranging from RMB970 – 1350 per head/day; Supervisory engineer at a price ranging from RMB830 – 1040 per head/day; Senior engineer at a price ranging from RMB520 – 935 per head/day Common engineer at a price ranging from RMB440 – 570 per head/day; Assistant engineer at a price ranging from RMB230 – 450 per head/day; Technician at a price ranging from RMB280 – 400 per head/day.	449.18	0.02%	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"
Nanchang Software	Subsidiary of company for which a connected natural person of the Company acted as director and executive vice president	Purchase of engineering services	The purchase of personnel hiring services by the Company from the connected party		Work delivery personnel ranging from RMB398 – 1322 per head/day; Ancillary product personnel ranging from RMB401 – 805 per head/day; Core network personnel ranging from RMB485 – 851 per head/day; Service product personnel ranging from RMB451 – 793 per head/day; Wireless product personnel ranging from RMB418 – 774 per head/day; Fixed-line product personnel ranging from RMB418 – 735 per head/day; Bearer product personnel ranging from RMB418 – 735 per head/day; Government and energy product personnel ranging from RMB433 – 1197 per head/day; Network optimisation personnel ranging from RMB491 – 958 per head/day.	–	–	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"
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.	1,719.18	0.08%	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		RMB78/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB61/sq.m./month for hotel properties in Nanjing; RMB82/sq.m./month for hotel properties in Shanghai; RMB52/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 1,550,000/year.	3,601.43	15.66%	No	Tele-transfer	N/A	2019-01-01	Announcement No. 201903 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
深圳市航天歐華科技發展有限責任公司 ("航天歐華")	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.	28,065.52	0.63%	No	Tele-transfer or bank 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"
Total				–	–	50,089.45	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, services and lease properties in sound conditions 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 2019 be capped at RMB700 million (before VAT); 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 software outsourcing services from Huatong and Nanchang Software, both connected parties, in 2019 be capped at RMB70 million and RMB30 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 engineering services from Nanchang Software, both a connected party during the periods from 25 December 2018 to 31 October 2019 and from 1 November 2019 to 31 October 2020 be capped at RMB1 million and RMB1 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 2019 be capped at RMB36 million (before VAT); At the Forty-third Meeting of the Seventh Session of the Board of Directors of the Company held on 29 December 2018, 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 2019 be capped at RMB72.06 million (before VAT); 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 sales of products to 航天歐華, a connected party, by the Group in 2019 be capped at RMB800 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)".

(2) The Company did not conduct any connected transactions arising from acquisitions or disposals of assets and equity interests during the reporting period.

(3) The Company did not enter into any material connected transactions involving joint investment in third parties during the reporting period.

(4) Creditors and debtors with connected parties

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

(5) Other material connected transactions

The following connected transactions were considered and approved at the Forty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 31 October 2018. For details, please refer to the "CONNECTED TRANSACTION PROVISION OF FINANCIAL ASSISTANCE BY CONTROLLING SHAREHOLDER" and "Announcement of Resolutions of the Forty-first Meeting of the Seventh Session of the Board of Directors" published by the Company on 31 October 2018:

On 31 October 2018, the Company entered into the Loan Agreement and Pledge Agreement with Zhongxingxin, controlling shareholder of the Company, pursuant to which the Company shall seek loans amounting to not more than RMB1,000 million (with tranche 1 and tranche 2 each capped at RMB500 million) from Zhongxingxin according to the Company's funding requirements, and shall pledge the equity interests in ZTE Microelectronics as security. The loan interest rate shall be determined through negotiation between the two parties subject pertinent laws and regulations based on market-oriented principles and by reference to the interest rates for loans of similar nature extended by other commercial banks and financial institutions, taking also into consideration factors such as the finance cost of Zhongxingxin for obtaining financing from relevant third party institutions. As at the end of the reporting period, the Company had received the aforementioned RMB1,000 million loan.

(XI) MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

2. **Third-party guarantees of the Group**

   (1) Third-party guarantees considered by the Company during the reporting period

   A. Provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries by the Company

   To facilitate the Company's overseas business development on an ongoing basis, the Company has provided a guarantee amount for contract performance (including but not limited to the execution of guarantee agreements by the parent company and the provision of bank guarantees) of not exceeding USD200 million in aggregate for 7 overseas wholly-owned subsidiaries. The aforesaid guarantee amount will be applied on a revolving basis during an effective period commencing on the date on which the provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries by the Company is considered and approved at the Company's 2018 Annual General Meeting and ending on the date of the Company's 2019 Annual General Meeting. After the 2018 Annual General Meeting of the Company has considered and approved provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries, the Board of Directors of the Company shall be responsible for the approval of specific guarantees within the limit, and shall fulfill obligations in information disclosure.

   The aforesaid matter has been considered and passed at the Forty-sixth Meeting of the Seventh Session of the Board of Directors and the 2018 Annual General Meeting. For details, please refer to the "Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on the Provision of Guarantees for a Wholly-owned Subsidiary" published on 27 March 2019 and the "Announcement on Resolutions of the 2018 Annual General Meeting" published on 30 May 2019 by the Company.

   B. Guarantees provided by subsidiaries of the Company on behalf of fellow subsidiaries

   a. ZTE ICT (Guangxi) Company Limited ("Guangxi ICT"), a wholly-owned subsidiary of ZTE ICT Company Limited ("ZTE ICT"), which is in turn a subsidiary of the Company, has entered into a "Working Capital Maximum Borrowing Contract" (the "Borrowing Contract") with Guilin Bank Co., Ltd., Wuzhou branch for the provision of borrowings amounting to RMB20 million to Guangxi ICT by Guilin Bank Co., Ltd., Wuzhou branch. ZTE ICT has provided maximum amount guarantee by way of assurance with a maximum amount of RMB10 million in respect of the obligations of Guangxi ICT under the Borrowing Contract and enter into a "Maximum Guarantee Contract" with Guilin Bank Co., Ltd., 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 three years has lapsed since the expiry of the exercisable period for the principal credit rights secured by the guarantee.

      The aforesaid matter was considered and approved at Forty-fifth Meeting of the Seventh Session of the Board of Directors held on 19 March 2019. For details, please refer to the "Announcement Resolutions of the Forty-fifth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Provision of Guarantee Between Subsidiaries" published on 19 March 2019 by the Company.

Material Matters

b. Shenzhen Zhongxing Zhiping Technology Company Limited (深圳中興智坪科技有限公司) ("Zhongxing Zhiping") is a wholly-owned subsidiary of ZTE ICT, which is in turn a subsidiary of the Company. ZTE ICT has borrowed a RMB80 million loan from China Minsheng Banking Corp., Ltd., Shenzhen Branch, to be secured by project trade receivables of Zhongxing Zhiping under a maximum guarantee by way of pledge. The maximum principal amount of creditor rights is RMB80 million.

The aforesaid matter was considered and approved at Third Meeting of the Eighth Session of the Board of Directors held on 27 May 2019. For details, please refer to the "Announcement Resolutions of the Third Meeting of the Eighth Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Provision of Guarantee Between Subsidiaries" published on 27 May 2019 by the Company.

(2) Third-party guarantees at the end of the reporting period

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

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Beijing Fuhua Yuqi Information Technology Co., Ltd. Note 1	1 December 2016 201678	RMB21,019,250	1 April 2017	RMB21,019,250	Joint liability assurance	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 third-party guarantee actually incurred as at the end of the reporting period (A4)			RMB21,019,300	

Guarantees provided by the Company on behalf of subsidiaries

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
ZTE France SASU Note 2	14 December 2011 201152	EUR10 million	N/A	–	Assurance	From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	N/A	No
PT. ZTE Indonesia Note 3	13 September 2013 201362	USD40 million	23 October 2013	USD40 million	Joint liability	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	No	No
PT. ZTE Indonesia Note 3	13 September 2013 201362	USD15 million	11 September 2013	USD15 million	Joint liability	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)	No	No
ZTE (H.K.) Limited Note 4	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	20 March 2015	USD60 million	Joint liability assurance	From 20 March 2015 to 20 March 2019	Yes	No
ZTE (Malaysia) Corporation SDN. BHD Note 5	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	USD16.32 million	Joint liability	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	No	No
ZTE (Malaysia) Corporation SDN. BHD Note 5	24 September 2014 201440 8 January 2016 201605	USD2 million	4 January 2015	USD2 million	Joint liability	Not more than 6 years from the date on which the bank letter of guarantee comes into effect upon issuance	No	No
ZTE (H.K.) Limited or ZTE COOPERATIEF UA Note 6	26 March 2015 201511	EUR200 million	8 September 2016	EUR50 million	Joint liability assurance	From 8 September 2016 to (1) 8 February 2021, or (2) the irrevocable settlement in full by ZTE COOPERATIEF 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	Yes	No
			10 April 2017	EUR30 million	Joint liability assurance	From 10 April 2017 to (1) 22 December 2020, or (2) the irrevocable settlement in full by ZTE COOPERATIEF 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
ZTE (Heyuan) Company Limited Note 7	26 August 2016 201664	RMB500 million	1 November 2016	RMB400 million	Joint liability assurance	Not more than 3 years (from the date on which the debt financing agreement comes into effect)	No	No
ZTE (Wenzhou) Railway Communication Technology Limited Note 8	30 September 2017 201765	RMB3.30 million	28 December 2017	RMB3,152,500	Joint liability	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	No	No
ZTE (H.K.) Limited Note 9	16 March 2018 201822	Not more than USD600 million	–	–	Joint liability assurance	Not more than 66 months (from the date on which an individual debt financing agreement comes into effect)	No	No
PT. ZTE Indonesia Note 10	15 October 2018 201890	USD40 million	25 October 2018	USD40 million	Joint liability	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	No	No
PT. ZTE Indonesia Note 10	15 October 2018 201890	IDR300 billion	26 April 2019	IDR300 billion	Joint liability	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	No	No
ZTE Corporation Note 11	19 September 2018 201882	RMB2,287 million	–	–	Guarantee with security	2 years from the date on which the period for the fulfilment of primary debt by the debtor under the main contract (i.e., ZTE) is concluded, or 2 years from the date on which the period for the fulfilment of the last instalment of the primary debt is concluded, where fulfilment is by instalment	N/A	No
Total amount of guarantee approved during the reporting period (B1)		RMB1,374,600,000 Note 12		Total amount of guarantee actually incurred during the reporting period (B2)			RMB145,810,100	
Total amount of guarantee approved as at the end of the reporting period (B3)		RMB15,279,046,100 Note 12		Total amount of guarantee actually incurred as at the end of the reporting period (B4)			RMB1,562,335,900	

Guarantees provided by subsidiaries on behalf of fellow subsidiaries

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
ZTE ICT Company Limited[Note 13]	N/A	RMB160 million	30 December 2014	RMB21,147,200	Joint liability	5 years (from the date of drawdown)	Yes	No
西安中興通訊終端科技有限公司[Note 14]	N/A	RMB60,005,000	13 March 2015	RMB60,005,000	Joint liability	5 years	No	No
深圳市中興新能源汽車服務有限公司[Note 15]	N/A	RMB60 million	29 December 2015	RMB54 million	Joint liability assurance	Commencing on the date on which the "CDB Development Fund Investment Agreement" comes into effect and ending upon on the conclusion of a period of 2 years from the date on which the amounts payable by 深圳市中興新能源汽車科技有限公司 under the contract are settled in full	No	No
西安克瑞斯半導體技術有限公司[Note 16]	N/A	USD30 million	26 January 2017	USD2,546,449.9	Joint liability	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 克瑞斯 has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding.	No	No
Netas Bilişim Teknolojileri A.Ş.[Note 17]	N/A	USD2,153,300	14 November 2012	0	Joint liability	Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" is completed.	No	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş.[Note 17]	N/A	EUR10,753,800	5 May 2017	EUR10,753,800	Joint liability	Commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed	No	No
ZTE ICT (Guangxi) Company Limited[Note 18]	19 March 2019 201914	RMB10 million	20 March 2019	RMB10 million	Joint liability assurance	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	No	No
ZTE ICT Company Limited[Note 19]	27 May 2019 201937	RMB80 million	4 June 2019	RMB80 million	Guarantee with pledge	During the incurrence of the primary creditor rights	No	No

Total amount of guarantee for subsidiary approved during the reporting period (C1)	RMB90 million	Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)	RMB90 million
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)	RMB675,062,000	Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)	RMB305,574,600

Total amount guaranteed by the Company (sum of the three categories aforesaid)

Total amount of guarantee approved during the reporting period (A1+B1+C1)	RMB1,464.60 million	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)	RMB235,810,100
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)	RMB15,975,127,400	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)	RMB1,888,929,800
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company			7.70%
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)			RMB1,213,183,400
Amount of total guarantee exceeding 50% of net assets (F)			0
Aggregate amount of the three guarantee amounts stated above (D+E+F)			RMB1,213,183,400
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.

Note 2: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors 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"). As at the end of the reporting period, the PATES Contract was competed and the guarantee provided by the Company in respect of the performance obligations of ZTE France was undergoing 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 and the Third Extraordinary General Meeting of 2013 of the Company that a performance guarantee of USD40 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD15 million. As at the end of the reporting period, the aforesaid guarantee was under normal performance.

Note 4: 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 (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK. The aforesaid guarantee was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors and the 2013 Annual General Meeting of the Company. 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) represented the higher of USD600 million or RMB4,000 million. ZTE HK entered into a USD60 million loan agreement with DBS Bank in March 2015. At the same time, the Company entered into a guarantee agreement with DBS Bank to provide guarantee to DBS Bank for amounts of not more than USD60 million by way of joint liability assurance, to guarantee the due

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performance of obligations under the loan agreements by ZTE HK. ZTE HK completed a USD60 million loan repayment to DBS Bank in March 2019, and the corresponding guarantee agreement was terminated in March 2019.

Note 5: At the Twenty-first Meeting of the Sixth Session of the Board of Directors, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, and apply to relevant banks for the issuance of a USD2 million bank letter of guarantee. As the gearing ratio of ZTE Malaysia was above 70%, the aforesaid guarantee was considered and approved at the First Extraordinary General Meeting of 2014 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) and to extend the valid period of the USD2 million bank letter of guarantee to 6 years after the date of issuance. As at the end of the reporting period, USD16.32 million of the USD60 million performance guarantee provided by the Company for ZTE Malaysia and the USD2 million bank letter of guarantee issued by relevant banks and applied for by the Company on behalf of ZTE Malaysia had come into effect.

Note 6: The Company conducted outside Mainland China medium/long-term debt financing (including but not limited to banks facilities and issue of bonds) with ZTE HK or ZTE COOPERATIEF UA ("ZTECOOPERATIEF"), each a wholly-owned subsidiary, as the principal. The Company provided guarantee for ZTE HK or ZTE COOPERATIEF by way of joint liability assurance for an amount of not more than EUR200 million (or the equivalent in other currencies, calculated according to the Company's foreign currency statement book exchange rate) in relation to the aforesaid debt financing for a term of not more than 5 years (from the date on which the debt financing agreement takes effect). The aforesaid matter was considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors and the 2014 Annual General Meeting of the Company. ZTE COOPERATIEF entered into a EUR50 million loan agreement with Credit Agricole CIB ("Credit Agricole") in February 2016. The Company entered into a guarantee agreement with Credit Agricole to provide guarantee to Credit Agricole for an amount of not more than EUR50 million in September 2016 by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF. ZTE COOPERATIEF completed a USD50 million loan repayment to Credit Agricole in April 2019, and the corresponding guarantee agreement was terminated in April 2019. ZTE COOPERATIEF entered into a loan agreement with Banco Bilbao Vizcaya Argentaria, Hong Kong ("Banco Bilbao HK") for an amount of EUR30 million in April 2017. At the same time, the Company entered into a guarantee agreement with Banco Bilbao HK to provide guarantee to Banco Bilbao HK for an amount of not more than EUR30 million by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF.

Note 7: At the Eighth Meeting of the Seventh Session of the Board of Directors, it was considered and approved that guarantee be provided by the Company by way of joint liability assurance in connection with the debt financing of ZTE Heyuan for an amount of not more than RMB500 million for a term of not more than 3 years (from the date on which the debt financing agreement comes into effect). ZTE Heyuan entered into a RMB400 million loan agreement with Bank of China Corporation, Shenzhen Branch ("BOC Shenzhen") in November 2016. At the same time, the Company entered into a guarantee agreement with BOC Shenzhen to provide joint liability assurance for an amount of not more than RMB400 million to guarantee the due performance of obligations under the loan agreements by ZTE Heyuan.

Note 8: As considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors, 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. 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 at the end of the reporting period, the performance bond had come into effect. ZTE Wenzhou had provided counter-guarantees in equivalent amounts to the Company in respect of the aforesaid guarantees.

Note 9: 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.

Note 10: 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 at the end of the reporting period, the USD40 million performance guarantee agreement had been executed and the IDR300 billion bank letter of guarantee had been issued.

Note 11: As considered and passed at the Thirty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and by way of resolution at the general meeting of Shenzhen Guoxin Electronics Development Company Limited ("Guoxin Electronics"), a subsidiary of the Company, it was approved that Guoxin Electronics would enter into the Mortgage Contract with SIHC to provide guarantee in respect of the Company's obligations under the project by the Company and SIHC secured by land blocks and buildings thereon in Buji Sub-district of Longgang District of Shenzhen held by Guoxin Electronics. The guarantee amount was approximately RMB2,287 million. The Mortgage Contract was executed on 19 September 2018. At the Forty-fifth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 March 2019, the resolution on the "Memorandum of Understanding on the Termination of the 'Framework Agreement for Cooperation and Related Matters'" with SIHC was considered and approved. In respect of arrangements for the termination of the "Framework Agreement for Cooperation and Related Matters" and related matters, the Company and SIHC entered into the "Memorandum of Understanding on the Termination of the 'Framework Agreement for Cooperation and Related Matters'" on 19 March 2019. As at the end of the reporting period, the relevant mortgage registration procedures had yet to be completed and the guarantee had been released without having actually taken effect.

Note 12: As considered and passed at the Forty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and the 2018 Annual General Meeting, the Company would provide a guarantee amount for contract performance (including but not limited to the execution of guarantee agreements by the parent company and the provision of bank letters of guarantee) of not exceeding USD200 million in aggregate for 7 wholly-owned overseas subsidiaries. The aforesaid guarantee amount may be applied on a revolving basis during an effective period commencing on the date on which the limit of performance guarantee provided by the Company for wholly-owned overseas subsidiaries was considered and approved at the 2018 Annual General Meeting of the Company and ending on the date on which the Company's 2019 Annual General Meeting is convened. After the limit of performance guarantee provided by the Company for wholly-owned overseas subsidiaries has been considered and approved at the Company's 2018 Annual General Meeting, specific guarantees within the limit shall be approved by the Board of Directors of the Company, which shall be responsible for disclosing relevant information. 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 USD200 million guarantee provided for overseas wholly-owned subsidiaries. As at the end of the reporting period, the balance of the aforesaid guarantee amount was USD200 million.

Note 13: It was considered and approved at the board meeting and general meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide guarantee by way of joint liability assurance for an amount of RMB160 million in respect of the project financing of ZTE ICT, a controlling subsidiary of the Company, for a term of 5 years (from the date of issuance of the loan). The other shareholder of ZTE ICT (holding a 10% interest in ZTE ICT) had provided a counter-guarantee for RMB16 million in favour of ZTE Group Finance in respect of the aforesaid guarantee. As at the end of the reporting period, ZTE ICT had settled in full all loans under the project and the guarantee had been released.

Note 14: It was considered and approved at the board meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide joint liability guarantee for an amount of not more than RMB60.005 million in respect of the performance of the "Smart Phone Manufacturing Equipment Lease Contract" by 西安中興通訊終端科技有限公司, a wholly-owned subsidiary of the Company, for a term of 5 years. As at the end of the reporting period, the aforesaid guarantee documents had come into effect.

Note 15: It was considered and approved at the board meeting and general meeting of 中興新能源汽車有限責任公司, a subsidiary of the Company, that 中興新能源汽車有限責任公司 would provide guarantee by way of joint liability assurance for an amount of not more than RMB60 million in respect of a project financing for 深圳市中興新能源汽車服務有限公司 (renamed as "深圳市中興新能源汽車科技有限公司"), its wholly-owned subsidiary, for a term commencing on the date on which the "CDB Development Fund Investment Agreement" comes into effect and ending upon on the conclusion of a period of 2 years from the date on which the amounts payable by深圳市中興新能源汽車科技有限公司 are settled in full. As at the end of the reporting period, the aforesaid guarantee documents had come into effect.

Note 16: It was considered and approved at the board meeting of ZTE Micro-electronics, a subsidiary of the Company, that ZTE Micro-electronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between 西安克瑞斯半導體技術有限公司 ("克瑞斯"), 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 克瑞斯 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 guarantee documents had come into effect and guarantee for an amount of USD2,546,449.9 had come into effect.

Note 17: 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 as 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, Netas Bilişim had not placed any purchase orders under the "Systems Integration Agreement" and the actual amount of guarantee incurred 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.

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Note 18: 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 of ZTE ICT, ZTE ICT would provide guarantee by way of assurance with an amount of RMB10 million in respect of the obligations of Guangxi ICT under the "Working Capital Maximum Borrowing Contract" in favour of Guilin Bank, Wuzhou Branch. On 20 March 2019, ZTE ICT entered into a "Maximum Guarantee Contract" with Guilin Bank to guarantee the due performance of obligations under the Borrowing Contract by Guangxi ICT.

Note 19: As considered and approved at the Third Meeting of the Eighth Session of the Board of Directors of the Company and by the board of directors and general meeting of Zhongxing Zhiping, Zhongxing Zhiping would provide an RMB80 million guarantee pledged by trade receivables of Zhongxing Zhiping in respect of a ZTE ICT loan in favour of China Minsheng Banking Corp., Ltd., Shenzhen Branch. On 4 June 2019, Zhongxing Zhiping entered into the Contract for Maximum Pledge Secured by Trade Receivables with Minsheng Bank.

Note 20: The guaranteed amounts are translated at the following book exchange rates of the Company as at 30 June 2019: USD1: RMB6.873, EUR1: RMB7.8175, IDR1: RMB0.000486033519553073.

3. A special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company has been furnished by Independent Non-Executive Directors of the Company. For details, please refer to the "Overseas Regulatory Announcement Independent Opinion of the Independent Non-executive Director on Pertinent Matters" published by the Company on 27 August 2019.

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

☐ Applicable ✓ N/A

(XII) UNDERTAKING

1. Undertakings by relevant undertaking parties including the de facto controller, shareholders, connected parties, acquirers of the Company and the Company completed during the reporting period and outstanding as at the end of the reporting period

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

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

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

c. On 7 August 2019, the Company gave an undertaking in respect of the Company's proposed non-public issue 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 (類金融業務) (including fund commitments in various forms such as capital increase, loans and guarantees, among others).

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

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

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

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

3. 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

(XIII) EXPLANATORY STATEMENT BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE OF THE COMPANY ON THE ACCOUNTANT'S "QUALIFIED OPINION" FOR THE REPORTING PERIOD

☐ Applicable ✓ N/A

(XIV) EXPLANATORY STATEMENT BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE OF THE COMPANY ON THE CHANGES IN AND HANDLING OF MATTERS RELATING TO ACCOUNTANT'S "QUALIFIED OPINION" FOR THE PREVIOUS YEAR

☐ Applicable ✓ N/A

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

✓ Applicable ☐ N/A

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

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

☐ Applicable ✓ N/A

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

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

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

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

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

(XVIII) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS BY THE COMPANY DURING THE REPORTING PERIOD.

(XIX) DURING THE REPORTING PERIOD, NONE OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER OR ACQUIRER WAS SUBJECT TO INVESTIGATION BY COMPETENT AUTHORITIES, ENFORCEMENT BY JUDICIARY OR DISCIPLINARY AUTHORITIES, DETAINMENT BY JUDICIAL AUTHORITIES OR PROSECUTION FOR CRIMINAL CHARGES, CASE INVESTIGATION OR ADMINISTRATIVE PENALTY BY CSRC, PROHIBITION FROM PARTICIPATION IN THE SECURITIES MARKET, OPINION OF DEEMED INAPPROPRIATENESS, MATERIAL ADMINISTRATIVE PUNISHMENT BY ENVIRONMENTAL PROTECTION, SECURITY SUPERVISION, TAXATION OR OTHER ADMINISTRATIVE AUTHORITIES OR PUBLIC CENSURE BY THE STOCK EXCHANGE.

☐ Applicable ✓ N/A

(XX) THERE WAS NO NON-COMPLIANCE WITH VALID COURT JUDGEMENT ON THE PART OF OR OVERDUE DEBTS OF A SUBSTANTIAL NATURE OWED BY THE COMPANY OR ITS CONTROLLING SHAREHOLDER DURING THE REPORTING PERIOD.

(XXI) THE COMPANY WAS NOT SUBJECT TO ANY RISK OF DELISTING AS A RESULT OF VIOLATIONS OF LAWS AND REGULATIONS DURING THE REPORTING PERIOD.

(XXII) DURING THE REPORTING PERIOD, THE COMPANY HAD NO CORPORATE BONDS WHICH WERE PUBLICLY ISSUED AND LISTED ON A STOCK EXCHANGE.

(XXIII) ENVIRONMENTAL PROTECTION

Whether the listed company and its key subsidiaries are major pollution discharging units announced by environmental protection authorities

✓ Applicable ☐ N/A

Name of company or subsidiary	Main pollutants and typical pollutants	Means of discharge	Number of discharge outlet	Distribution of discharge outlet	Concentration of discharge	Pollutant discharge standards implemented	Total discharge volume in the first half of 2019	Approved total discharge volume	Excessive discharge
ZTE Corporation	Used batteries, tin slag, spent fluorescent tubes	Transfer to professional hazard waste handling agencies	1	55 Keji South Road, Nanshan District, Shenzhen	N/A	N/A	201.16 tons	N/A	N/A

1. Construction and operation of facilities for the prevention of pollution

The Company has set up warehouse for the temporary storage of wastes. Hazardous wastes have been labelled and separately stored by category in accordance with environmental laws and regulations and administrative rules and contingency plans have been formulated. Emergency facilities such as anti-seepage troughs and sand extinguishers have been put in place, while safety inspection of the storage zones have been carried out on a regular basis.

As a member of the UN Global Compact, ZTE has persisted in efforts in line with the notion of sustainable development on a global basis to realise harmony and co-growth of the community, environment and stakeholders.

ZTE has set up the Energy Conservation and Discharge Reduction Committee to oversee and drive energy conservation and the reduction of discharge and consumption at the corporate level: in terms of products, energy-saving measures have been adopted to procure clean production and energy conservation by improving efficiency in utilisation; in terms of operation, equipment upgrades have been carried out to enhance day-to-day management of energy conservation. Initiatives in these two aspects have combined to make our work in energy conservation and discharge reduction more target-specific and operable. The Company has also formulated measures for the administration of energy conservation and discharge reduction. Relevant regulations have been promulgated among the staff from time to time, while energy conservation and discharge reduction has been implemented by way of self-inspection and self-rectification by the business departments and regular inspection and reporting by the departments in-charge.

2. Environmental impact assessment for construction projects and other administrative approvals relating to environmental protection

The Company has conducted environmental impact assessment for construction projects and obtained environmental assessment approvals from the environmental authorities in accordance with environmental laws and regulations.

3. Emergency plans for contingent environmental incidents

In order to establish a comprehensive emergency unit with unified command, quick response and efficient operation, enhance the Company's ability to deal with various contingent events, prevent and mitigate the damage caused by contingent events, protect the lives of staff and the safety of the environment, and safeguard the stable and healthy development of the Company, we have formulated emergency plans for contingent events and established an emergency response team with established procedures for response to emergencies.

4. Environmental self-monitoring plan

The Company has obtained ISO14001 accreditation for its environmental management system and conducts annual environmental inspection and testing as well as internal and external audit in accordance with the standards.

(XXIV) OTHER MATERIAL MATTERS

Save as aforesaid, no other material matters as specified under Rule 67 of the Securities Law and Article 30 of the Measures for the Administration of Information Disclosure by Listed Companies and matters that were material in the judgment of the Board of Directors of the Company occurred to the Company during the reporting period.

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

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: share

	31 December 2018		Increase/decrease as a result of the change during the reporting period (+, -)					30 June 2019	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others[Note 1]	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	**3,600,968**	**0.09%**	**–**	**–**	**–**	**–546,852**	**–546,852**	**3,054,116**	**0.07%**
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned corporate shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	–	–	–	–	–	–	–	–	–
Comprising: domestic non-state-owned corporate shares	–	–	–	–	–	–	–	–	–
Domestic natural person shares	–	–	–	–	–	–	–	–	–
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: Foreign corporate shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
5. Senior management shares	3,600,968	0.09%	–	–	–	–546,852	–546,852	3,054,116	0.07%
II. Shares not subject to lock-up	**4,189,070,875**	**99.91%**	**–**	**–**	**–**	**546,852**	**546,852**	**4,189,617,727**	**99.93%**
1. RMB ordinary shares	3,433,568,341	81.89%	–	–	–	546,852	546,852	3,434,115,193	81.91%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	755,502,534	18.02%	–	–	–	–	–	755,502,534	18.02%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**4,192,671,843**	**100%**	**–**	**–**	**–**	**–**	**–**	**4,192,671,843**	**100%**

Note 1: Lock-up or unlocking on a pro-rata basis of shares held by the Directors, Supervisors or senior management in accordance with relevant domestic regulations.

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

Unit: share

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up as at 31 December 2018	Number of A shares released from lock-up during the reporting period[Note 1]	Increase in the number of A shares subject to lock-up during the reporting period[Note 2]	Number of A shares subject to lock-up at 30 June 2019	Reason for lock-up	Date of unlocking
1	Yin Yimin	569,550	–	–	569,550		–
2	Xu Huijun	756,851	189,213	–	567,638		–
3	Pang Shengqing	733,682	181,921	–	551,761		–
4	Xie Daxiong	371,852	–	–	371,852		–
5	Zhao Xianming	488,636	122,159	–	366,477		–
6	Wei Zaisheng	329,758	–	–	329,758		–
7	Zhang Zhenhui	218,400	54,600	–	163,800	Note 3	–
8	Xia Xiaoyue	38,195	–	–	38,195		–
9	Cao Wei	18,900	–	6,300	25,200		–
10	Xu Weiyan	11,039	2,760	–	8,279		–
11	Others other than the 10 stated in the foregoing	64,105	2,499	–	61,606		–
	Total	**3,600,968**	**553,152**	**6,300**	**3,054,116**	**–**	**–**

Note 1: The reduction in the number of shares subject to lock-up is attributable to the release of lock-up of shareholdings of departing Directors, Supervisors and senior management of the Company in accordance with relevant domestic regulations.

Note 2: The increase in the number of shares subject to lock-up is attributable to the lock-up of shareholdings of departing Directors, Supervisors and senior management of the Company in accordance with relevant domestic regulations.

Note 3: The reason for the lock-up is that they were restricted senior management shares. In accordance with the "Implementation Rules of the Shenzhen Stock Exchange for the Sell-down of Shares by Shareholders, Directors, Supervisors and Senior Management of Listed Companies", directors, supervisors and senior management personnel shall continue to comply with the following restrictions during the term confirmed at their appointment and within six months after the conclusion of the term, where they leave office prior to the completion of the term: (I) prohibition from disposal of more than 25% of their total shareholdings in the Company each year; (II) prohibition from disposal of any shares in the Company held within the first six months after their departure; (III) other regulations on the transfer of shares by directors, supervisors and senior management under the Company Law.

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

1. The Company granted 149,601,200 A share options to 1,996 participants on 6 July 2017. The registration of the grant of such A share options was completed on 20 July 2017. The code of the options is "037050" and the abbreviated name is "中兴JLC2". For details of the exercise and cancellation of the aforesaid share options, please refer to the section headed "Material Matters — (VIII) Implementation and Impact of the Company's Share Option Incentive Scheme" in this report.

2. The Company had no employees' shares.

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

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

Total number of shareholders						
As at 30 June 2019			There were 375,081 shareholders (comprising 374,765 holders of A shares and 316 holders of H shares)			
Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares						
Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen (shares)
1. Zhongxingxin	Domestic general corporation	27.40%	1,148,849,600	−123,018,733	–	98,667,983
2. HKSCC Nominees Limited[Note 1]	Foreign shareholders	17.99%	754,411,622	+104,830	–	Unknown
3. Hong Kong Securities Clearing Company Limited[Note 2]	Overseas corporation	1.27%	53,071,288	+28,572,450	–	Nil
4. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.25%	52,519,600	–	–	Nil
5. Hunan Nantian (Group) Co., Ltd	State-owned corporation	0.99%	41,516,065	–	–	Nil
6. Shanghai Gaoyi Asset Management Partnership (Limited Partnership) — Gaoyi Linshan No. 1 Yuanwang Fund	Others	0.72%	30,000,000	+30,000,000	–	Nil
7. NSSF Portfolio #108	Others	0.57%	23,999,913	+23,999,913	–	Nil
8. NSSF Portfolio #101	Others	0.57%	23,905,054	+23,905,054	–	Nil
9. NSSF Portfolio #112	Others	0.56%	23,507,904	+4,623,504	–	Nil
10. Agricultural Bank of China Limited — ICBCCS Shanghai-Shenzhen 300 Traded Open-ended Index Securities Investment Fund	Others	0.50%	21,049,300	+21,049,300	–	Nil

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	1,146,811,600	A share
	2,038,000	H share
2. HKSCC Nominees Limited	754,411,622	H share
3. Hong Kong Securities Clearing Company Limited	53,071,288	A share
4. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
5. Hunan Nantian (Group) Co., Ltd	41,516,065	A share
6. Shanghai Gaoyi Asset Management Partnership (Limited Partnership) — Gaoyi Linshan No. 1 Yuanwang Fund	30,000,000	A share
7. NSSF Portfolio #108	23,999,913	A share
8. NSSF Portfolio #101	23,905,054	A share
9. NSSF Portfolio #112	23,507,904	A share
10. Agricultural Bank of China Limited — ICBCCS Shanghai-Shenzhen 300 Traded Open-ended Index Securities Investment Fund	21,049,300	A share

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. Zhongxingxin was neither a connected party nor a party of concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A

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

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

Note 3: During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.

Note 4: Shareholders holding 5% or above of the Company's shares — Zhongxingxin, holding 1,148,849,600 shares in the Company in aggregate, representing 27.40% of the total share capital of the Company as at the end of the reporting period, is the controlling shareholder of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period are as follows:

Name of shareholder	Increase/decrease of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	−123,018,733	1,146,811,600	A shares	0	1,146,811,600	Nil
	0	2,038,000	H shares	0	2,038,000	Nil

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

Whether top 10 shareholders and top 10 holders of shares that were not subject to lock-up of the Company conducted any transactions on agreed repurchases during the reporting period

☐ Yes ✓ No

The Company had no preferential shares.

2. Controlling shareholder of the Company

During the reporting year, 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:	Design and production of cabinets and cases; R&D of machine vision systems integration, R&D of robotic vision systems integration, design and production of optical instruments, industrial cameras and instruments, design and production of high-end mechanical equipment, computer systems integration, and technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software and hardware of computer vision data processing systems; leasing of owned housing properties; industrial investment; import and export business.

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, 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 Tian Dongfang and its uniform social credit code is 12100000H0420141X7. It is the only large-scale integrated research institute in China engaged in the research and development, commercial production and complementary integration and inspection/testing of semi-conductor integrated circuits, hybrid integrated circuits and computers.

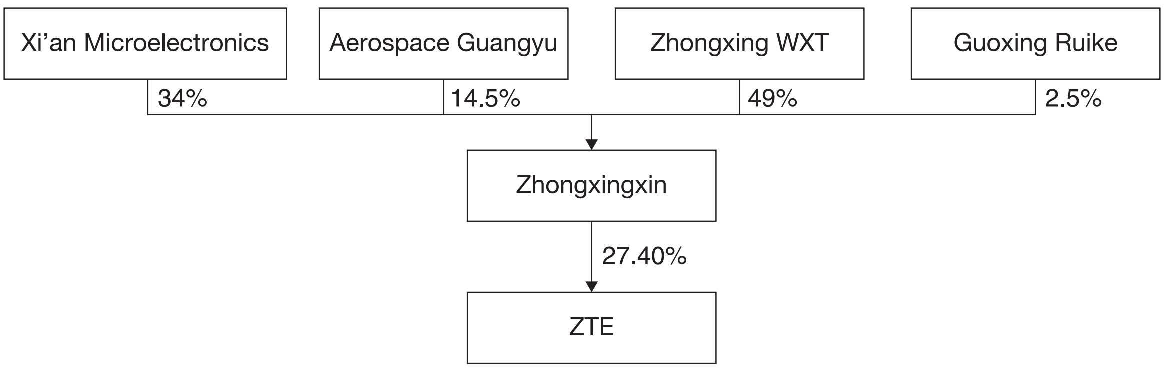
Changes in Shareholdings and Information of Shareholders

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Liu Hao and the registered capital amounts to RMB17,950,000. Its uniform social credit code is 91440300192175031U. The scope of business includes 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, sales of automobile; domestic trade; 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 (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items); wholesale of pre-packaged food; wholesale of agricultural by-products; sales of coal products; sales of pre-packaged food (including refrigerated food), sales of bulk food (including refrigerated food); sales of medical equipment; sales of Class II and Class III radioactive devices.

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

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

The following diagram shows the shareholding and controlling relationships between the aforesaid entities and the Company as at 30 June 2019.



4. **The Company had no other corporate shareholder which was interested in more than 10% of its shares.**

5. Interests of substantial shareholders of the Company in shares and underlying shares

As at 30 June 2019, the following shareholders held interests or short positions in 5% or more in any class 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	Approximate shareholding as a percentage (%) of[Note] Total share capital	Approximate shareholding as a percentage (%) of[Note] Relevant class of shares
Zhongxingxin	Beneficial owner	1,148,849,600 A share (L)	27.40%(L)	33.42%(L)
Zhongxing WXT	Interests of corporation controlled by you	1,148,849,600 A share (L)	27.40%(L)	33.42%(L)
Xi'an Microelectronics	Interests of corporation controlled by you	1,148,849,600 A share (L)	27.40%(L)	33.42%(L)
China Aerospace Electronics Technology Research Institute	Interests of corporation controlled by you	1,148,849,600 A share (L)	27.40%(L)	33.42%(L)
China Aerospace Science and Technology Corporation	Interests of corporation controlled by you	1,148,849,600 A share (L)	27.40%(L)	33.42%(L)
BlackRock, Inc.	Interests of corporation controlled by you	44,430,318 H share (L)	1.06%(L)	5.88%(L)
	Interests of corporation controlled by you	842,080 H share (S)	0.02%(S)	0.11%(S)
Jericho Capital Asset Management LP	Investment manager	49,609,000 H share (L)	1.18%(L)	6.57%(L)
Jericho Capital Holdings LLC	Interests of corporation controlled by you	49,609,000 H share (L)	1.18%(L)	6.57%(L)
Resnick Joshua	Interests of corporation controlled by you	49,609,000 H share (L)	1.18%(L)	6.57%(L)
Capital Research and Management Company	Investment manager	38,410,000 H share (L)	0.92%(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 4,192,671,843 shares, comprising 3,437,169,309 A shares and 755,502,534 H shares, as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, so far as the Directors, Supervisors and senior management of the Company are aware, save for the Directors, Supervisors and chief executive of the Company no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

6. Purchase, sale and redemption of securities

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

Directors, Supervisors and Senior Management

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

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

Note 1: Pursuant to Rule 10.1.3 (III) of the 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 listed company and its subsidiaries) are deemed as connected parties of the listed company.

Note 2: The Seventh Session of the Board of Directors of the Company concluded on 29 March 2019. At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Li Zixue, Mr. Xu Ziyang, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-independent Directors of the Eighth Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng were elected as Independent Non-executive Directors of the Eighth Session of the Board of Directors of the Company. The term of the Eighth Session of the Board of Directors of the Company commenced on 30 March 2019 and shall end on 29 March 2022. At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, Mr. Li Zixue was elected as Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Eighth Session of the Board of Directors of the Company, and Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying were elected as Executive Directors of the Eighth Session of the Board of Directors of the Company.

Note 3: The Seventh Session of the Supervisory Committee of the Company concluded on 29 March 2019. At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Shang Xiaofeng and Ms. Zhang Sufang were elected Shareholders' Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company. In addition, Mr. Xie Daxiong, Ms. Xia Xiaoyue and Mr. Li Quancai had been elected Staff Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company through democratic election by the staff of the Company. The term of the Eighth Session of the Supervisory Committee of the Company commenced on 30 March 2019 and shall end on 29 March 2022. At the First Meeting of the Eighth Session of the Supervisory Committee of the Company held on 1 April 2019, Mr. Xie Daxiong was elected Chairman of the Eighth Session of the Supervisory Committee of the Company.

Note 4: The term of office of senior management personnel appointed by the Seventh Session of the Board of Directors of the Company concluded on 29 March 2019. At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, it was approved that Mr. Xu Ziyang be re-appointed President of the Company, each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be re-appointed Executive Vice President of the Company, and Ms. Li Ying be concurrently re-appointed Chief Financial Officer of the Company. As the term of office of the previous Secretary to the Board of Directors had concluded, it was approved that Ms. Li Ying, Executive Vice President and Chief Financial Officer of the Company, would undertake the duties of the Secretary to the Board of Directors on an acting basis.

Note 5: A period of three months had lapsed since Ms. Li Ying undertook the duties of the Secretary to the Board of Directors on an acting basis, Mr. Li Zixue, Chairman of the Company, has undertaken the duties of the Secretary to the Board of Directors on an acting basis with effect from 1 July 2019. At the Seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 29 July 2019, the appointment of Mr. Ding Jianzhong as Secretary to the Board of Directors was approved.

Note 6: None of the Directors, Supervisors and senior management personnel in office as at the end of the reporting period held any H shares in the issued share capital of the Company during the reporting period.

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

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

Name	Name of shareholder	Position with the shareholder	Commencement of term of office[Note 1]	Conclusion of term of office[Note 1]	Whether receiving remuneration from Zhongxingxin
Zhu Weimin	Zhongxingxin	Director	August 2018	August 2021	Yes
Shang Xiaofeng	Zhongxingxin	Supervisor	August 2018	August 2021	Yes
Zhang Sufang	Zhongxingxin	Secretary to the Board of Directors	August 2018	August 2021	Yes

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 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.

Directors, Supervisors and Senior Management

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

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Xu Ziyang	ZTE Microelectronics	Chairman	No
Li Buqing	CASIC Shenzhen (Group) Company Limited	Deputy chief economist and director	No
	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy chief economist and chief accountant	Yes
	Aerospace Guangyu	Director	No
	Shenzhen Aerospace Property Management Co., Ltd.	Director	No
	HT-Hysa Security Technology Engineering Co., Ltd.	Director	No
	Shenzhen Aerospace Liye Industry Development Co., Ltd.	Chairman	No
Zhu Weimin	Shenzhen ZTE International Investment Limited	Chairman	Yes
	Held positions in 7 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
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	Director	No
Fang Rong[Note 1]	Zhongxing Development	Director and executive vice president	Yes
	Shenzhen ZTE International Investment Limited	Director	No
	Held positions in 13 subsidiaries or investees of Zhongxing Development including Beijing Holi Health Information Scientific and Technological Co., Ltd.	Director	No
	Beijing United ZTE International Investment Limited	Director	No
Cai Manli[Note 2]	HEYI Rising Assets Management Co., Ltd.	General manager	Yes
	King & Wood Mallesons	Senior consultant	No
	Sichuan Xinwang Bank Co., Ltd	External supervisor	Yes
	Beijing Yadii Media Co., Ltd	Independent director	Yes
	Shanghai Flyco Electrical Appliance Co., Ltd	Independent director	Yes
	SF Diamond Co., Ltd.	Independent director	Yes
	Hubei Broadcasting and Television Information Network Co., Ltd.	Independent director	Yes
	New Hope Liuhe Co., Ltd.	Independent director	Yes
Yuming Bao	Yantai Jereh Oilfield Services Group Co., Ltd.	Group vice president/chief legal officer	Yes
	Southwest University of Political Science and Law	Adjunct research fellow	No
	China Behavior Law Association	Visiting professor	No
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
Xie Daxiong	Held positions in 2 subsidiaries of the Company including Guangdong New Pivot Technology & Service Company Limited	Chairman	No
Li Quancai	深圳市中興宜和投資發展有限公司	Director	No
	深圳市益和天成投資發展有限公司	Supervisor	No
	深圳市小禾科技有限公司	Director	No
	深圳市益和天成餐飲管理有限公司	Director	No
Shang Xiaofeng	Shenzhen Aerospace Industrial Technology Research Institute Limited	Head of finance department	Yes
	深圳航天微電機有限公司	Director	No
	廣東歐科空調製冷有限公司	Director	No
	深圳航天科創實業有限公司	Director	No
	航天亮麗電氣有限責任公司	Chairman	No
Zhang Sufang	Held positions in 16 subsidiaries or investee companies of Zhongxingxin including Sindi Technologies Co., Ltd.	Director/Chairman of the Supervisory Committee/Supervisor/general manager	No
Wang Xiyu	Held positions in 17 subsidiaries including Guangdong New Pivot Technology & Service Company Limited	Chairman/Director/general manager	No
Li Ying	Held positions in 4 subsidiaries including ZTE Group Finance	Chairman/Director	No

Note 1: Ms. Fang Rong has ceased to be Director of Zhongxing Software Technology (Shenyang) Company Limited and Shenzhen Zhongxing Changtian Information Technology Company Limited as from January 2019; Director of Zhongxing Software Technology (Ji'nan) Company Limited and Shenzhen Zhongxing Changtian Information Technology (Nanchang) Company Limited as from April 2019; and Director of Zhongxing Software Technology (Nanchang) Company Limited as from May 2019.

Note 2: Ms. Cai Manli has been appointed Independent Director of SF Diamond Co., Ltd. and Hubei Radio & Television Information Network Co., Ltd., respectively, as from February 2019 and Independent Director of New Hope Liuhe Co., Ltd. as from June 2019.

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

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

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

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

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

(V) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Li Zixue, Mr. Xu Ziyang, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-independent Directors of the Eighth Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng were elected as Independent Non-executive Directors of the Eighth Session of the Board of Directors of the Company. The term of the Eighth Session of the Board of Directors of the Company commenced on 30 March 2019 and shall end on 29 March 2022. For details, please refer to the "Announcement on Resolutions of the First Extraordinary Meeting of 2019" published by the Company on 20 March 2019.

At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Shang Xiaofeng and Ms. Zhang Sufang were elected Shareholders' Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company. In addition, Mr. Xie Daxiong, Ms. Xia Xiaoyue and Mr. Li Quancai, were elected Staff Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company through democratic elections among staff representatives. The term of the Eighth Session of the Supervisory Committee of the Company commenced on 30 March 2019 and shall end on 29 March 2022. For details, please refer to the "Announcement on Resolutions of the First Extraordinary Meeting of 2019" published by the Company on 20 March 2019.

At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, Mr. Li Zixue was elected as Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Eighth Session of the Board of Directors of the Company, and Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying were elected as Executive Directors of the Eighth Session of the Board of Directors of the Company; Ms. Cai Manli, Mr. Li Buqing, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng were elected as members of Audit Committee of the Eighth Session of the Board of Directors of the Company with Ms. Cai Manli as convenor; Mr. Gordon Ng, Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Yuming Bao were elected as members of Nomination Committee of the Eighth Session of the Board of Directors of the Company with Mr. Gordon Ng as convenor; Ms. Cai Manli, Mr. Gu Junying, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng were elected as members of Remuneration and Evaluation Committee of the Eighth Session of the Board of Directors of the Company with Ms. Cai Manli as convenor; Mr. Yuming Bao, Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Gordon Ng be elected as members of the Export Compliance Committee of the Eighth Session of the Board of Directors of the Company, with Mr. Yuming Bao as chair. For details, please refer to the "Announcement of Resolutions of the First Meeting of the Eighth Session of the Board of Directors of the Company" published by the Company on 1 April 2019.

Directors, Supervisors and Senior Management

At the First Meeting of the Eighth Session of the Supervisory Committee of the Company held on 1 April 2019, Mr. Xie Daxiong was elected as Chairman of the Eighth Session of the Supervisory Committee of the Company. For details, please refer to the "Announcement of Resolutions of the First Meeting of the Eighth Session of the Supervisory Committee of the Company" published by the Company on 1 April 2019.

Pursuant to the "Resolution on Appointment of New Senior Management of the Company" considered and approved at the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, it was approved that Mr. Xu Ziyang be re-appointed President of the Company and each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be re-appointed Executive Vice President of the Company; that Ms. Li Ying be concurrently re-appointed Chief Financial Officer of the Company; and that the aforesaid newly appointed senior management shall be appointed for a term commencing on the date on which this resolution is considered and approved at the said meeting of the Board of Directors and ending upon the conclusion of the term of the Eighth Session of the Board of Directors of the Company (i.e., 29 March 2022). The term of the previous Secretary to the Board has concluded and it was approved that Ms. Li Ying, Executive Vice President and Chief Financial Officer of the Company, be appointed Secretary to the Board on an acting basis. For details, please refer to the "Announcement of Resolutions of the First Meeting of the Eighth Session of the Board of Directors of the Company" published by the Company on 1 April 2019.

Please refer to sections (II) and (III) in this chapter for details of positions at corporate shareholders and major positions at other entities held by Directors, Supervisors and senior management of the Company.

(VI) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY AFTER THE REPORTING PERIOD

At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, it was approved that Ms. Li Ying, Executive Vice President and Chief Financial Officer of the Company, would undertake the duties of the Secretary to the Board of Directors on an acting basis. Following the conclusion of period of three months since Ms. Li Ying undertook the duties of the Secretary to the Board of Directors on an acting basis, Mr. Li Zixue, Chairman of the Company, has undertaken the duties of the Secretary to the Board of Directors on an acting basis with effect from 1 July 2019 until the formal appointment of a Secretary to the Board of Directors by the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Chairman undertaking the duties of the Secretary to the Board of Directors on an acting basis" published by the Company on 1 July 2019.

At the Seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 29 July 2019, it was approved that Mr. Ding Jianzhong be appointed Secretary to the Board of Directors for a term commencing on the date on which the resolution was considered and approved at the meeting of the Board of Directors of the Company and ending on the date on which the term of the Eighth Session of the Board of Directors concludes (i.e., 29 March 2022). For details, please refer to the "Announcement Resolutions of the Seventh Meeting of the Eighth Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Appointment of the Secretary to the Board of Directors of the Company"published by the Company on 29 July 2019.

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

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2019 are set out in the section of this chapter headed "(I) CHANGES IN THE SHAREHOLDINGS AND SHARE OPTIONS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT".

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

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

Consolidated Balance Sheet

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

Assets	Note V	**30 June 2019 (unaudited)**	31 December 2018 (audited) (Restated)
Current assets			
Cash	1	**29,508,813**	24,289,798
Trading financial assets	2	**620,193**	1,476,823
Derivative financial assets	3	**204,652**	228,117
Trade receivables	4A	**21,465,718**	21,592,325
Receivable financing	4B	**2,352,485**	2,730,351
Factored trade receivables	4A	**552,068**	587,869
Prepayments	5	**696,564**	615,489
Other receivables	6	**1,348,997**	2,004,870
Inventories	7	**27,257,338**	25,011,416
Contract assets	8	**10,563,305**	8,462,226
Other current assets	20	**7,412,753**	5,848,369
Total current assets		**101,982,886**	92,847,653
Non-current assets			
Long-term receivables	9	**707,472**	843,429
Factored long-term receivables	9	**500,747**	432,041
Long-term equity investments	10	**2,796,606**	3,015,295
Other non-current financial assets	11	**1,595,800**	1,502,499
Investment properties	12	**2,015,319**	2,011,999
Fixed assets	13	**8,993,841**	8,898,068
Construction in progress	14	**2,271,944**	1,296,044
Right-of-use assets	15	**1,010,182**	—
Intangible assets	16	**9,016,102**	8,558,488
Development costs	17	**2,542,728**	2,732,356
Goodwill	18	**186,206**	186,206
Deferred tax assets	19	**2,929,146**	2,787,790
Other non-current assets	20	**4,193,669**	4,238,881
Total non-current assets		**38,759,762**	36,503,096
TOTAL ASSETS		**140,742,648**	129,350,749

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

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities	Note V	30 June 2019 (unaudited)	31 December 2018 (audited) (Restated)
Current liabilities			
Short-term loans	22	**34,605,631**	23,739,614
Bank advances on factored trade receivables	4A	**554,263**	591,931
Derivative financial liabilities	23	**92,527**	101,332
Bills payable	24A	**9,059,673**	7,915,700
Trade payables	24B	**17,738,924**	19,527,404
Contract liabilities	25	**15,497,576**	14,479,355
Salary and welfare payables	26	**7,152,707**	6,259,639
Taxes payable	27	**812,026**	954,021
Other payables	28	**8,971,447**	11,135,030
Provisions	29	**1,668,151**	2,167,614
Non-current liabilities due within one year	30	**822,576**	1,243,709
Total current liabilities		**96,975,501**	88,115,349
Non-current liabilities			
Long-term loans	31	**3,330,373**	2,366,568
Bank advances on factored long-term trade receivables	9	**502,645**	434,137
Lease liabilities	32	**597,171**	—
Provision for retirement benefits		**134,561**	136,245
Deferred income		**3,146,022**	1,953,057
Deferred tax liabilities	19	**180,178**	155,041
Other non-current liabilities	33	**2,059,565**	3,229,677
Total non-current liabilities		**9,950,515**	8,274,725
Total liabilities		**106,926,016**	96,390,074

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

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

Shareholder's equity	Note V	30 June 2019 (unaudited)	31 December 2018 (audited) (Restated)
Shareholder's equity			
Share capital	34	**4,192,672**	4,192,672
Capital reserves	35	**11,544,662**	11,444,456
Other comprehensive income	36	**(1,995,732)**	(2,047,561)
Surplus reserve	37	**2,324,748**	2,324,748
Retained profits	38	**8,453,960**	6,983,261
Total equity attributable to holders of ordinary shares of the parent		**24,520,310**	22,897,576
Other equity instruments			
Including: perpetual capital instruments	39	**6,076,632**	6,252,364
Non-controlling interests		**3,219,690**	3,810,735
Total shareholders' equity		**33,816,632**	32,960,675
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**140,742,648**	129,350,749

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

The financial statements set out on pages 65 to 215 have been signed by:

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

Consolidated Income Statement

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited) (Restated)
Operating revenue	40	**44,609,219**	39,433,777
Less: Operating costs	40	**27,119,296**	27,508,353
Taxes and surcharges	41	**595,289**	377,117
Selling and distribution costs	42	**4,025,746**	4,729,622
Administrative expenses	43	**2,538,508**	1,359,347
Research and development costs	44	**6,471,866**	5,060,624
Finance costs	45	**662,809**	84,013
Including: Interest expense		**823,053**	390,211
Interest income		**322,233**	483,485
Add: Other income	46	**860,800**	1,321,997
Investment income/(loss)	47	**315,397**	(118,040)
Including: Share of losses of associates and joint ventures		**(158,146)**	(213,534)
Losses from derecognition of financial assets at amortised cost		**(84,063)**	(99,338)
Losses from changes in fair values	48	**(142,604)**	(377,439)
Credit impairment losses	49	**(1,416,091)**	(1,656,845)
Impairment losses	50	**(469,998)**	(1,229,851)
Operating profit/(loss)		**2,343,209**	(1,745,477)
Add: Non-operating income	51	**74,308**	73,063
Less: Non-operating expenses	51	**180,040**	6,753,429
Total profit/(loss)		**2,237,477**	(8,425,843)
Less:Income tax	53	**412,914**	(565,033)
Net profit/(loss)		**1,824,563**	(7,860,810)
Analysed by continuity of operations			
Net profit from continuing operations		**1,824,563**	(7,860,810)
Analysed by ownership			
Holders of ordinary shares of the parent		**1,470,699**	(7,824,190)
Holders of perpetual capital instruments		**172,867**	214,918
Non-controlling interests		**180,997**	(251,538)
Other comprehensive income, net of tax		**51,077**	(815,502)
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	36	**51,829**	(794,391)
Other comprehensive income that cannot be reclassified to profit or loss			
Change in net assets arising from the re-measurement of defined benefit plans		**–**	–
		–	–
Other comprehensive income that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**51,829**	(794,391)
		51,829	(794,391)
Other comprehensive income attributable to non-controlling interests, net of tax		**(752)**	(21,111)
Total comprehensive income/(loss)		**1,875,640**	(8,676,312)
Attributable to:			
Holders of ordinary shares of the parent		**1,522,528**	(8,618,581)
Holders of perpetual capital instruments		**172,867**	214,918
Non-controlling interests		**180,245**	(272,649)
Earnings per share (RMB/share)			
Basic	54	**RMB 0.35**	RMB(1.87)
Diluted	54	**RMB 0.35**	RMB(1.87)

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

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

Six months ended 30 June 2019 (Unaudited)

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Previous period's closing balance	4,192,672	11,444,456	(2,047,561)	2,324,748	6,983,261	22,897,576	6,252,364	3,810,735	32,960,675
II. Changes during the period									
(I) Total comprehensive income	–	–	51,829	–	1,470,699	1,522,528	172,867	180,245	1,875,640
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	–	43,434	–	–	–	43,434	–	111,917	155,351
2. Equity settled share expenses charged to equity	–	150,266	–	–	–	150,266	–	–	150,266
3. Capital reduction by shareholders	–	–	–	–	–	–	–	(584,836)	(584,836)
4. Acquisition of non-controlling interests	–	(93,494)	–	–	–	(93,494)	–	(24,790)	(118,284)
(III) Profit appropriation									
1. Distribution to shareholders	–	–	–	–	–	–	(348,599)	(273,581)	(622,180)
III. Current period's closing balance	4,192,672	11,544,662	(1,995,732)	2,324,748	8,453,960	24,520,310	6,076,632	3,219,690	33,816,632

Six months ended 30 June 2018 (Unaudited)

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

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

Consolidated Cash Flow Statement

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		43,797,682	52,509,269
Refunds of taxes		2,853,112	4,410,278
Cash received relating to other operating activities	55	2,912,413	1,916,690
Sub-total of cash inflows		49,563,207	58,836,237
Cash paid for goods and services		30,226,065	36,166,294
Cash paid to and on behalf of employees		8,740,820	13,362,104
Cash paid for various types of taxes		5,289,879	4,329,621
Cash paid relating to other operating activities	55	4,039,826	10,024,604
Sub-total of cash outflows		48,296,590	63,882,623
Net cash flows from operating activities	56	1,266,617	(5,046,386)
II. Cash flows from investing activities			
Cash received from sale of investments		1,227,875	1,502,078
Cash received from return on investment		101,557	431,435
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		14,593	1,936
Net cash received from the disposal of subsidiaries and other operating units		445,907	—
Sub-total of cash inflows		1,789,932	1,935,449
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets		4,263,060	2,036,418
Cash paid for acquisition of investments		194,901	1,050,375
Other cash paid in relation to investing activities	55	2,200,000	—
Sub-total of cash outflows		6,657,961	3,086,793
Net cash flows from investing activities		(4,868,029)	(1,151,344)
III. Cash flows from financing activities			
Cash received from capital injection		4,570	180,600
Including: Capital injection into subsidiaries by minority shareholders		4,570	180,600
Cash received from borrowings		23,776,919	11,249,198
Other cash received in relation to financing activities		26,280	—
Sub-total of cash inflows		23,807,769	11,429,798
Cash repayment of borrowings		12,468,044	16,733,687
Cash payments for perpetual capital instruments		—	1,500,000
Cash payments for distribution of dividends, profits and for interest expenses		1,661,520	1,356,586
Including: Distribution of dividends, profits by subsidiaries to minority shareholders		273,581	213,422
Other cash paid relating to financing activities	55	652,159	—
Sub-total of cash outflows		14,781,723	19,590,273
Net cash flows from financing activities		9,026,046	(8,160,475)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		77,915	32,223
V. Net increase/(decrease) in cash and cash equivalents		5,502,549	(14,325,982)
Add: cash and cash equivalents at beginning of period		21,134,111	30,109,268
VI. Net balance of cash and cash equivalents at the end of period	56	26,636,660	15,783,286

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

Balance Sheet

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

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

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

Balance Sheet (continued)

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

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

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

Income Statement

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

	Note XV	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited) (Restated)
Operating revenue	5	**39,475,276**	39,579,488
Less: Operating costs	5	**32,290,242**	33,113,845
Taxes and surcharges		**344,033**	93,760
Selling and distribution costs		**2,138,680**	2,708,843
Administrative expenses		**2,071,946**	923,524
Research and development costs		**1,935,014**	1,624,777
Finance costs		**542,245**	(11,114)
Including: Interest expense		**475,331**	194,683
Interest income		**108,109**	75,667
Add: Other income		**27,253**	118,713
Investment income/(loss)	6	**113,190**	(39,230)
Including: Share of losses of associates and joint ventures	6	**(98,657)**	(180,228)
Losses from derecognition of financial assets at amortised cost		**(21,067)**	(45,284)
(Losses)/gains from changes in fair values		**(82,272)**	74,544
Credit impairment losses		**(1,330,901)**	(1,701,758)
Impairment losses		**(392,017)**	(952,830)
Operating loss		**(1,511,631)**	(1,374,708)
Add: Non-operating income		**38,226**	43,648
Less: Non-operating expenses		**106,330**	6,721,519
Total loss		**(1,579,735)**	(8,052,579)
Less: Income tax		**(58,586)**	(709,515)
Net loss		**(1,521,149)**	(7,343,064)
Including: net loss from continuing operations		**(1,521,149)**	(7,343,064)
Analysed by ownership			
Attributable to holders of ordinary shares		**(1,694,016)**	(7,557,982)
Attributable to holders of perpetual capital instruments		**172,867**	214,918
Other comprehensive income, net of tax			
Other comprehensive income that cannot be reclassified to profit and loss			
Change in net assets arising from the re-measurement of defined benefit plans		**—**	—
Other comprehensive income will be reclassified to profit and loss			
Exchange differences on translation of foreign operations		**(1,067)**	(653)
Total comprehensive loss		**(1,522,216)**	(7,343,717)
Attributable to:			
Holders of ordinary shares		**(1,695,083)**	(7,558,635)
Holders of perpetual capital instruments		**172,867**	214,918

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

Statement of Changes in Equity

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

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

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

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

Cash Flow Statement

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	**44,767,563**	48,816,197
Refunds of taxes	**2,072,501**	3,187,537
Cash received relating to other operating activities	**973,060**	1,039,560
Sub-total of cash inflows	**47,813,124**	53,043,294
Cash paid for goods and services	**34,880,732**	43,633,667
Cash paid to and on behalf of employees	**2,659,160**	5,940,747
Cash paid for various types of taxes	**2,366,021**	1,025,163
Cash paid relating to other operating activities	**2,588,942**	8,612,274
Sub-total of cash outflows	**42,494,855**	59,211,851
Net cash flows from operating activities	**5,318,269**	(6,168,557)
II. Cash flows from investing activities		
Cash received from sale of investments	**611,851**	—
Cash received from return on investments	**240,311**	106,975
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**10,258**	1,292
Sub-total of cash inflows	**862,420**	108,267
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	**3,065,420**	602,389
Cash paid for acquisition of investments	**70,735**	306,551
Other cash paid in relation to investing activities	**2,200,000**	—
Sub-total of cash outflows	**5,336,155**	908,940
Net cash flows from investing activities	**(4,473,735)**	(800,673)
III. Cash flows from financing activities		
Cash received from borrowings	**12,387,166**	7,043,693
Sub-total of cash inflows	**12,387,166**	7,043,693
Cash repayment of borrowings	**9,468,566**	6,605,215
Cash payment for perpetual capital instruments	**—**	1,500,000
Cash payments for distribution of dividends and profits or for interest expenses	**818,775**	673,917
Other cash paid in relation to financing activities	**61,378**	—
Sub-total of cash outflows	**10,348,719**	8,779,132
Net cash flows from financing activities	**2,038,447**	(1,735,439)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**(18,497)**	8,673
V. Net increase/(decrease) in cash and cash equivalents	**2,864,484**	(8,695,996)
Add: cash and cash equivalents at the beginning of the period	**10,147,946**	17,006,734
VI. Net balance of cash and cash equivalents at the end of the period	**13,012,430**	8,310,738

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

Notes to Financial Statements

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

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, fire 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 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.

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 27 August 2019.

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises — Basic Standards" promulgated by the Ministry of Finance 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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2019 and the results of their operations and their cash flows for the six months ended 30 June 2019.

2. Financial year

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

3. Reporting currency

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

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

4. Business combination

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

Business combinations involving entities under common control

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

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

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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (continued)

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

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

5. Consolidated financial statements

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

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

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

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

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

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

8. Foreign currency translation

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

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

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur. 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. 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

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

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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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

Debt instruments at amortised cost

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

Debt instrument at fair value through other comprehensive income

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

Financial assets at fair value through current profit or loss

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

Impairment of financial instruments

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial instruments (continued)

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

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

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

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

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

Financial guarantee contracts

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Derivative financial instruments (continued)

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

Transfer of financial assets

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

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

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

10. Inventories

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

12. Investment properties

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

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

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

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

13. Fixed Assets

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Fixed Assets (continued)

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

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

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

14. Construction in progress

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

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

15. Borrowing costs

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

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

Capitalisation of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs (continued)

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

16. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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

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

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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 ranted, or is otherwise beneficial to the employee as measured at the date of modification.

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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.

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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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

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.

21. Contract assets and contract liabilities

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

Contract assets

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

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

Contract liabilities

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Assets relating to contract cost

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

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

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

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

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

(3) they are expected to be recoverable.

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

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

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

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

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

23. Government grants

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Government grants (continued)

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

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Income tax (continued)

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

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

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

25. Leases (applicable prior to 1 January 2019)

Other than leases under which substantially all risks and rewards of ownership are transferred, which are classified as finance lease, all leases are classified as operating leases.

As lessee of operating leases

Rental expenses under operating leases are recognised as relevant asset costs or in current profit or loss on the straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

As lessor of operating leases

Rental income under operating leases are recognised as profit/loss for the current period on a straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

26. Leases (applicable from 1 January 2019)

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Leases (applicable from 1 January 2019) (continued)

As a lessee (continued)

Initial measurement

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

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

Subsequent measurement

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

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

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

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

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;

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Leases (applicable from 1 January 2019) (continued)

As a lessee (continued)

Modification of leases (continued)

(2) The consideration for the increase approximates the standalone price for the extended portion of the lease after adjustments based on the status of the contract.

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

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

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

(2) For other modifications, the Group adjusts the carrying value of the right-of-use assets accordingly.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Leases (applicable from 1 January 2019) (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.

As lessee

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

As lessor

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Impairment

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

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

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

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

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

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

Previously recognised impairment losses are not reversed in subsequent periods.

28. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Employee remuneration (continued)

Retirement benefit (defined deposit scheme)

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

Retirement benefit (defined benefit scheme)

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

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

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

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

Termination benefits

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Fair value measurement

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

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

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

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

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

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

30. Profit distribution

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

31. Significant accounting judgements and estimates

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant accounting judgements and estimates (continued)

Judgement

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

Determination of standalone contractual performance obligations under telecommunication system construction contracts

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

Determination of progress of performance of service rendering contracts

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant accounting judgements and estimates (continued)

Judgement (continued)

Business model

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

Characteristics of contract cash flow

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

Deferred tax liabilities relating to subsidiaries, associates and joint ventures

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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

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

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

Impairment of financial instruments

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. 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 30 June 2019 was RMB2,015,319,000 (31 December 2018: RMB2,011,999,000).

Fair value of non-listed equity investment

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in accounting policies and accounting estimates

Changes in accounting policies

New ABSE on Leases

In 2018, the MOF announced the amended "ASBE 21 — Leases" (the "New ASBE on Leases"). The New ASBE on Leases adopts a singular model similar to that currently adopted under finance lease accounting, requiring the lessee to recognise right-of-use assets and lease liabilities in respect of all leases, with the exception of short-term leases and low-value asset leases, and to recognise depreciation costs and interest expenses. The Group has adopted the amended ASBE on leases with effect from 1 January 2019, and has elected not re-assess whether contracts subsisting prior to the first date of implementation are or contain leases. In accordance with the convergence provisions, adjustments to information for the comparative period are not required. Retained earnings at the beginning of the reporting period is adjusted on a retrospective basis to reflect the difference on the first date of implementation between reporting under the New ASBE on Leases and reporting under the current ASBE on leases:

(1) For finance leases subsisting prior to the first date of implementation, right-of-use assets and lease liabilities are measured at the original carrying value of the finance lease assets and the finance lease amounts payable, respectively;

(2) For operating leases subsisting prior to the first date of implementation, lease liabilities are measured based on the remaining lease payment amounts discounted to their present value using the incremental loan interest rate at the first date of implementation, while right-of-use assets are measured for each lease as an amount equivalent to the lease liabilities, adjusted as necessary based on rental prepayments. Assuming the New ASBE on Leases has been adopted since the commencement of the lease period, right-of-use assets are measured at book value discounted using the incremental loan interest rate on the first date of implementation applicable to the Group as the lessee.

(3) The Group conducts impairment testing on right-of-use assets in accordance with Note III.27 and applies relevant accounting treatment accordingly.

The Group adopts a simplified approach for operating leases to be completed within 12 months prior to the first date of implementation and no right-of-use assets and lease liabilities are recognized. Moreover, the Group has also adopted a simplified approach as follows in respect of operating leases subsisting prior to the first date of implementation:

(1) In measuring lease liabilities, the same discount rate may be applied to leases with similar characteristics, and initial direct costs may be omitted from the measurement of right-of-use assets;

(2) Where an option for renewal or option for termination is provided, the Group determines the lease period based on the actual exercise of such options prior to the first date of implementation and other latest developments;

(3) Modification of leases prior to the first date of implementation is accounted for based on the finalised arrangements of such modification.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New ABSE on Leases (continued)

The outstanding minimum lease payments under material operating leases disclosed in the 2018 financial statements discounted to their present value using the incremental loan interest rate at 1 January 2019 applicable to the Group as lessee are adjusted for lease liabilities included the balance sheet at1 January 2019 as follows:

Minimum lease payments under material operating leases at 31 December 2018	1,025,375
Less: Minimum lease payments under simplified approach	146,023
Including: short-term leases	146,023
Add: Increase in minimum lease payments arising from reasonably ascertained exercise of renewal option	164,962
Minimum lease payments under the New ASBE on Leases at 1 January 2019	1,044,314
Weighted average incremental loan interest rate at 1 January 2019	5.66%
Lease liabilities at 1 January 2019	952,264

The effect of the implementation of the New ASBE on Leases on the consolidated balance sheet at 1 January 2019 is represented by the recognition of right-of-use assets amounting to RMB952,264,000 and lease liabilities amounting to RMB952,264,000; the effect on the Company balance sheet at 1 January 2019 is represented by the recognition of right-of-use assets amounting to RMB660,822,000 and lease liabilities amounting to RMB660,822,000.

The impact of the implementation of the New ABSE on Leases on the financial statements for the six months ended 30 June 2019 is set out as follows:

Consolidated balance sheet

	On the face of statement RMB'000	**Hypothetically per previous ASBE** RMB'000	**Effect** RMB'000
Assets			
Right-of-use assets	1,010,182	—	1,010,182
Deferred tax assets	2,929,146	2,926,172	2,974
Liabilities			
Non-current liabilities due within one year	822,576	305,541	517,035
Lease liabilities	597,171	—	597,171
Other payables	8,971,447	9,055,646	(84,199)
Shareholders' equity			
Retained profit	8,453,960	8,470,811	(16,851)

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New ABSE on Leases (continued)

Consolidated income statement

	On the face of statement RMB'000	Hypothetically per previous ASBE RMB'000	Effect RMB'000
Operating costs	27,119,296	27,120,406	(1,110)
Selling and distribution costs	4,025,746	4,033,390	(7,644)
Administrative expenses	2,538,508	2,542,598	(4,090)
Finance costs	662,809	630,140	32,669
Income tax	412,914	415,888	(2,974)
	34,759,273	34,742,422	16,851

Company balance sheet

	On the face of statement RMB'000	Hypothetically per previous ASBE RMB'000	Effect RMB'000
Assets			
Right-of-use assets	618,521	—	618,521
Deferred tax assets	1,555,286	1,553,442	1,844
Liabilities			
Non-current liabilities due within one year	463,535	193,000	270,535
Lease liabilities	420,238	—	420,238
Other payables	20,112,779	20,172,738	(59,959)
Shareholders' equity			
Retained profit	(4,795,880)	(4,785,431)	(10,449)

Company income statement

	On the face of statement RMB'000	Hypothetically per previous ASBE RMB'000	Effect RMB'000
Operating costs	32,290,242	32,291,352	(1,110)
Selling and distribution costs	2,138,680	2,139,446	(766)
Administrative expenses	2,071,946	2,073,637	(1,691)
Finance costs	542,245	526,385	15,860
Income tax	(58,586)	(56,742)	(1,844)
	36,984,527	36,974,078	10,449

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

Change in the reporting format of the financial statements

In accordance with the requirements of the "Notice on the Revision and Publication of the 2019 General Corporate Financial Reporting Format" (Cai Kuai [2019] No. 6), "Bills receivable and trade receivables" in the balance sheet was segregated into "Bills receivable" and "Trade receivables", and "Bills payable and trade payables" was segregated into "Bills payable" and "Trade payables". An item known as "Receivable financing" was added to reflect bills receivable and trade receivables at fair value through other comprehensive income at the date of the balance sheet. The portion of "Deferred income" with an amortisation period of one year or less and expected to be amortised within a period of one year or less shall not be classified as current liabilities and shall continue to be presented under the said item. In the income statement, a new breakdown item "Gain from derecognition of financial assets at amortised cost" was added under investment income to reflect gain or loss arising from the derecognition of financial assets at amortised cost as a result of transfers. The Group made retrospective adjustments to the comparative data accordingly. The said change in accounting policy has had no impact on the net profit and owners' equity on the consolidated and company statements.

The main effect of the retrospective adjustments to the financial statements resulting from the aforesaid change in the reporting format of the financial statements is set out as follows:

Group consolidated balance sheet

	Carrying value under previous ASBE 31 December 2018	Other effect of the change in the reporting format of the financial statements	Carrying value under new ASBE 1 January 2019
Trade receivables and bills receivable	21,592,325	(21,592,325)	—
Other current assets	8,578,720	(2,730,351)	5,848,369
Trade receivables	—	21,592,325	21,592,325
Receiving financing	—	2,730,351	2,730,351
Trade payables and bills payable	27,443,104	(27,443,104)	—
Bills payable	—	19,527,404	19,527,404
Trade payables	—	7,915,700	7,915,700

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

Change in the reporting format of the financial statements (continued)

Group consolidated income statement

	Carrying value under previous ASBE Six months ended 30 June 2018	Other effect of the change in the reporting format of the financial statements	Carrying value under new ASBE Six months ended 30 June 2018
Finance costs	183,351	(99,338)	84,013
Including: interest expenses	489,549	(99,338)	390,211
Investment income	(18,702)	(99,338)	(118,040)
Including: Loss from derecognition of financial assets at amortised cost	—	(99,338)	(99,338)

Company balance sheet

	Carrying value under previous ASBE 31 December 2018	Other effect of the change in the reporting format of the financial statements	Carrying value under new ASBE 1 January 2019
Trade receivables and bills receivable	29,045,827	(29,045,827)	—
Other current assets	5,249,358	(2,030,426)	3,218,932
Trade receivables	—	29,045,827	29,045,827
Receiving financing	—	2,030,426	2,030,426
Trade payables and bills payable	46,554,829	(46,554,829)	—
Bills payable	—	12,019,698	12,019,698
Trade payables	—	34,535,131	34,535,131

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

Change in the reporting format of the financial statements

Company income statement

	Carrying value under previous ASBE Six months ended 30 June 2018	Other effect of the change in the reporting format of the financial statements	Carrying value under new ASBE Six months ended 30 June 2018
Finance costs	34,170	(45,284)	(11,114)
Including: interest expenses	239,967	(45,284)	194,683
Investment income	6,054	(45,284)	(39,230)
Including: Loss from derecognition of financial assets at amortised cost	–	(45,284)	(45,284)

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 16% before 1 April 2019 and 13% since 1 April 2019 (being the tax rate for general taxpayers); regarding service income, output tax is calculated at tax rates of 5%, 6% and 10% before 1 April 2019 and 5%, 6% and 9% since 1 April 2019 and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period.
City maintenance and construction tax	–	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	–	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	–	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	–	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	–	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.

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IV TAXATION (CONTINUED)

2. Tax concession

The Company is subject to an enterprise income tax rate of 15% for the years from 2017 to 2019 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 10% for 2019 as a national-grade key software enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Zhongxing Smart Auto Company Limited is subject to an enterprise income tax rate of 15% from 2018 to 2020 as a national-grade hi-tech enterprise

Nanjing Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an Cris Semiconductor Technology Company Limited is subject to an enterprise income tax rate of 10% for 2019 as an IC design enterprise designated by national planning.

Chongqing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2019 as a national-grade key software enterprise.

Shenzhen Zhongxing SI Technology Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Sanya Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2019 as a national-grade key software enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% in 2019 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Yilian Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company is subject to an enterprise income tax rate of 15% in 2019 as an approved enterprise engaged in nationally encouraged industries.

ZTE (Xi'an) Company Limited is subject to an enterprise income tax rate of 15% in 2019 under the West China development preferential policy and as an approved enterprise engaged in nationally encouraged industries.

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V EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash and Bank Balance

	30 June 2019	31 December 2018
Cash	**731**	1,597
Bank Deposit	**26,885,691**	21,230,742
Other cash	**2,622,391**	3,057,459
	29,508,813	24,289,798

As at 30 June 2019, the Group's overseas currency deposits amounted to RMB4,243,244,000 (31 December 2018: RMB4,531,760,000). Funds placed overseas and subject to remittance restrictions amounted to RMB30,601,000 (31 December 2018: RMB59,035,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 3 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB249,762,000 (31 December 2018: RMB98,228,000) were not included in cash and cash equivalents.

2. Trading financial assets

	30 June 2019	31 December 2018
Financial assets at fair value through current profit and loss		
Investment in equity instrument	**587,057**	810,411
Other investment	**33,136**	666,412
	620,193	1,476,823

3. Derivative financial assets

	30 June 2019	31 December 2018
Derivative financial assets at fair value through current profit or loss	**204,652**	228,117
	204,652	228,117

Trading in derivative financial assets at fair value through current profit or loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC mainland and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the reporting period, loss arising from fair value changes of non-hedging derivative financial instruments amounting to RMB23,278,000 (Six months ended 30 June 2018: loss of RMB85,059,000) was dealt with in current profit or loss.

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

4A. Trade receivables

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

Aging analysis of trade receivables was as follows:

	30 June 2019	31 December 2018
Within 1 year	22,653,905	22,993,716
1 to 2 years	4,307,512	3,820,353
2 to 3 years	1,659,629	1,603,985
Over 3 years	5,278,887	5,556,254
	33,899,933	33,974,308
Less: bad debt provision for trade receivables	12,434,215	12,381,983
	21,465,718	21,592,325

Please refer to Note V.21 for details of movements in bad debt provision for trade receivables and bad debt provision for factored trade receivables for the period.

	30 June 2019				31 December 2018			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Standalone bad debt provision	6,917,269	20	6,917,269	100	5,100,451	15	5,100,451	100
For which provision for bad debt is recognised by group with credit risk characteristics	26,982,664	80	5,516,946	20	28,873,857	85	7,281,532	25
	33,899,933	100	12,434,215	37	33,974,308	100	12,381,983	36

As at 30 June 2019, 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*	570,953	570,953	100%
Overseas carriers 2*	564,097	564,097	100%
Overseas carriers 3*	511,412	511,412	100%
Overseas carriers 4*	422,230	422,230	100%
Overseas carriers 5*	421,458	421,458	100%
Overseas carriers 6*	390,264	390,264	100%
Overseas carriers 7*	317,237	317,237	100%
Overseas carriers 8*	275,762	275,762	100%
Overseas carriers 9*	222,487	222,487	100%
Overseas carriers 10*	153,214	153,214	100%
Overseas carriers 11*	144,377	144,377	100%
Overseas carriers 12*	139,208	139,208	100%
Others (Customer 13 to Customer 48)*	2,784,570	2,784,570	100%
	6,917,269	6,917,269	100%

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

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

4A. Trade receivables (continued)

As at 31 December 2018, 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*	**835,770**	**835,770**	**100%**
Overseas carriers 2*	**573,370**	**573,370**	**100%**
Overseas carriers 3*	**513,577**	**513,577**	**100%**
Overseas carriers 4*	**237,836**	**237,836**	**100%**
Overseas carriers 5*	**137,240**	**137,240**	**100%**
Overseas carriers 6*	**102,918**	**102,918**	**100%**
Overseas carriers 7*	**101,364**	**101,364**	**100%**
Others (Customer 8 to Customer 34)*	**2,598,376**	**2,598,376**	**100%**
	5,100,451	**5,100,451**	**100%**

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

For the first half of 2019, there was reversal of RMB67,171,000 (2018: nil) and write-off of RMB1,084,580,000 (2018: nil) in bad debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately.

	30 June 2019			31 December 2019		
	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire subsistence	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire subsistence
0–6 months	**17,774,757**	**3**	**543,801**	18,941,685	4	726,570
6–12 months	**3,092,690**	**13**	**413,503**	2,354,877	10	237,027
1–2 years	**1,938,067**	**31**	**591,219**	1,849,365	39	723,234
2–3 years	**914,096**	**77**	**705,369**	1,491,167	91	1,357,938
Over 3 years	**3,263,054**	**100**	**3,263,054**	4,236,763	100	4,236,763
	26,982,664		**5,516,946**	**28,873,857**		7,281,532

Top 5 accounts of trade receivables as at 30 June 2019 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	**2,511,668**	**7.41%**	**17,591**
Customer 2	**2,027,098**	**5.98%**	**350,108**
Customer 3	**1,977,625**	**5.83%**	**12,481**
Customer 4	**957,377**	**2.82%**	**11,773**
Customer 5	**691,083**	**2.04%**	**24,607**
	8,164,851	**24.08%**	**416,560**

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

4A. Trade receivables (continued)

Top 5 accounts of trade receivables as at 31 December 2018 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	2,246,883	6.61%	6,487
Customer 2	2,232,538	6.57%	11,010
Customer 3	1,997,586	5.88%	275,286
Customer 4	1,096,848	3.23%	22,311
Customer 5	676,670	1.99%	10,611
	8,250,525	24.28%	325,705

The Group factored trade receivables measured at amortised cost on a non-recourse basis to financial institutions. The carrying amount of trade receivables derecognised as at the end of the period was RMB6,413,436,000 (2018: RMB7,268,181,000) and loss of RMB84,063,000 (2018: RMB99,338,000)was recognised in investment income for the period.

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

4B. Receivable financing

	30 June 2019	31 December 2018
Commercial acceptance bills	**1,707,069**	2,043,565
Bank acceptance bills	**645,416**	686,786
	2,352,485	2,730,351

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:

	30 June 2019		31 December 2018	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Commercial acceptance bills	**1,261,876**	**93,116**	—	229,468
Bank acceptance bills	**1,355,726**	**144,703**	167,820	423,189
	2,617,602	**237,819**	167,820	652,657

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

4B. Receivable financing (continued)

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

	Opening balance	Provisions for the period	Reversal for the period	Write-back for the period	Write-off for the period	Closing balance
30 June 2019	**2,455**	**204**	**—**	**—**	**—**	**2,659**
31 December 2018	—	2,455	—	—	—	2,455

5. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2019		31 December 2018	
	Book balance	**Percentage**	Book balance	Percentage
Within 1 year	**696,564**	**100%**	615,489	100%

Top 5 accounts of prepayments as at 30 June 2019 were as follows:

Supplier	**Amount**	**As a percentage of total amounts of prepayments**
Supplier 1	**38,803**	**5.57%**
Supplier 2	**37,294**	**5.35%**
Supplier 3	**32,154**	**4.62%**
Supplier 4	**30,774**	**4.42%**
Supplier 5	**29,415**	**4.22%**
	168,440	**24.18%**

Top 5 accounts of prepayments as at 31 December 2018 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	44,447	7.22%
Supplier 2	41,507	6.74%
Supplier 3	30,725	4.99%
Supplier 4	29,172	4.74%
Supplier 5	18,687	3.04%
	164,538	26.73%

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

6. Other receivables

	30 June 2019	31 December 2018
Interests receivables	**2,457**	2,189
Dividends receivables	**–**	5,400
Other receivables	**1,346,540**	1,997,281
	1,348,997	2,004,870

Interests receivables

	30 June 2019	31 December 2018
Time deposits	**2,457**	2,189

Dividends receivables

	30 June 2019	31 December 2018
前海融資租賃股份有限公司	**–**	5,400

Other receivables

Aging analysis of other receivables was as follows:

	30 June 2019	31 December 2018
Within 1 year	**939,414**	1,251,356
1year to 2 years	**290,238**	482,350
2 years to 3 years	**147,681**	279,495
Over 3 years	**105,408**	122,439
	1,482,741	2,135,640
Bad debt provision	**(133,744)**	(130,770)
	1,348,997	2,004,870

Other receivables analysed by nature were as follows:

	30 June 2019	31 December 2018
Staff loans	**248,697**	345,287
Transactions with third parties	**1,097,843**	1,651,994
Others	**2,457**	7,589
	1,348,997	2,004,870

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

6. Other receivables (continued)

Other receivables (continued)

Top 5 accounts of other receivables as at 30 June 2019 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	193,073	13.02%	–	–	Transactions with third parties
Third-party entity 2	56,834	3.83%	(56,834)	100%	Loans and advances
Third-party entity 3	44,848	3.02%	(44,848)	100%	Transactions with third parties
Third-party entity 4	38,044	2.57%	–	–	Transactions with third parties
Third-party entity 5	28,298	1.91%	–	–	Transactions with third parties
Total	361,097	24.35%	(101,682)		

Top 5 accounts of other receivables as at 31 December 2018 were as follows:

Due from	Closing balance at year-end	As a percentage of the total amount of other receivables	Bad debt provision	Expected credit loss	Nature
Third-party entity 1	361,200	16.91%	–	–	Equity disposal
Third-party entity 2	215,473	10.09%	–	–	Transactions with third parties
Third-party entity 3	120,000	5.62%	–	–	Transactions with third parties
Third-party entity 4	56,834	2.66%	(56,834)	100%	Loans and advances
Third-party entity 5	44,848	2.10%	(44,848)	100%	Transactions with third parties
Total	798,355	37.38%	(101,682)		

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

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

6. Other receivables (continued)

Other receivables (continued)

Financial assets included in other receivables was RMB1,040,971,000. For financial assets included in other receivables based on expected credit losses in the next 12 months and expected credit losses during the entire life, the change of provisions for bad debt was as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses during the entire life Financial assets with credit impairment occurred (Standalone assessment)	Stage 3 Financial assets with credit impairment occurred (during the entire life)	Total
Opening balance	1,446	—	129,324	130,770
Provisions for the period	1,398	—	1,576	2,974
Balance at 30 June 2019	**2,844**	**—**	**130,900**	**133,744**

7. Inventories

	30 June 2019			31 December 2018		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value
Raw materials	**6,190,138**	**872,737**	**5,317,401**	5,324,703	1,151,577	4,173,126
Materials under subcontract processing	**5,936**	**131**	**5,805**	5,612	131	5,481
Work in progress	**1,285,438**	**37,073**	**1,248,365**	1,490,805	31,703	1,459,102
Finished goods	**3,418,799**	**683,622**	**2,735,177**	4,049,168	767,829	3,281,339
Dispatch of goods and others	**4,259,908**	**602,980**	**3,656,928**	5,377,760	426,105	4,951,655
Contract costs	**15,646,938**	**1,353,276**	**14,293,662**	11,962,640	821,927	11,140,713
	30,807,157	**3,549,819**	**27,257,338**	28,210,688	3,199,272	25,011,416

Please refer to Note V.21 for details of movements in the provision for impairment of inventory during the period.

8. Contract assets

	30 June 2019			31 December 2018		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value
Contract assets	**11,057,390**	**(494,085)**	**10,563,305**	8,614,711	(152,485)	8,462,226

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

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

8. Contract assets (continued)

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

	Opening balance	Provisions for the period	Reversal for the period	Write-back for the period	Write-off for the period	Exchange rate changes	Closing balance
Six months ended 30 June 2019	152,485	363,298	(22,240)	–	–	542	494,085

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

	30 June 2019		
	Carrying amount estimated to be in default	Expected credit loss rate	Expected credit loss during the entire subsistence
Standalone bad debt provision	429,544	100.00%	429,544
For which provision for bad debt is recognised by group with credit risk characteristics	10,627,846	0.61%	64,541
	11,057,390	4.47%	494,085

9. Long-term receivables

	30 June 2019	31 December 2018
Installment payments for the provision of telecommunication system construction projects	736,752	873,726
Less: Bad debt provision for long-term receivables	29,280	30,297
	707,472	843,429

The discount rates adopted for long-term receivables ranged from 4.50%–6.16%.

Long-term trade receivables was provided based on expected credit loss during the entire life. All long-term trade receivables had not expired during the year. The rate of expected credit loss was 4.08%.

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.

Please refer to Note V.21 for details of movements in bad debt provision for long-term receivables and factored long-term trade receivables during the period.

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

10. Long-term equity investments

		30 June 2019	31 December 2018
Equity method			
Joint ventures	(1)	**96,542**	99,905
Associates	(2)	**3,706,872**	3,922,089
Less: provision for impairment of long-term equity investments		**1,006,808**	1,006,699
		2,796,606	3,015,295

30 June 2019

(1) Joint Ventures

	Opening balance	Movement during the period: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the period	Impairment provision as at the end of the period
Bestel Communications Ltd.	–	–	–	–	–	–	–	–	–	(2,255)
Puxing Mobile Tech Company Limited	57,234	–	–	(1,410)	–	–	–	–	55,824	–
Pengzhong Xingsheng	6,138	–	–	158	–	–	–	–	6,296	–
德特賽維技術有限公司	27,278	–	–	(2,111)	–	–	–	–	25,167	–
重慶百德行置業有限公司	7,000	–	–	–	–	–	–	–	7,000	–
	97,650	–	–	(3,363)	–	–	–	–	94,287	(2,255)

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

10. Long-term equity investments (continued)

30 June 2019 (continued)

(2) Associates

	Opening balance	Movement during the period: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the period	Impairment provision as at the end of the period
KAZNURTEL Limited Liability Company	–	–	–	–	–	–	–	–	–	(2,477)
ZTE Energy Limited	426,995	–	–	10,219	–	–	–	–	437,214	–
ZTE Software Technology (Nanchang) Company Limited	3,947	–	–	(69)	–	–	–	–	3,878	–
Telecom Innovations	–	–	–	–	–	–	–	–	–	(11,276)
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	1,790	–	–	(466)	–	–	–	–	1,324	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,360	–	–	(1,400)	–	–	–	–	2,960	–
中興耀維科技江蘇有限公司	2,927	–	–	(247)	–	–	–	–	2,680	–
INTLIVE TECHNOLOGIES (Private) LIMITED	–	–	–	–	–	–	–	–	–	(7,129)
廈門智慧小區網絡科技有限公司	3,856	–	–	(2,578)	–	–	–	–	1,278	–
中山優順置業有限公司	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和(北京)科技有限公司	1,314	–	–	(348)	–	–	–	–	966	–
西安城投智能充電股份有限公司	7,290	–	–	–	–	–	–	–	7,290	–
廣東福能大數據產業園建設有限公司	13,902	–	–	(570)	–	–	–	–	13,332	–
廣東中興城智信息技術有限公司	4,634	–	–	332	–	–	–	–	4,966	–
前海融資租賃股份有限公司	73,579	–	(66,054)	(7,907)	382	–	–	–	–	–
上海博色信息科技有限公司	26,134	–	–	2,844	–	–	–	–	28,978	–
New Idea Investment Pte. Ltd	6,930	–	–	(11)	38	–	–	–	6,957	(6,961)
中興智能科技產業有限公司	–	–	–	–	–	–	–	–	–	(37,248)
南京寧網科技有限公司	3,876	–	–	(1,045)	–	–	–	–	2,831	–
Hengyang ICT Real Estate Co., Ltd.	52,446	–	–	–	–	–	–	–	52,446	–
貴州中安雲網科技有限公司	4,133	–	–	(146)	–	–	–	–	3,987	–
陝西高能裝備與智能製造產業研究院有限公司	2,010	–	–	–	–	–	–	–	2,010	–
Laxense,Inc.	16,280	–	–	(403)	26	–	–	–	15,903	–
中教雲通(北京)科技有限公司	2,261	–	–	(272)	–	–	–	–	1,989	–
Kron Telekomunikasyon Hizmetleri A.S.	9,485	470	–	103	32	–	–	–	10,090	–
山東興濟置業有限公司	1,069	–	–	–	–	–	–	–	1,069	–
ZTE 9 (Wuxi) Co., Ltd.	14,697	–	–	(407)	–	–	–	–	14,290	–
Nubia Technology Limited	1,281,524	–	–	(143,504)	–	–	–	–	1,138,020	(934,698)
Huanggang Education Valley Investment Holdings Co., Ltd.	8,587	–	–	(2,343)	–	–	–	–	6,244	–
Whale Cloud Technology Co., Ltd.	893,341	–	–	(644)	–	–	–	–	892,697	–
石家莊市智慧產業有限公司	48,278	–	–	(1,358)	–	–	–	–	46,920	–
	2,917,645	470	(66,054)	(150,220)	478	–	–	–	2,702,319	(1,004,553)

2018

(1) Joint Ventures

	Opening balance	Movement during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision as at the end of the year
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	(2,255)	–	(2,255)
Puxing Mobile Tech Company Limited	56,687	–	–	547	–	–	–	–	57,234	–
重慶前沿大資料管理有限公司*	3,443	–	(2,060)	(1,383)	–	–	–	–	–	–
Pengzhong Xingsheng	564	–	–	5,574	–	–	–	–	6,138	–
德特賽維技術有限公司	29,395	–	–	(2,117)	–	–	–	–	27,278	–
重慶百德行置業有限公司	–	7,000	–	–	–	–	–	–	7,000	–
	92,344	7,000	(2,060)	2,621	–	–	–	(2,255)	97,650	(2,255)

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10. Long-term equity investments (continued)

2018 (continued)

(2) Associates

		Movement during the year								
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision as at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	(2,477)	–	(2,477)
思卓中興(杭州)科技有限公司*	21,248	–	(21,248)	–	–	–	–	–	–	–
ZTE Energy Limited	421,510	–	–	5,485	–	–	–	–	426,995	–
ZTE Software Technology (Nanchang) Company Limited	3,799	–	–	148	–	–	–	–	3,947	–
Nanjing Piaoxun Network Technology Company Limited*	23	–	(23)	–	–	–	–	–	–	–
Telecom Innovations	10,698	–	–	–	518	–	–	(11,216)	–	(11,216)
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3,155	–	–	(1,365)	–	–	–	–	1,790	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,179	–	–	181	–	–	–	–	4,360	–
中興耀維科技江蘇有限公司	3,834	–	–	(907)	–	–	–	–	2,927	–
中興智慧成都有限公司*	9,677	–	(8,618)	(1,059)	–	–	–	–	–	–
INTLIVE TECHNOLOGIES (Private) LIMITED	6,776	–	–	–	341	–	–	(7,117)	–	(7,117)
廈門智慧小區網絡科技有限公司	4,991	–	–	(1,135)	–	–	–	–	3,856	–
中山優順置業有限公司	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和(北京)科技有限公司	1,836	–	–	(522)	–	–	–	–	1,314	–
西安城投智能充電股份有限公司	7,290	–	–	–	–	–	–	–	7,290	–
紹興市智慧城市集團有限公司	3,665	–	(3,665)	–	–	–	–	–	–	–
廣東福能大數據產業園建設有限公司	13,143	–	–	759	–	–	–	–	13,902	–
廣東中興城智信息技術有限公司	4,392	–	–	242	–	–	–	–	4,634	–
前海融資租賃股份有限公司	66,232	–	–	4,201	3,146	–	–	–	73,579	–
上海博色信息科技有限公司	20,909	–	–	5,225	–	–	–	–	26,134	–
New Idea Investment Pte. Ltd	13,214	–	–	–	640	–	–	(6,924)	6,930	(6,924)
中興智慧科技產業有限公司	37,248	–	–	–	–	–	–	(37,248)	–	(37,248)
南京寧網科技有限公司	3,460	–	–	416	–	–	–	–	3,876	–
Hengyang ICT Real Estate Co., Ltd.	56,083	–	(3,637)	–	–	–	–	–	52,446	–
貴州中安雲網科技有限公司	2,663	1,710	–	(240)	–	–	–	–	4,133	–
陝西高能裝備與智能製造產業研究院有限公司	2,002	–	–	8	–	–	–	–	2,010	–
Laxense,Inc.	14,431	–	–	1,127	722	–	–	–	16,280	–
中教雲通(北京)科技有限公司	2,800	–	–	(539)	–	–	–	–	2,261	–
Kron Telekomunikasyon Hizmetleri A.S.	11,414	–	–	343	(2,272)	–	–	–	9,485	–
山東興濟置業有限公司	1,069	–	–	–	–	–	–	–	1,069	–
ZTE 9 (Wuxi) Co., Ltd.	15,944	–	–	(1,247)	–	–	–	–	14,697	–
Nubia Technology Limited	3,083,500	–	–	(867,278)	–	–	–	(934,698)	1,281,524	(934,698)
Huanggang Education Valley Investment Holdings Co., Ltd.	12,591	–	–	(4,004)	–	–	–	–	8,587	–
Whale Cloud Technology Co., Ltd.	–	840,695	–	52,646	–	–	–	–	893,341	–
石家莊市智慧產業有限公司	–	48,000	–	278	–	–	–	–	48,278	–
	3,868,253	890,405	(37,191)	(807,237)	3,095	–	–	(999,680)	2,917,645	(1,004,444)

11. Other non-current financial assets

	30 June 2019	31 December 2018
Financial assets at fair value through current profit and loss	**1,595,800**	1,502,499

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12. Investment properties

Fair value measurement:

30 June 2019

	Buildings
Opening balance	2,011,999
Fair value change (Note V.48)	3,320
Closing balance	2,015,319

31 December 2018

	Buildings
Opening balance	2,023,809
Fair value change	(11,810)
Closing balance	2,011,999

During the period, 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 30 June 2019, investment properties with a carrying value of RMB1,776,844,000 (31 December 2018: RMB1,773,918,000) had yet to obtain title registration certificates.

13. Fixed Assets

30 June 2019

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	7,293,996	41,339	4,895,506	2,992,242	287,672	356,499	15,867,254
Acquisitions	17,682	–	585,474	74,108	5,165	6,153	688,582
Transfer from construction in progress	39,473	–	590	13,920	8	819	54,810
Disposal or retirement	(4,039)	–	(246,629)	(108,279)	(11,828)	(15,669)	(386,444)
Exchange rate adjustments	592	527	(1,249)	(212)	(128)	2,310	1,840
Closing balance	7,347,704	41,866	5,233,692	2,971,779	280,889	350,112	16,226,042
Accumulated depreciation							
Opening balance	1,686,740	–	3,120,285	1,744,448	166,323	210,037	6,927,833
Provision	137,924	–	327,153	115,128	11,010	11,201	602,416
Disposal or retirement	(78)	–	(228,241)	(96,191)	(9,256)	(5,418)	(339,184)
Exchange rate adjustments	562	–	(963)	(289)	(73)	597	(166)
Closing balance	1,825,148	–	3,218,234	1,763,096	168,004	216,417	7,190,899
Provision for impairment							
Opening balance	21,270	–	1,947	16,959	1,096	81	41,353
Disposal or retirement	–	–	(22)	–	–	–	(22)
Exchange rate adjustments	–	–	(29)	–	–	–	(29)
Closing balance	21,270	–	1,896	16,959	1,096	81	41,302
Net book value							
As at the end of the period	5,501,286	41,866	2,013,562	1,191,724	111,789	133,614	8,993,841
As at the beginning of the period	5,585,986	41,339	1,773,274	1,230,835	120,253	146,381	8,898,068

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13. Fixed Assets (continued)

31 December 2018

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	6,411,930	46,098	4,916,218	3,455,337	305,020	563,834	15,698,437
Acquisitions	215,662	–	789,765	191,355	25,161	29,711	1,251,654
Transfer from construction in progress	927,017	–	1,983	135,148	–	475	1,064,623
Disposal or retirement	(254,272)	–	(837,558)	(789,397)	(42,369)	(239,974)	(2,163,570)
Exchange rate adjustments	(6,341)	(4,759)	25,098	(201)	(140)	2,453	16,110
Closing balance	7,293,996	41,339	4,895,506	2,992,242	287,672	356,499	15,867,254
Accumulated depreciation							
Opening balance	1,496,406	–	3,232,567	1,747,564	166,476	300,568	6,943,581
Provision	254,305	–	577,461	275,116	27,366	63,176	1,197,424
Disposal or retirement	(60,199)	–	(713,198)	(278,469)	(27,294)	(155,173)	(1,234,333)
Exchange rate adjustments	(3,772)	–	23,455	237	(225)	1,466	21,161
Closing balance	1,686,740	–	3,120,285	1,744,448	166,323	210,037	6,927,833
Provision for impairment							
Opening balance	21,270	–	20,345	12,369	4,094	2,322	60,400
Provision	–	–	1,764	5,051	700	–	7,515
Disposal or retirement	–	–	(21,642)	(313)	(3,698)	(2,388)	(28,041)
Exchange rate adjustments	–	–	1,480	(148)	–	147	1,479
Closing balance	21,270	–	1,947	16,959	1,096	81	41,353
Net book value							
As at the end of the year	5,585,986	41,339	1,773,274	1,230,835	120,253	146,381	8,898,068
As at the beginning of the year	4,894,254	46,098	1,663,306	1,695,404	134,450	260,944	8,694,456

As at 30 June 2019, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Changsha, Xi'an, Heyuan and Sanya in China with a net book value of approximately RMB3,853,087,000 (31 December 2018: RMB3,885,897,000).

14. Construction in progress

Changes in major construction in progress as at 30 June 2019 were as follows:

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Other reduction	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	11,357	20,075	–	–	31,432	Internal fund	92.34%	In progress
Sanya R&D Base Project	137,390	108,248	14,799	39,473	–	83,574	Internal fund	89.56%	In progress
Nanjing Project	978,070	224,488	31,914	–	–	256,402	Internal fund	26.22%	In progress
Changsha production R&D Base Phase I	236,020	4,492	834	–	–	5,326	Internal fund	97.94%	In progress
New energy commercial vehicle production base	892,530	391,436	80,930	–	–	472,366	Internal fund	52.92%	In progress
Shanghai R&D Centre Phase III	478,000	31,357	21,031	–	–	52,388	Internal fund	22.36%	In progress
ZTE high energy lithium battery project Phase I	577,460	220,896	33,267	15,337	–	238,826	Internal fund	55.12%	In progress
ZTE headquarters	2,443,200	59,240	175,053	–	–	234,293	Internal fund	9.59%	In progress
Nanjing Intelligent Manufacturing Base Phase I	2,638,600	3,181	586,391	–	–	589,572	Internal fund	22.34%	In progress
Others		241,349	127,180	–	60,764*	307,765	Internal fund		In progress
		1,296,044	1,091,474	54,810	60,764	2,271,944			

* 河南興遠智慧產業發展有限公司 and 中興(淮安)智慧產業有限公司, companies where the project in progress was conducted, have ceased to be included in the consolidated financial statements as from March 2019 and May 2019, respectively.

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14. Construction in progress (continued)

Changes in major construction in progress as at 31 December 2018 were as follows:

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Transfer to intangible assets	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	763,671	156,261	697,553	211,022	11,357	Internal fund	90.37%	In progress
Sanya R&D Base Project	119,100	105,368	2,880	–	–	108,248	Internal fund	90.89%	In progress
Heyuan R&D training Center Phase I	1,030,000	71,166	2,312	73,478	–	–	Internal fund	100.00%	Completed
Nanjing Project	978,070	133,346	91,142	–	–	224,488	Internal fund	22.95%	In progress
Changsha production R&D Base Phase I	236,020	160,867	69,453	225,828	–	4,492	Internal fund	97.58%	In progress
New energy commercial vehicle production base	892,530	90,412	301,024	–	–	391,436	Internal fund	43.86%	In progress
Shanghai R&D Centre Phase III	478,000	5,091	80,778	–	54,512	31,357	Internal fund	17.96%	In progress
ZTE high energy lithium battery project Phase I	577,460	–	285,024	64,128	–	220,896	Internal fund	49.36%	In progress
ZTE headquarters	2,443,200	–	59,240	–	–	59,240	Internal fund	2.42%	In progress
Others		143,065	113,018	3,636	7,917	244,530	Internal fund		In progress
		1,472,986	1,161,132	1,064,623	273,451	1,296,044			

As at 30 June 2019, there was no capitalised interest in the balance of the construction in progress (31 December 2018: Nil).

15. Rights-of-use assets

30 June 2019

	Buildings and structures	Vehicles	Other investment	Total
Cost				
Opening balance	902,642	40,736	8,886	952,264
Increase	191,730	78,657	870	271,257
Exchange rate adjustment	(469)	(2,030)	–	(2,499)
Closing balance	1,093,903	117,363	9,756	1,221,022
Cumulative depreciation				
Charge	184,713	24,417	1,780	210,910
Exchange rate adjustment	(10)	(60)	–	(70)
Closing balance	184,703	24,357	1,780	210,840
Book value				
Closing balance	909,200	93,006	7,976	1,010,182
Opening balance	902,642	40,736	8,886	952,264

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16. Intangible assets

30 June 2019

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	630,241	187,480	5,307,974	1,026,695	9,026,476	16,178,866
Acquisition	80,688	41,434	–	16,130	–	138,252
In-house R&D	–	–	–	–	1,206,174	1,206,174
Disposal or retirement	(37,163)	–	(63,282)	(26)	–	(100,471)
Exchange rate adjustments	188	–	–	(1,682)	–	(1,494)
Closing balance	673,954	228,914	5,244,692	1,041,117	10,232,650	17,421,327
Accumulated amortisation						
Opening balance	206,007	116,867	281,096	597,531	6,340,979	7,542,480
Provision	63,284	29,091	76,455	70,154	562,157	801,141
Disposal or retirement	(14,025)	–	(2,531)	(26)	–	(16,582)
Exchange rate adjustments	453	–	–	(112)	–	341
Closing balance	255,719	145,958	355,020	667,547	6,903,136	8,327,380
Provision for impairment						
Opening balance	14,338	–	6,322	57,238	–	77,898
Exchange rate adjustments	(53)	–	–	–	–	(53)
Closing balance	14,285	–	6,322	57,238	–	77,845
Book value						
As at the end of the period	403,950	82,956	4,883,350	316,332	3,329,514	9,016,102
As at the beginning of the period	409,896	70,613	5,020,556	371,926	2,685,497	8,558,488

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16. Intangible assets (continued)

31 December 2018

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	621,106	186,631	1,462,058	950,815	7,844,813	11,065,423
Acquisition	120,590	849	3,877,373	73,232	–	4,072,044
In-house R&D	–	–	–	–	1,181,663	1,181,663
Disposal or retirement	(117,581)	–	(31,457)	(312)	–	(149,350)
Exchange rate adjustments	6,126	–	–	2,960	–	9,086
Closing balance	630,241	187,480	5,307,974	1,026,695	9,026,476	16,178,866
Accumulated amortisation						
Opening balance	194,254	73,698	175,086	469,485	5,392,953	6,305,476
Provision	103,239	43,002	112,766	126,972	948,026	1,334,005
Disposal or retirement	(97,186)	–	(6,756)	(312)	–	(104,254)
Exchange rate adjustments	5,700	167	–	1,386	–	7,253
Closing balance	206,007	116,867	281,096	597,531	6,340,979	7,542,480
Provision for impairment						
Opening balance	12,010	–	6,322	–	–	18,332
Provision	2,118	–	–	57,238	–	59,356
Exchange rate adjustments	210	–	–	–	–	210
Closing balance	14,338	–	6,322	57,238	–	77,898
Book value						
As at the end of the year	409,896	70,613	5,020,556	371,926	2,685,497	8,558,488
As at the beginning of the year	414,842	112,933	1,280,650	481,330	2,451,860	4,741,615

As at 30 June 2019, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a carrying value of approximately RMB3,561,610,000 (31 December 2018: RMB3,621,923,000).

As at 30 June 2019, intangible assets formed through internal research and development accounted for 37% of the book value of intangible assets as at the end of the period (31 December 2018: 31%).

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17. Deferred development costs

30 June 2019

	Opening balance	Increase during the period	Decrease during the period		Closing balance
		Internal development	Intangible assets recognised	Charged to current profit or loss	
Handsets	**29,448**	**29,750**	**(28,357)**	**(2,847)**	**27,994**
System Products	**2,702,908**	**1,033,324**	**(1,177,817)**	**(43,681)**	**2,514,734**
	2,732,356	**1,063,074**	**(1,206,174)**	**(46,528)**	**2,542,728**

31 December 2018

	Opening balance	Increase during the period	Decrease during the period		Closing balance
		Internal development	Intangible assets recognised	Charged to current profit or loss	
Handsets	29,482	44,818	(44,368)	(484)	29,448
System Products	1,872,595	1,986,652	(1,137,295)	(19,044)	2,702,908
	1,902,077	2,031,470	(1,181,663)	(19,528)	2,732,356

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

18. Goodwill

Movements in the original value of goodwill are as follows:

30 June 2019

	Opening balance	Increase during the period	Decrease during the period	Closing balance
		Exchange rate change	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	**186,206**	**–**	**–**	**186,206**
Suzhou Laxense Technology Co., Ltd.	**33,500**	**–**	**–**	**33,500**
NETAS TELEKOMUNIKASYON A.S.	**89,763**	**353**	**–**	**90,116**
	309,469	**353**	**–**	**309,822**

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18. Goodwill (continued)

31 December 2018

	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.	89,100	663	–	89,763
	308,806	663	–	309,469

Change in goodwill impairment provision was as follows:

30 June 2019

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
		Exchange rate movement	**Disposal**	
Zhuhai Guangtong Bus Co., Ltd.	**–**	**–**	**–**	**–**
Suzhou Laxense Technology Co., Ltd.	**33,500**	**–**	**–**	**33,500**
NETAS TELEKOMUNIKASYON A.S.	**89,763**	**353**	**–**	**90,116**
Total	**123,263**	**353**	**–**	**123,616**

31 December 2018

	Opening balance	Increase during the period	Decrease during the period	Closing balance
		Charge	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	–	–	–	–
Suzhou Laxense Technology Co., Ltd.	–	33,500	–	33,500
NETAS TELEKOMUNIKASYON A.S.	–	89,763	–	89,763
Total	–	123,263	–	123,263

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18. Goodwill (continued)

Goodwill acquired as a result of corporate merger has been allocated to the following asset groups or portfolio of asset groups for the purpose of impairment testing:

The management is of the view that Zhuhai Guangtong Bus Co., Ltd. is a relatively independent asset group and not related to other business segments of the Group. Hence it has been treated as an asset group.

- Zhuhai Guangtong Bus Co., Ltd. asset group

Zhuhai Guangtong Bus Co., Ltd. asset group

The asset group of Zhuhai Guangtong Bus Co., Ltd. comprised mainly a product line of new energy passenger buses consistent with the asset group ascertained on the date of purchase and at the time of impairment test in previous years.

19. Deferred tax assets/liabilities

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

	30 June 2019		31 December 2018	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	**1,524,457**	**345,825**	1,699,679	400,583
Provision for impairment in inventory	**1,217,161**	**244,997**	1,307,066	286,420
Foreseeable construction contract losses	**1,025,050**	**153,758**	1,324,843	198,726
Amortisation of deferred development costs	**2,210,143**	**250,153**	2,143,306	237,342
Provision for warranties and returned goods	**426,841**	**68,405**	527,320	83,847
Provision for retirement benefits	**161,303**	**25,554**	162,546	25,706
Deductible tax losses	**9,299,186**	**1,400,712**	7,264,374	1,104,016
Accruals	**2,623,353**	**371,104**	3,187,964	446,151
Overseas taxes pending deduction	**928,785**	**139,318**	883,782	132,567
Share option scheme expenses	**556,938**	**83,541**	404,890	60,734
Others	**19,827**	**2,974**	—	—
	19,993,044	**3,086,341**	18,905,770	2,976,092

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19. Deferred tax assets/liabilities (continued)

	30 June 2019		31 December 2018	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax liabilities				
Revaluation gain of investment properties	**1,103,620**	**165,543**	1,065,275	162,223
Other non-current financial assets	**268,645**	**49,492**	401,121	71,436
Adjustments to fair value of business combination not under common control	**298,016**	**44,702**	326,903	49,035
Adjustments to fair value of disposal of remaining equity interests in subsidiaries	**228,680**	**34,302**	249,940	37,491
Others	**288,892**	**43,334**	154,384	23,158
	2,187,853	**337,373**	2,197,623	343,343

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

	30 June 2019		31 December 2018	
	Amount of set-off	**Amount after set-off**	Amount of set-off	Amount after set-off
Deferred tax assets	**157,195**	**2,929,146**	188,302	2,787,790
Deferred tax liabilities	**157,195**	**180,178**	188,302	155,041

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

	30 June 2019	31 December 2018
Deductible tax losses	**3,977,489**	4,171,222
Deductible temporary difference	**128,641**	144,992
	4,106,130	4,316,214

Deductible tax losses of unrecognised deferred tax assets expiring in:

	30 June 2019	31 December 2018
2019	**130,323**	138,564
2020	**273,377**	278,465
2021	**354,985**	474,063
2022	**372,800**	374,049
2023	**266,890**	290,573
Beyond 2023	**2,579,114**	2,615,508
	3,977,489	4,171,222

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

19. Deferred tax assets/liabilities (continued)

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.

20. Other current assets/other non-current assets

Other current assets

	30 June 2019	31 December 2018
Credit tax available for set off	7,397,703	5,837,157
Others	15,050	11,212
	7,412,753	5,848,369

Other non-current assets

	30 June 2019	31 December 2018
Prepayments for project, equipment and land	570,641	623,530
Risk compensation fund	183,733	183,346
Guarantee deposit	355,340	355,340
Restricted cash (Note1)	2,797,783	2,744,800
Prepaid income tax	170,967	226,578
Others	115,205	105,287
	4,193,669	4,238,881

Note 1: Restricted funds represented deposits in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed. For details, please refer to Note XII.2.

21. Provision for impairment of assets/credit impairment

30 June 2019

	Opening balance	Adjustment for the period	Decrease for the period		Effect of exchange rate	Closing balance
			Reversal	Write-back/ write-off		
Bad debt provision	12,547,999	1,727,451	(652,622)	(1,121,598)	99,982	12,601,212
Including: Trade receivables	12,381,983	1,724,477	(650,474)	(1,121,598)	99,827	12,434,215
Long-term receivables	30,297	–	(1,172)	–	155	29,280
Other receivables	130,770	2,974	–	–	–	133,744
Factored trade receivables	2,853	–	(778)	–	–	2,075
Long-term factored trade receivables	2,096	–	(198)	–	–	1,898
Provision for impairment of inventories	3,199,272	592,175	(122,177)	(127,995)	8,544	3,549,819
Provision for impairment of contract assets	152,485	363,298	(22,240)	–	542	494,085
Provision for impairment of fixed assets	41,353	–	–	(22)	(29)	41,302
Provision for impairment of intangible assets	77,898	–	–	–	(53)	77,845
Provision for impairment of long-term equity investments	1,006,699	–	–	–	109	1,006,808
Goodwill impairment provision	123,263	–	–	–	353	123,616
Provision for impairment of receivable financing	2,455	204	–	–	–	2,659
	17,151,424	2,683,128	(797,039)	(1,249,615)	109,448	17,897,346

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

21. Provision for impairment of assets/credit impairment (continued)

The Group determines at the balance sheet date whether there is an indication of impairment in trade receivables. Where there is such indication, the Group will estimate its recoverable amount and conduct impairment tests.

Inventory is measured at the lower of cost and net realisable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognised in current profit or loss.

22. Short-term loans

			30 June 2019		31 December 2018	
			Original currency	**RMB equivalent**	Original currency	RMB equivalent
Credit loans		RMB	**15,099,000**	**15,099,000**	11,965,900	11,965,900
		USD	**599,362**	**4,119,417**	566,928	3,890,260
		EUR	**128,000**	**1,000,640**	178,000	1,397,407
		TRY	**641,500**	**766,109**	385,458	502,769
Bills discounting loans	Note 1	RMB	**6,899,816**	**6,899,816**	3,327,478	3,327,478
Letter of credit loans		RMB	**5,644,410**	**5,644,410**	1,500,000	1,500,000
Pledged loans	Note 2	RMB	**561,239**	**561,239**	500,000	500,000
		USD	**–**	**–**	24,891	170,800
Secured loans	Note 3	RMB	**515,000**	**515,000**	485,000	485,000
				34,605,631		23,739,614

As at 30 June 2019, the annual interest rate of the above loans ranged from 1%–32% (except for TRY loans which were subject to an annual interest rate of 1%–7%) (31 December 2018: 0%–38%).

Note 1: Bill discounting loans were loans obtained through the discounting of bank acceptance bills and commercial acceptance bills. For 2019, discounted bills with an amount of RMB6,700,010,000 (31 December 2018: RMB2,674,821,000) represented bills issued among intra-group companies.

Note 2: Pledged loans were loans extended to 西安中興通訊終端科技有限公司 pledged against commercial bills (issued by ZTE Corporation) with an amount of RMB600,000,000 (31 December 2018: RMB170,800,000) and loans extended to ZTE ICT Company Limited pledged by RMB80 million trade receivables of Shenzhen Zhongxing Zhiping Technology Company Limited (31 December 2018: nil).

Note 3: The secured loans comprised loans extended to Xi'an Zhongxing New Software Company Limited secured by buildings with a book value of RMB432,673,000 and land use rights with a book value of RMB20,737,000, loans 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 RMB15,190,000 and loans extended to ZTE ICT (Hebei) Company Limited secured by land use rights with a book value of RMB15,656,000 and buildings and structures with a book value of RMB50,673,000 (31 December 2018: RMB716,953,000).

23. Derivative financial liabilities

	30 June 2019	31 December 2018
Financial liabilities at fair value through current profit and loss	**92,527**	101,332

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.3.

24A. Bills payable

	30 June 2019	31 December 2018
Bank acceptance bills	**5,117,761**	3,573,813
Commercial acceptance bills	**3,941,912**	4,341,887
	9,059,673	7,915,700

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

24B. Trade payables

Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2019	31 December 2018
0 to 6 months	**17,009,052**	18,731,559
6 to 12 months	**329,399**	385,737
1 year to 2 years	**199,817**	198,519
2 years to 3 years	**153,594**	169,568
Over 3 years	**47,062**	42,021
	17,738,924	19,527,404

Trade payables are interest-free and repayable normally within 6 months.

As at 30 June 2019, there were no material trade payables aged over 1 year (31 December 2018: Nil).

25. Contract liabilities

	Opening balance	**Increase during the period**	**Income brought forward**	**Other change**	**Closing balance**
Rights to receive contracted consideration obtained	**7,636,303**	**4,228,079**	**(3,908,119)**	**–**	**7,956,263**
Contracted consideration received	**6,843,052**	**5,866,981**	**(5,168,720)**	**–**	**7,541,313**
	14,479,355	**10,095,060**	**(9,076,839)**	**–**	**15,497,576**

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.

26. Salary and welfare payables

Salaries payable

30 June 2019

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Short-term remuneration	**6,100,580**	**10,153,865**	**(9,253,498)**	**7,000,947**
Retirement benefits (Defined contribution scheme)	**155,195**	**630,604**	**(636,099)**	**149,700**
Termination benefits	**3,864**	**161,163**	**(162,967)**	**2,060**
	6,259,639	**10,945,632**	**(10,052,564)**	**7,152,707**

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

26. Salary and welfare payables (continued)

Salaries payable (continued)

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	7,178,679	18,034,228	(19,112,327)	6,100,580
Retirement benefits (Defined contribution scheme)	200,638	1,354,080	(1,399,523)	155,195
Termination benefits	10,227	279,818	(286,181)	3,864
	7,389,544	19,668,126	(20,798,031)	6,259,639

Short-term remuneration analysed as follows:

30 June 2019

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Salary, bonus and allowance	**4,823,725**	**9,255,488**	**(8,439,760)**	**5,639,453**
Staff welfare	**19,233**	**12,532**	**(18,781)**	**12,984**
Social Insurance	**67,792**	**348,542**	**(351,118)**	**65,216**
Including: Medical	**60,291**	**319,064**	**(321,365)**	**57,990**
Work injuries	**3,044**	**7,552**	**(7,618)**	**2,978**
Maternity	**4,457**	**21,926**	**(22,135)**	**4,248**
Housing funds	**20,032**	**254,941**	**(268,279)**	**6,694**
Labour union fund and employee education fund	**1,169,798**	**282,362**	**(175,560)**	**1,276,600**
	6,100,580	**10,153,865**	**(9,253,498)**	**7,000,947**

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	6,075,445	15,905,580	(17,157,300)	4,823,725
Staff welfare	12,066	82,651	(75,484)	19,233
Social Insurance	88,745	817,488	(838,441)	67,792
Including: Medical	78,961	753,239	(771,909)	60,291
Work injuries	3,738	20,636	(21,330)	3,044
Maternity	6,046	43,613	(45,202)	4,457
Housing funds	61,678	553,016	(594,662)	20,032
Labour union fund and employee education fund	940,745	675,493	(446,440)	1,169,798
	7,178,679	18,034,228	(19,112,327)	6,100,580

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

26. Salary and welfare payables (continued)

Salaries payable (continued)

Defined contribution plans are analysed as follows:

30 June 2019

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	147,602	614,065	(619,412)	142,255
Unemployment insurance	7,593	16,539	(16,687)	7,445
	155,195	630,604	(636,099)	149,700

31 December 2018

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	191,817	1,316,416	(1,360,631)	147,602
Unemployment insurance	8,821	37,664	(38,892)	7,593
	200,638	1,354,080	(1,399,523)	155,195

27. Tax payable

	30 June 2019	31 December 2018
Value-added tax	147,237	138,269
Enterprise income tax	394,509	532,281
Including: PRC tax	267,146	459,622
Overseas tax	127,363	72,659
Personal income tax	173,447	131,321
City maintenance and construction tax	34,675	55,143
Education surcharge	33,401	46,008
Other taxes	28,757	50,999
	812,026	954,021

28. Other payables

	30 June 2019	31 December 2018
Interest payables	46,394	13,563
Dividend payables	1,322	1,322
Other payables	8,923,731	11,120,145
	8,971,447	11,135,030

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

28. Other payables (continued)

Dividend payables

	30 June 2019	31 December 2018
Dividend payables to holders of restricted shares	225	225
Dividend payables to minority shareholders	1,097	1,097
	1,322	1,322

Other payables

	30 June 2019	31 December 2018
Accruals	535,285	566,410
Deferred income from staff housing due in 1 year	189,667	191,846
Payables to external parties		
Payables to Relevant U.S. Authorities	7,311,810	9,501,176
Deposits	23,241	27,913
Others	863,728	832,800
	8,923,731	11,120,145

29. Provisions

30 June 2019

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Expected contract loss (Note 1)	1,494,051	434,513	(845,859)	1,082,705
Outstanding litigation (Note 2)	366,195	22,737	(59,137)	329,795
Provision for warranties	307,368	86,132	(137,849)	255,651
	2,167,614	543,382	(1,042,845)	1,668,151

31 December 2018

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Expected contract loss (Note 1)	581,244	1,545,600	(632,793)	1,494,051
Outstanding litigation (Note 2)	106,293	295,089	(35,187)	366,195
Provision for warranties	426,833	363,924	(483,389)	307,368
	1,114,370	2,204,613	(1,151,369)	2,167,614

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.

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

30. Non-current liabilities due within one year

	30 June 2019	1 January 2019	31 December 2018
Long-term loans due within one year	**305,542**	1,243,709	1,243,709
Lease liabilities	**517,034**	354,673	—
	822,576	1,598,382	1,243,709

31. Long-term loans

			30 June 2019		31 December 2018	
			Original currency	**RMB equivalent**	Original currency	RMB equivalent
Credit loans		RMB	**300,000**	**300,000**	286,000	286,000
		USD	**420,000**	**2,886,660**	295,000	2,024,290
		EUR	**363**	**2,836**	290	2,278
		TRY	**56,000**	**66,877**	—	—
Guaranteed loans	Note 1	RMB	**64,000**	**64,000**	54,000	54,000
Secured loans	Note 2	RMB	**10,000**	**10,000**	—	—
				3,330,373		2,366,568

Note 1: The guaranteed loans comprised mainly guaranteed loans provided by 中興新能源汽車有限公司 for 深圳市中鑫新能源科技有限公司 (formerly known as 深圳市中興新能源汽車科技有限公司).

Note 2: The loan comprised mainly loan obtained by ZTE ICT (Guangxi) Company Limited secured by land use rights with a book value of 9,115,000.

As at 30 June 2019, the annual interest rate for the aforesaid loans was 0.75%–26.75% (except for TRY loans which were subject to an annual interest rate of 0.75%–6.10%) (31 December 2018: 0.75%–4.75%).

32. Lease liabilities

	30 June 2019	1 January 2019	31 December 2018
Lease liabilities	**597,171**	597,591	—

33. Other non-current liabilities

	30 June 2019	31 December 2018
Deferred income relating to staff housing	**900,432**	918,832
Long-term payable	**1,159,133**	539,845
Amounts payable to third parties	**—**	1,771,000
	2,059,565	3,229,677

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

34. Share capital

30 June 2019

	Opening balance	Increase/Decrease during the period				Closing balance
		Issue of new share	Transfer from reserves	Others	Sub-total	
Restricted shares						
Senior management shares	3,601	—	—	(547)	(547)	3,054
Total number of restricted shares	3,601	—	—	(547)	(547)	3,054
Unrestricted shares						
RMB Ordinary shares	3,433,569	—	—	547	547	3,434,116
Overseas listed foreign shares	755,502	—	—	—	—	755,502
Total number of unrestricted shares	4,189,071	—	—	547	547	4,189,618
Total number of shares	4,192,672	—	—	—	—	4,192,672

31 December 2018

	Opening balance	Increase/Decrease during the period				Closing balance
		Issue of new share	Transfer from reserves	Issue of new share	Transfer from reserves	
Restricted shares						
Senior management shares	3,185	—	—	416	416	3,601
Total number of restricted shares	3,185	—	—	416	416	3,601
Unrestricted shares						
RMB Ordinary shares	3,433,985	—	—	(416)	(416)	3,433,569
Overseas listed foreign shares	755,502	—	—	—	—	755,502
Total number of unrestricted shares	4,189,487	—	—	(416)	(416)	4,189,071
Total number of shares	4,192,672	—	—	—	—	4,192,672

35. Capital reserves

30 June 2019

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium (Note 1)	10,925,665	—	(50,060)	10,875,605
Share-based payment (Note 2)	438,791	150,266	—	589,057
Capital investment by government	80,000	—	—	80,000
	11,444,456	150,266	(50,060)	11,544,662

31 December 2018

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	10,979,251	—	(53,586)	10,925,665
Share-based payment	245,603	193,188	—	438,791
Capital investment by government	80,000	—	—	80,000
	11,304,854	193,188	(53,586)	11,444,456

Note 1: The acquisition of minority interests in subsidiaries resulted in a reduction of share premium in capital reserve by RMB93,494,000. Capital injection by non-controlling shareholders resulted in an increase of share premium in capital reserve by RMB43,434,000.

Note 2: Share options issued by the Company in July 2017 are divided into three exercise periods. Share option expenses of RMB150,266,000 was recognised for the period in respect of share options in the first and third periods. For details please refer to Note XI.

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36. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to the parent company:

	1 January 2018	Increase/ decrease	31 December 2018	Increase/ decrease	**30 June 2019**
Changes in net liabilities arising from the re-measurement of defined benefit plans	(65,201)	(477)	(65,678)	—	**(65,678)**
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss	44,350	—	44,350	—	**44,350**
Effective portion of hedging instruments	(67,982)	—	(67,982)	—	**(67,982)**
Differences arising from foreign currency translation	(1,865,841)	(885,179)	(2,751,020)	51,829	**(2,699,191)**
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**
	(1,161,905)	(885,656)	(2,047,561)	51,829	**(1,995,732)**

Other comprehensive income on the income statement incurred during the current period:

Six months ended 30 June 2019

	Amount before taxation	**Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period**	**Less: income tax**	**Attributable to the parent company**	**Attributable to non-controlling interests**
Differences arising from foreign currency translation	**51,077**	**—**	**—**	**51,829**	**(752)**
	51,077	**—**	**—**	**51,829**	**(752)**

Six months ended 30 June 2018

	Amount before taxation	Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period	Less: income tax	Attributable to the parent company	Attributable to non-controlling interests
Differences arising from foreign currency translation	(815,502)	—	—	(794,391)	(21,111)
	(815,502)	—	—	(794,391)	(21,111)

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37. Surplus reserves

30 June 2019

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	**2,324,748**	**—**	**—**	**2,324,748**

31 December 2018

	Opening balance	Opening adjustment	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	2,142,354	182,394	—	—	2,324,748

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalised as the Company's share capital.

38. Retained profits

	30 June 2019	31 December 2018
Retained profits at the beginning of the period	**6,983,261**	14,149,317
Opening adjustments	**—**	(182,394)
Opening balance as adjusted	**6,983,261**	13,966,923
Net profit/(loss) attributable to shareholders of the parent	**1,470,699**	(6,983,662)
Retained profits at the end of the period	**8,453,960**	6,983,261

In accordance with the Articles of Association of the Company, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs.

39. Other equity instruments

(1) General information of Medium Term Notes outstanding as at the end of the period

As at 30 June 2019, details of Medium Term Notes outstanding of the Group are as follows:

	Date of issue	Accounting classification	Dividend rate or interest rate	Issue price (RMB per unit)	Quantity (10,000)	Amount	Maturity or renewal
Tranche I	**2015.1.27**	**Perpetual capital instrument**	**0.0581**	**100**	**6,000**	**6,076,632**	**2020.1.27**

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39. Other equity instruments (continued)

(1) General information of Medium Term Notes outstanding as at the end of the period (continued)

As at 31 December 2018, details of Medium Term Notes outstanding of the Group are as follows:

	Date of issue	Accounting classification	Dividend rate or interest rate	Issue price (RMB per unit)	Quantity (10,000)	Amount	Maturity or renewal
Tranche I	2015.1.27	Perpetual capital instrument	0.0581	100	6,000	6,252,364	2020.1.27
Tranche II	2015.2.6	Perpetual capital instrument	0.0569	100	1,500	—	2018.2.6
Tranche III	2015.11.20	Perpetual capital instrument	0.0449	100	1,500	—	2018.11.20
						6,252,364	

The Company issued the 2015 Tranche I Medium Term Notes with a total principal amount of RMB6,000 million on 27 January 2015. The notes will remain valid indefinitely until they are redeemed by the issuer (the Company) pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 5th interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and their accruals). The coupon interest rate for the first 5 years for which interest is accruable is 5.81% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 6th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread (the difference between the coupon interest rate and the initial benchmark rate), the initial benchmark rate being the arithmetic average (rounding to the nearest 0.01%) of the yield rates of treasury bonds with a 5-year term in the interbank fixed rate treasury bond yield curve for China bonds announced on www.chinabond.com.cn or other websites approved by CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD. 5 working days prior to the book building date. The coupon rate will thereafter remain unchanged from the 6th to the 10th interest accruing years. Thereafter, the coupon interest rate is reset every 5 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

Unless an event triggering mandatory interest payment has occurred, the issuer may choose prior to each interest payment date to defer the payment of current interests and interests and their accruals deferred in full or in part to the next interest payment date pursuant to this clause. There is no limit to the timing and frequency of payment deferrals. Deferral of any interest payments under this clause shall not be deemed as default. Each deferred interest payment shall accrue interests at the current coupon rate for the period of deferral.

In the event the issuer conducts the following within 12 months prior to the current interest payment date for the Medium Term Note, it should not defer the payment of current interests and all deferred interests and their accruals:

1 Bonus distribution to holders of ordinary shares;

2 Reduction of registered capital.

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

39. Other equity instruments (continued)

(2) Change of issued Medium Term Note as at the end of the period

The change of Medium Term Notes outstanding of the Group are as follows:

30 June 2019

	Opening balance		Increase during the period		Decrease during the period		Closing balance	
	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)
Tranche I	6,000	6,000,000	—	—	—	—	6,000	6,000,000

31 December 2018

	Opening balance		Increase during the year		Decrease during the year		Closing balance	
	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)
Tranche I	6,000	6,000,000	—	—	—	—	6,000	6,000,000
Tranche II	1,500	1,500,000	—	—	(1,500)	(1,500,000)	—	—
Tranche III	1,500	1,500,000	—	—	(1,500)	(1,500,000)	—	—
		9,000,000		—		(3,000,000)		6,000,000

40. Operating revenue and costs

	Six months ended 30 June 2019		Six months ended 30 June 2018	
	Revenue	Cost	Revenue	Cost
Principal business	43,753,051	26,502,934	38,245,309	26,549,156
Other business	856,168	616,362	1,188,468	959,197
	44,609,219	27,119,296	39,433,777	27,508,353

Operating revenue is analysed as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Revenue from customer contract	44,458,450	39,367,398
Rental income — operating leases	150,769	66,379
	44,609,219	39,433,777

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

40. Operating revenue and costs (continued)

Breakdown of revenue from customer contracts for the six months ended 30 June 2019

Reportable segment	Carriers' networks	Consumer business	Government and corporate business	Total
Major operating area				
PRC	**21,663,736**	**3,526,101**	**2,081,123**	**27,270,960**
Asia (excluding PRC)	**6,195,497**	**673,751**	**938,480**	**7,807,728**
Africa	**2,011,499**	**228,684**	**475,157**	**2,715,340**
Europe, America and Oceania	**2,614,426**	**2,995,494**	**1,054,502**	**6,664,422**
	32,485,158	**7,424,030**	**4,549,262**	**44,458,450**
Types of key products/ performance of obligations				
Sale of products	**4,666,095**	**7,352,068**	**2,071,498**	**14,089,661**
Rendering of services	**6,372,364**	**71,962**	**830,937**	**7,275,263**
Network construction	**21,446,699**	**—**	**1,646,827**	**23,093,526**
	32,485,158	**7,424,030**	**4,549,262**	**44,458,450**
Timing of revenue recognition				
Recognition of revenue at a point in time	**26,015,071**	**7,351,694**	**3,694,971**	**37,061,736**
Recognition of revenue over a period of time	**6,470,087**	**72,336**	**854,291**	**7,396,714**
	32,485,158	**7,424,030**	**4,549,262**	**44,458,450**

Breakdown of revenue from customer contracts for the six months ended 30 June 2018

Reporting segment	Carriers' networks	Consumer business	Government and corporate business	Total
Major operating area				
PRC	18,499,750	4,965,138	2,214,778	25,679,666
Asia (excluding PRC)	2,824,125	696,235	742,450	4,262,810
Africa	759,868	104,818	418,517	1,283,203
Europe, Americas and Oceania	1,423,133	5,727,414	991,172	8,141,719
	23,506,876	11,493,605	4,366,917	39,367,398
Major product types				
Sales of products	2,224,148	11,401,836	1,861,632	15,487,616
Rendering of services	4,627,965	91,769	672,386	5,392,120
Network construction	16,654,763	—	1,832,899	18,487,662
	23,506,876	11,493,605	4,366,917	39,367,398
Timing of revenue recognition				
At a point of time	18,938,272	11,340,402	3,643,717	33,922,391
Over a period of time	4,568,604	153,203	723,200	5,445,007
	23,506,876	11,493,605	4,366,917	39,367,398

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40. Operating revenue and costs (continued)

Breakdown of revenue from customer contracts for the six months ended 30 June 2018 (continued)

Breakdown of lease income:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Operating leases	**68,691**	66,379
Lessor finance leasing of manufacturers	**82,078**	—
	150,769	66,379

Profit or loss from lessor finance leasing of manufacturers is set out as follows:

	Six months ended 30 June 2019		Six months ended 30 June 2018	
	Income	**Cost**	Income	Cost
Lessor finance leasing of manufacturers	**82,078**	**61,128**	—	—

41. Taxes and surcharges

	Six months ended 30 June 2019	Six months ended 30 June 2018
City maintenance and construction tax	**266,721**	142,018
Education surcharge	**202,287**	114,692
Property tax	**25,126**	25,929
Land use tax	**7,014**	9,003
Vehicle and vessel tax	**20**	130
Stamp duty	**29,263**	36,751
Others	**64,858**	48,594
	595,289	377,117

42. Selling and distribution costs

	Six months ended 30 June 2019	Six months ended 30 June 2018
Wages, welfare and bonuses	**2,389,893**	2,274,072
Consulting and services charges	**216,626**	358,900
Travelling expenses	**304,035**	514,354
Service fees	**102,357**	267,027
Office expense	**118,096**	128,326
Advertising and promotion expenses	**381,285**	326,312
Rental fees	**126,068**	238,004
Communication expenses	**36,783**	46,326
Others	**350,603**	576,301
	4,025,746	4,729,622

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

43. Administrative expenses

	Six months ended 30 June 2019	Six months ended 30 June 2018
Wages, welfare and bonuses	**1,076,703**	671,795
Office expenses	**46,357**	64,429
Amortisation and depreciation charges	**250,200**	159,914
Rental fees	**21,755**	89,210
Travelling expenses	**47,649**	47,229
Legal fees	**946,831**	186,459
Others	**149,013**	140,311
	2,538,508	1,359,347

44. Research and development costs

	Six months ended 30 June 2019	Six months ended 30 June 2018
Wages, welfare and bonuses	**4,424,193**	3,542,145
Direct material costs	**186,369**	114,692
Amortisation and depreciation charges	**833,663**	564,118
Office expenses	**108,909**	142,496
Technical cooperation fee	**574,527**	395,917
Others	**344,205**	301,256
	6,471,866	5,060,624

45. Finance costs

	Six months ended 30 June 2019	Six months ended 30 June 2018
Interest expenses	**823,053**	390,211
Including: Interest expenses on lease liabilities	**32,669**	—
Less: Interest income	**322,233**	483,485
Loss on foreign currency exchange	**59,823**	82,575
Bank charges	**102,166**	94,712
	662,809	84,013

For the six months ended 30 June 2019, interest income from ZTE Group Finance Company Limited amounted to RMB163,525,000 (six months ended 30 June 2018: RMB248,305,000).

Details of interest income are as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Cash	**295,065**	359,796
Income from financing contract	**27,168**	123,689
	322,233	483,485

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

46. Other income

Government grants relating to the ordinary course of business are set out as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018	Relating to asset/income
Refund of VAT on software products (Note 1)	**729,764**	1,172,345	Relating to income
Refund of handling charges for personal tax	**614**	30,434	Relating to income
Others	**130,422**	119,218	Relating to income
	860,800	1,321,997	

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective AT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

47. Investment income

	Six months ended 30 June 2019	Six months ended 30 June 2018
Investment loss from long-term equity investment under equity method	**(158,146)**	(213,534)
Investment income earned from held-for-trading financial assets during the period of holding	**9,266**	14,460
Investment income from other non-current financial assets during the period of holding	**1,176**	—
Investment income arising from the disposal of derivative financial assets	**49,382**	169,395
Investment income arising from the disposal of financial assets at fair value through profit or loss	**407,010**	14,726
Investment income/(loss) from the disposal of long-term equity interests	**90,772**	(3,749)
Loss upon derecognition of financial assets at amortised cost	**(84,063)**	(99,338)
	315,397	(118,040)

48. Loss from changes in fair values

	Six months ended 30 June 2019	Six months ended 30 June 2018
Trading financial assets		
Including: financial assets at fair value through current profit or loss	(153,313)	(265,544)
Other non-current financial assets		
Including: financial assets at fair value through profit or loss	30,667	(33,800)
Derivative financial assets	(23,278)	(85,059)
Investment properties at fair value	3,320	6,964
	(142,604)	(377,439)

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

49. Credit impairment losses

	Six months ended 30 June 2019	Six months ended 30 June 2018
Impairment loss of trade receivables	**1,074,003**	1,656,845
Impairment losses on receivable financing	**204**	—
Impairment loss of other receivables	**2,974**	—
Reversal of impairment of long-term receivables	**(1,172)**	—
Reversal of impairment of factored trade receivables	**(778)**	—
Reversal of impairment of long-term factored receivables	**(198)**	—
Impairment loss of contract assets	**341,058**	—
	1,416,091	1,656,845

50. Assets impairment losses

	Six months ended 30 June 2019	Six months ended 30 June 2018
Inventories provisions	**469,998**	1,250,847
Others	**—**	(20,996)
	469,998	1,229,851

51. Non-operating income/non-operating expenses

Non-operating income

	Six months ended 30 June 2019	Six months ended 30 June 2018	Amount of extraordinary gain/loss recognised for the six months ended 30 June 2019
Income from contract penalty and reward	**22,530**	9,695	22,530
Others	**51,778**	63,368	51,778
	74,308	73,063	74,308

Non-operating expenses

	Six months ended 30 June 2019	Six months ended 30 June 2018	Amount of extraordinary gain/loss recognised for the six months ended 30 June 2019
Compensation	**115,749**	6,728,798	115,749
Loss arising from the disposal of non-current assets	**16,975**	9,552	16,975
Others	**47,316**	15,079	47,316
	180,040	6,753,429	180,040

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

52. Expenses by nature

Supplementary information of the Group's operating costs, Selling and distribution costs, Research and development costs and administration expenses by nature were as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Cost of goods and services	**24,638,913**	23,631,946
Staff remuneration (including share-based payment)	**10,108,509**	9,969,545
Depreciation and amortisation	**1,555,434**	1,169,438
Rent	**177,029**	327,214
Others	**3,675,531**	3,559,803
	40,155,416	38,657,946

53. Income tax

	Six months ended 30 June 2019	Six months ended 30 June 2018
Current income tax	**529,134**	453,686
Deferred income tax	**(116,220)**	(1,018,719)
	412,914	(565,033)

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Total profit	**2,237,477**	(8,425,843)
Tax at statutory tax rate (Note 1)	**585,802**	(2,106,461)
Effect of different tax rates applicable to certain subsidiaries	**(357,861)**	871,596
Adjustment to current tax in previous periods	**26,889**	(11,830)
Profits and losses attributable to jointly-controlled entities and associates	**28,286**	32,391
Income not subject to tax	**(2,276)**	(6,750)
Expenses not deductible for tax	**125,317**	167,411
Unrecognised deductible temporary differences	**28,301**	104,131
Utilisation of tax losses from previous years	**(130,174)**	(37,179)
Unrecognised tax losses	**108,630**	421,658
Tax charge at the Group's effective rate	**412,914**	(565,033)

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits and applicable tax rates arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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, as the numerator, is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognised as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current period, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Calculations of basic and diluted earnings per shares were as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Earnings		
Net profit/(loss) attributable to ordinary shareholders of the Company for the year	**1,470,699**	(7,824,190)
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	**4,192,672**	4,192,672
Diluting effect — weighted average number of ordinary shares ('000 shares) Note 1		
Stock option	**30,440**	—
Adjusted weighted average number of ordinary shares of the Company ('000 shares)	**4,223,112**	4,192,672

Note 1: The calculation of the diluted earnings/(losses) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares.

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

55. Notes to major items in cash flow statement

	Six months ended 30 June 2019	Six months ended 30 June 2018
Cash received in connection with other operating activities:		
Interest income	**322,233**	483,485
Cash paid in connection with other operating activities:		
Selling and distribution costs	**1,681,692**	2,096,650
Administrative expenses and research and development costs	**1,239,840**	799,927
Penalty and deposit payments	**—**	6,524,962
Payment of default penalty to Shenzhen Investment Holdings Co., Ltd.	**89,298**	—
Cash received in connection with other investing activities:		
Refund of amounts in connection with business cooperation with Shenzhen Investment Holdings Co., Ltd.	**2,200,000**	—
Cash paid in connection with other financing activities:		
Refund of investment by non-controlling interests	**569,400**	—

56. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Net profit/(loss)	**1,824,563**	(7,860,810)
Add: Credit impairment losses	**1,416,091**	1,656,845
Assets impairment losses	**469,998**	1,229,851
Depreciation of fixed assets	**602,416**	586,472
Depreciation of rights-of-use assets	**210,910**	—
Amortisation of intangible assets	**742,108**	582,966
Loss on disposal of fixed assets, intangible assets and other long-term assets	**16,975**	9,552
Loss from changes in fair value	**142,604**	377,439
Finance costs	**749,057**	341,564
Investment (loss)/income	**(315,397)**	118,040
Increase in deferred tax assets	**(141,356)**	(1,217,160)
Increase in deferred tax liabilities	**25,137**	16,446
Decrease in inventories	**(2,715,920)**	(1,269,440)
Decrease in operating receivables	**(52,537)**	5,320,522
Decrease in operating payables	**(2,088,462)**	(6,084,874)
Cost of share-based payment	**150,266**	78,709
Decrease in cash not immediately available for payments	**230,164**	1,067,492
Net cash flow from operating activities	**1,266,617**	(5,046,386)

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

56. Supplemental information on cash flow statement (continued)

(2) Change in cash and cash equivalents:

		Six months ended 30 June 2019	Six months ended 30 June 2018
Cash			
Including:	Cash on hand	**731**	2,336
	Bank deposit readily available	**26,635,929**	15,780,950
Cash and cash equivalents at end of period		**26,636,660**	15,783,286

(3) Cash flow information relating to leases

	Six months ended 30 June 2019
Cash inflow relating to leases	**165,092**
Cash outflow relating to leases	**316,515**

57. Assets under restrictions on ownership or right of use

	30 June 2019	31 December 2018	
Cash	**2,622,391**	3,057,459	Note 1
Fixed assets	**483,346**	1,179,755	Note 2
Intangible assets	**60,698**	158,551	Note 3
Long-term equity investment	**—**	5,933	Note 4
Other non-current assets — restricted cash	**3,336,856**	3,283,486	Note 5
	6,503,291	7,685,184	

Note 1: As at 30 June 2019, the Group's cash subject to ownership restriction amounted to RMB2,622,391,000 (31 December 2018: RMB3,057,459,000), including acceptance bill deposits of RMB355,860,000 (31 December 2018: RMB294,949,000); letter of credit deposits of RMB42,617,000 (31 December 2018: RMB667,084,000), deposit for guarantee letter of RMB531,280,000 (31 December 2018: RMB346,475,000), dues from the People's Bank of China of RMB512,681,000 (31 December 2018: RMB373,553,000), technology grants of RMB934,748,000 (31 December 2018: RMB1,118,309,000) and risk compensation fund to be released within one year of RMB245,205,000 (31 December 2018: RMB257,089,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2019, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB428,938,000 (31 December 2018: RMB440,435,000). Risk compensation fund to be released within one year amounting to RMB245,205,000 (31 December 2018: RMB257,089,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB183,733,000 (31 December 2018: RMB183,346,000) was accounted for as other non-current assets.

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

57. Assets under restrictions on ownership or right of use (continued)

Note 2: As at 30 June 2019, fixed assets with a carrying value of RMB483,346,000 (31 December 2018: RMB648,245,000) were pledged to secure bank borrowing; no fixed assets were pledged in connection with asset acquisitions (31 December 2018: RMB531,510,000).

Note 3: As at 30 June 2019, intangible assets with a carrying value of RMB60,698,000 (31 December 2018: RMB68,708,000) were pledged to secure bank borrowings. No intangible assets were pledged as security for asset acquisition (31 December 2018: RMB89,843,000).

Note 4: As at 30 June 2019, no equity pledge was applied to equity transfer (31 December 2018: RMB5,933,000).

Note 5: As at 30 June 2019, restricted funds represented a RMB2,797,783,000 (31 December 2018: RMB2,744,800,000) deposit in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed, the details of which are set out in Note XII.2; a RMB355,340,000 performance bond with a term of over 1 year provided for ZTE in favour of a project partner (31 December 2018: RMB355,340,000); and risk compensation fund to be released after one year amounting to RMB183,733,000 (31 December 2018: RMB183,346,000).

58. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		30 June 2019			31 December 2018		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash	USD	**148**	**6.8730**	**1,017**	203	6.8620	1,393
	SAR	**—**	**1.8328**	**—**	—	1.8299	—
	DZD	**—**	**0.0579**	**—**	1,813	0.0579	105
	KZT	**—**	**0.0181**	**—**	56	0.0180	1
	EGP	**39**	**0.4115**	**16**	18	0.3831	7
Bank deposit	USD	**461,064**	**6.8730**	**3,168,893**	407,942	6.8620	2,799,298
	HKD	**18,440**	**0.8798**	**16,224**	21,169	0.8750	18,523
	BRL	**10,385**	**1.7936**	**18,627**	16,992	1.7711	30,095
	PKR	**2,338,573**	**0.0418**	**97,752**	1,479,636	0.0494	73,094
	EGP	**28,436**	**0.4115**	**11,701**	32,840	0.3831	12,581
	IDR	**297,458,908**	**0.0005**	**148,729**	196,822,000	0.0005	98,411
	EUR	**188,587**	**7.8175**	**1,474,279**	122,559	7.8506	962,162
	DZD	**134,243**	**0.0579**	**7,773**	96,028	0.0579	5,560
	MYR	**34,100**	**1.6593**	**56,582**	29,781	1.6511	49,171
	ETB	**193,158**	**0.2370**	**45,778**	240,453	0.2449	58,887
	CAD	**5,091**	**5.2518**	**26,737**	3,765	5.0315	18,944
	GBP	**896**	**8.7088**	**7,803**	2,247	8.6770	19,497
	THB	**232,359**	**0.2236**	**51,955**	314,957	0.2116	66,645
	RUB	**582,566**	**0.1090**	**63,500**	635,324	0.0988	62,770
	JPY	**3,271,282**	**0.0638**	**208,708**	1,612,488	0.0619	99,813
	VEF	**—**	**—**	**—**	—	—	—
	COP	**2,351,664**	**0.0021**	**4,938**	1,990,476	0.0021	4,180
	NPR	**535,810**	**0.0622**	**33,327**	572,333	0.0613	35,084
	CLP	**68,972**	**0.0101**	**697**	1,415,758	0.0099	14,016
Other cash	USD	**33,172**	**6.8730**	**227,991**	65,995	6.8620	452,858
Trade receivables	USD	**998,607**	**6.8730**	**6,863,426**	972,607	6.8620	6,674,029
	EUR	**215,144**	**7.8175**	**1,681,888**	312,319	7.8506	2,451,892
	BRL	**42,483**	**1.7936**	**76,198**	39,275	1.7711	69,560
	THB	**226,096**	**0.2236**	**50,555**	69,078	0.2116	14,617
	INR	**17,622,076**	**0.0997**	**1,756,921**	10,590,560	0.0983	1,041,052

The Group's principal places of business overseas include the United States, Indonesia and India. Its operating entities in these countries adopt their respective principal currency for conducting business as their book currencies.

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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
深圳青豆教育科技有限公司	Note 1	Shenzhen	Education information and consultation	90%	90%/100%	Disposal
中興(淮安)智慧產業有限公司	Note 2	Nantong	R&D, implementation, service and operation of one-stop smart city plans	51%	51%/100%	Disposal
河南興遠智慧產業發展有限公司	Note 3	Luoyang	Real estate development and sales	100%	100%/100%	Disposal

Note 1: Shenzhen ZTE ICT Company Limited, a subsidiary of the Group, and 深圳市寶誠紅土文化產業基金合夥企業(有限合夥) completed the disposal of 90% equity interests in 深圳青豆教育科技有限公司 on 18 June 2019. 深圳青豆教育科技有限公司 has been excluded from the consolidated financial statements of the Group as from 18 June 2019.

Note 2: The Company and 淮安新城投資開發有限公司 completed the disposal of 51% equity interests in 中興(淮安)智慧產業有限公司 in June 2019. 中興(淮安)智慧產業有限公司 has been excluded from the consolidated financial statements of the Group as from June 2019.

Note 3: Hunan ZTE ICT Company Limited, a subsidiary of the Group, and 河南修尚置業有限公司 completed the disposal of 100% equity interests in 河南興遠智慧產業發展有限公司 on 29 March 2019. 河南興遠智慧產業發展有限公司has been excluded from the consolidated financial statements of the Group as from 29 March 2019.

2. Changes to the scope of consolidation for other reasons

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

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

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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	Manufacturing	RMB51.08 million	100%	–
西安中興通訊終端科技有限公司	Xi'an	Manufacturing	RMB300 million	100%	–
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding% Direct	Indirect	Accounting method
Joint Ventures						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	–	Equity method
Puxing Mobile Tech Company Limited	PRC	R&D, production and sales of communications equipment	RMB128,500,000	50%	–	Equity method
Pengzhong Xingsheng	Uzbekistan	Mobile terminals and smart phones	USD3,160,000	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

* The Group had 10% shareholdings in 重慶百德行置業有限公司, which was accounted for as associate 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 重慶中興網信科技有限公司 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.

During the reporting period, the Group had no subsidiaries that were subject to significant minority interest, nor key joint ventures which had a significant impact on the Group.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Associates						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	49%	–	Equity method
思卓中興(杭州)科技有限公司	PRC	Sales and R&D of communications equipment	USD7,000,000	49%	–	Equity method
ZTE Energy Limited	PRC	Energy	RMB1,290,000,000	23.26%	–	Equity method
ZTE Software Technology (Nanchang) Company Limited	PRC	Computer application services	RMB15,000,000	30%	–	Equity method
Nanjing Piaoxun Network Technology Company Limited	PRC	Computer application services	RMB870,000	20%	–	Equity method
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	USD5,050,000	32.73%	–	Equity method
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	–	Equity method
北京億科三友科技發展有限公司	PRC	Computer application services	RMB34,221,649	20%	–	Equity method
ZTE 9 (Wuxi) Co., Ltd	PRC	Computer application services	RMB17,909,380	26.21%	–	Equity method
上海中興思秸通訊有限公司	PRC	R&D, sales and investments in communications and related equipment	RMB57,680,000	30%	–	Equity method
中興耀維科技江蘇有限公司	PRC	Energy	RMB20,000,000	23%	–	Equity method
中興智慧成都有限公司	PRC	R&D of smart city application service system; R&D, and manufacturing of communications equipment	RMB40,000,000	40%	–	Equity method
廈門智慧小區網絡科技有限公司	PRC	Engineering and technology research; Internet business	RMB50,000,000	35%	–	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ring and other telecommunications VAS	USD500	49%	–	Equity method
中山優順置業有限公司	PRC	Real estate	RMB10,000,000	20%	–	Equity method
鐵建聯合(北京)科技有限公司	PRC	Technology promotion and application services	RMB20,000,000	30%	–	Equity method
西安城投智能充電股份有限公司	PRC	Technology promotion and application services	RMB50,000,000	24%	–	Equity method
紹興市智慧城市集團有限公司	PRC	Business services	RMB200,000,000	24.5%	–	Equity method
廣東福能大數據產業園建設有限公司	PRC	Technology promotion and application services	RMB10,000,000	30%	–	Equity method
廣東中興城智信息技術有限公司	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	RMB71,379,000	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
中興智能科技產業有限公司*	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	RMB30,000,000	19%	–	Equity method
陝西高端裝備與智能製造產業研究院有限公司*	PRC	High-end equipment and smart manufacturing, product research, consultation service and technology development	RMB16,000,000	12.5%	–	Equity method
Laxense, Inc.*	U.S.A.	Manufacturing of communication and other electronic equipment	USD2,460,318	18.7%	–	Equity method

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding% Direct	Percentage of Shareholding% Indirect	Accounting method
中教雲通(北京)科技有限公司	PRC	Education	RMB15,000,000	28%	—	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
Nubia Technology Limited	PRC	Manufacturing of communication equipment and Internet information service	RMB118,748,300	49.9%	—	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd	PRC	Education	RMB50,000,000	25%	—	Equity method
石家莊市智慧產業有限公司*	PRC	Smart City construction and operation	RMB400,000,000	12%	—	Equity method
Whale Cloud Technology Co., Ltd.	PRC	Scientific research and technical service	RMB731,074,442	29.91%	—	Equity method

* The Group listed enterprises with shareholdings less than 20% as associates mainly owing to the fact that, pursuant to the articles of association of such enterprises, the Group has the right to appoint directors to sit on the board of the investee and the Group has the power to take part in decisions of the investee relating to finances and operating policies, thereby exercising significant influence over the investee.

Nubia Technology Limited, an important associate of the Group engaged in the production of communication products as a strategic partner of the Group, is accounted for using the equity method. Such investment is strategic to the Group's business activities.

The following table shows the financial information of Nubia Technology Limited, adjusted for all differences accounting policies and reconciled to the amount on the face of the financial statements:

	30 June 2019	31 December 2018
Current assets	2,655,213	2,300,675
Non-current assets	307,516	411,531
Total assets	2,962,729	2,712,206
Current liabilities	1,474,283	1,146,038
Non-current liabilities	137,401	—
Total liabilities	1,611,684	1,146,038
Non-controlling interests	—	795
Equity attributable to shareholders of the parent company	1,351,045	1,565,373
Attributable net assets per shareholding percentage	674,171	781,121
Adjustments	463,849	500,403
Carrying value of the investment	1,138,020	1,281,524

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group:

	30 June 2019	31 December 2018
Joint ventures		
Aggregate carrying value of investments	**94,287**	97,650

	Six months ended 30 June 2019	Six months ended 30 June 2018
Aggregate amounts of the following attributable to shareholdings:		
Net (loss)/profit	**(3,363)**	113
Other comprehensive income	**—**	—
Total comprehensive income	**(3,363)**	113

	30 June 2019	31 December 2018
Associates		
Aggregate carrying value of investments	**1,564,299**	1,636,121

	Six months ended 30 June 2019	Six months ended 30 June 2018
Aggregate amounts of the following attributable to shareholdings:		
Net loss	**(6,716)**	(221,110)
Other comprehensive income	**478**	1,441
Total comprehensive income	**(6,238)**	(219,669)

As at 30 June 2019, there were no contingent liabilities associated with the investments in joint ventures and associates (31 December 2018: Nil).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

30 June 2019

Financial assets

	Financial assets at fair value through current profit and loss	At amortised cost	Measured at fair value through other comprehensive income	Total
Cash	–	29,508,813	–	29,508,813
Derivative financial assets	204,652	–	–	204,652
Trading financial assets	620,193	–	–	620,193
Trade receivables	–	21,465,718	–	21,465,718
Long-term trade receivables	–	707,472	–	707,472
Factored trade receivables and factored long-term receivables	–	1,052,815	–	1,052,815
Financial assets in other receivable	–	907,227	–	907,227
Receivable financing	–	–	2,352,485	2,352,485
Financial assets in other non-current assets	–	3,336,856	–	3,336,856
Other non-current assets	1,595,800	–	–	1,595,800
	2,420,645	56,978,901	2,352,485	61,752,031

Financial liabilities

	Financial liabilities at fair value through current profit and loss	At amortised cost	Total
Derivative financial liabilities	92,527	–	92,527
Bank loans	–	38,241,546	38,241,546
Lease liabilities	–	1,114,205	1,114,205
Bills payable	–	9,059,673	9,059,673
Trade payables	–	17,738,924	17,738,924
Bank advances on factored trade receivables and long-term trade receivables	–	1,056,908	1,056,908
Other payables (excluding accruals and staff housing fund contributions)	–	8,198,779	8,198,779
Other non-current liabilities	–	1,159,133	1,159,133
	92,527	76,569,168	76,661,695

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

31 December 2018

Financial assets

	Financial assets at fair value through current profit and loss	At amortised cost	Measured at fair value through other comprehensive income	Total
Cash	–	24,289,798	–	24,289,798
Derivative financial assets	228,117	–	–	228,117
Trading financial assets	1,476,823	–	–	1,476,823
Trade receivables	–	21,592,325	–	21,592,325
Long-term trade receivables	–	843,429	–	843,429
Factored trade receivables and factored long-term receivables	–	1,019,910	–	1,019,910
Financial assets in other receivable	–	1,444,140	–	1,444,140
Receivable financing	–	–	2,730,351	2,730,351
Financial assets in other non-current assets	–	3,283,486	–	3,283,486
Other non-current assets	1,502,499	–	–	1,502,499
	3,207,439	52,473,088	2,730,351	58,410,878

Financial liabilities

	Financial liabilities at fair value through current profit and loss	At amortised cost	Total
Derivative financial liabilities	101,332	–	101,332
Bank loans	–	27,349,891	27,349,891
Bills payable	–	7,915,700	7,915,700
Trade payables	–	19,527,404	19,527,404
Bank advances on factored trade receivables and long-term trade receivables	–	1,026,068	1,026,068
Other payables (excluding accruals and staff housing fund contributions)	–	10,361,889	10,361,889
Other non-current liabilities	–	539,845	539,845
	101,332	66,720,797	66,822,129

2. Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that bills receivable with a carrying value of RMB237,819,000 (31 December 2018: RMB652,657,000) retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets (continued)

Transferred financial assets that are not derecognised in their entirety (continued)

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 30 June 2019, trade receivables that have been transferred but not settled by the debtors amounted to RMB68,540,000 (31 December 2018: RMB413,633,000).

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognised to the extent of trade receivables transferred under continuous involvement. As at 30 June 2019 the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB26,108,867,000 (31 December 2018: RMB26,338,984,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortised cost) Trade receivables/long-term receivables	
	30 June 2019	31 December 2018
Carrying value of assets under continuous involvement	**984,275**	606,277
Carrying value of liabilities under continuous involvement	**988,108**	610,440

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 30 June 2019, the amount of factored trade receivables was RMB1,052,815,000 (31 December 2018: RMB1,019,910,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2019, the amount of bank advances on factored trade receivables was RMB1,056,908,000 (31 December 2018: RMB1,026,068,000).

Transferred financial assets derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the period. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB2,617,602,000 (31 December 2018: RMB167,820,000) 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 RMB40,456,000 (31 December 2018: RMB2,615,000) in respect of the derecognised bills receivable as at the date of transfer.

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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 comprise cash, equity investments, other receivables and certain derivatives. The credit risk associated with such financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Criteria for judging significant increases in credit risk

The Company assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Company takes into account the reasonable and substantiated information that is accessible without exerting undue extra cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Company compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to determine changes in the risk of default during the expected lifetime of financial instruments.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Criteria for judging significant increases in credit risk (continued)

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.

Parameters of ECL measurement

Based on whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

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;

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Parameters of ECL measurement (continued)

- 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 matric model may be provided in lieu of credit risk rating. The risk matrix may follow the example shown in Note V.4A and V.8.

Liquidity risk

The Group monitors its risk to the shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans.

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarised as follows:

30 June 2019

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	35,446,537	2,415,877	903,854	57,165	38,823,433
Lease liabilities	–	553,480	335,902	193,855	128,505	1,211,742
Derivative financial liabilities	–	92,527	–	–	–	92,527
Bills payable	–	9,059,673	–	–	–	9,059,673
Trade payables	17,738,924	–	–	–	–	17,738,924
Bank advances on factored trade receivables and factored long-term trade receivable	–	580,480	326,870	101,550	100,854	1,109,754
Other payables (excluding accruals and staff housing fund contributions)	8,198,779	–	–	–	–	8,198,779
Other non-current liabilities	–	–	44,747	26,224	1,092,005	1,162,976
	25,937,703	45,732,697	3,123,396	1,225,483	1,378,529	77,397,808

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

31 December 2018

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	25,504,584	2,201,645	201,623	58,240	27,966,092
Derivative financial liabilities	—	101,332	—	—	—	101,332
Bills payable	—	7,915,700	—	—	—	7,915,700
Trade payables	19,527,404	—	—	—	—	19,527,404
Bank advances on factored trade receivables and factored long-term trade receivable	—	618,664	283,390	88,042	87,439	1,077,535
Other payables (excluding accruals and staff housing fund contributions)	10,361,889	—	—	—	—	10,361,889
Other non-current liabilities	—	—	47,347	36,193	456,305	539,845
	29,889,293	34,140,280	2,532,382	325,858	601,984	67,489,797

Market risk

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 30 June 2019, 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 40.00%. In addition, the Group borrowed an approximately USD570 million loan at floating interest rates. As at 30 June 2019, there were no outstanding interest rate swaps (31 December 2018: Nil). Approximately 84% (31 December 2018: 78%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in net profit or loss**	**Increase/ (decrease) in other comprehensive income net of tax**	**Increase/ (decrease) in total shareholders' equity**
Six months ended 30 June 2019	**25**	**(12,932)**	**—**	**(12,932)**
	(25)	**12,932**	**—**	**12,932**
Six months ended 30 June 2018	25	(18,957)	—	(18,957)
	(25)	18,957	—	18,957

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's net profit or loss, with all other variables held constant, as at the balance sheet date.

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2019				
Weaker RMB against USD	**3%**	**308,568**	**–**	**308,568**
Stronger RMB against USD	**(3%)**	**(308,568)**	**–**	**(308,568)**
Six months ended 30 June 2018				
Weaker RMB against USD	3%	237,635	–	237,635
Stronger RMB against USD	(3%)	(237,635)	–	(237,635)

	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2019				
Weaker RMB against EUR	**5%**	**144,333**	**–**	**144,333**
Stronger RMB against EUR	**(5%)**	**(144,333)**	**–**	**(144,333)**
Six months ended 30 June 2018				
Weaker RMB against EUR	5%	59,575	–	59,575
Stronger RMB against EUR	(5%)	(59,575)	–	(59,575)

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group makes adjustments in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the current period ended 30 June 2019.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	30 June 2019	31 December 2018
Interest-bearing bank borrowings	**38,241,546**	27,349,891
Other payables	**1,000,000**	500,000
Bank advances on factored receivables and long-term trade receivables	**1,056,908**	1,026,068
Total interest-bearing liabilities	**40,298,454**	28,875,959
Owners' equity	**33,816,632**	32,960,675
Total equity and interest-bearing liabilities	**74,115,086**	61,836,634
Gearing ratio	**54.4%**	46.7%

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

30 June 2019

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Continuous measurement of fair value				
Derivative financial assets	**—**	**204,652**	**—**	**204,652**
Trading financial assets	**528,497**	**33,136**	**58,560**	**620,193**
Other non-current financial assets	**—**	**—**	**1,595,800**	**1,595,800**
Receivable financing	**—**	**2,352,485**	**—**	**2,352,485**
Investment properties				
Leased buildings	**—**	**—**	**2,015,319**	**2,015,319**
	528,497	**2,590,273**	**3,669,679**	**6,788,449**
Derivative financial liabilities	**—**	**(92,527)**	**—**	**(92,527)**
	—	**(92,527)**	**—**	**(92,527)**

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

1. Assets and liabilities measured at fair value (continued)

31 December 2018

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Derivative financial assets	—	228,117	—	228,117
Trading financial assets	761,359	666,412	49,052	1,476,823
Other non-current financial assets	—	—	1,502,499	1,502,499
Receivable financing	—	2,730,351	—	2,730,351
Investment properties				
Leased buildings	—	—	2,011,999	2,011,999
	761,359	3,624,880	3,563,550	7,949,789
Derivative financial liabilities	—	(101,332)	—	(101,332)
	—	(101,332)	—	(101,332)

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 30 June 2019, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices. The fair values of equity investments in listed companies during the lock-up period is arrived at based on quotations in an active market discounted at a percentage reflecting the lack of liquidity during lock-up.

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

2. Estimation of fair value (continued)

Fair value of financial assets (continued)

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

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 30 June 2019, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

For financial products at fair value through profit or loss, the Group estimates the fair value based on the discounted cash flow model using market interest rates of instruments with similar terms and risks.

Fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 30 June 2019 was RMB2,015,319,000 (31 December 2018: RMB2,011,999,000).

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

30 June 2019

	Fair value at end of period	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,015,319,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB49.5-RMB559.4
			Rent growth (p.a.)	2%–7%
			Long term vacancy rate	2.5%
			Discount rate	7.58%
Equity instrument investment	RMB1,654,360,000	Market method	Liquidity discount rate	4%–30%
			P/E	13–55
			EV/Revenue	2–7
			EV/EBIT	11–23

31 December 2018

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,011,999,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB49.5-RMB559.4
			Rent growth (p.a.)	2%–7%
			Long term vacancy rate	2.5%
			Discount rate	7.58%
Equity instrument investment	RMB1,551,551,000	Market method	Liquidity discount rate	4%–30%
			P/E	13–55
			EV/Revenue	2–7
			EV/EBIT	11–23

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorised within Level 3 of the fair value hierarchy:

30 June 2019

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Addition	Disposal	Closing balance	Change in unrealised profit or less for the period of assets held at end of period included in profit and loss
Investment properties	2,011,999	–	–	3,320	–	–	2,015,319	3,320
Trading financial assets	49,052	–	49,052	39,159	19,401	–	58,560	39,159
Other non-current financial assets	1,502,499	17,080	19,401	30,667	64,955	–	1,595,800	30,667
Total	3,563,550	17,080	68,453	73,146	84,356	–	3,669,679	73,146

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

4. Fair value measurement adjustment (continued)

31 December 2018

	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	2,023,809	–	–	(11,810)	–	–	2,011,999	(11,810)
Trading financial assets	–	37,434	–	11,618	–	–	49,052	11,618
Other non-current financial assets	1,602,930	–	–	(2,228)	101,100	(199,303)	1,502,499	(6,372)
Total	3,626,739	37,434	–	(2,420)	101,100	(199,303)	3,563,550	(6,564)

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets is analyzed as follows:

	Six months ended 30 June 2019 Relating to non-financial assets	Six months ended 30 June 2018 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	**3,320**	6,964
Change in unrealised profit or loss for the period of assets held at the end of the period	**3,320**	6,964

5. Transfers between levels of fair value measurement

During the period, there were no transfers of fair value measurements between Level 1 and Level 2.

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 (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	Shenzhen, Guangdong	Manufacturing	RMB100 million	27.40%	27.40%

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.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

	Relationship
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
ZTE Quantum Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	Investee company of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Investee company of the Company's controlling shareholder and company for which a connected natural person of the Company acted as director
深圳市中興新雲服務有限公司	Investee company of the Company's controlling shareholder
中興儀器(深圳)有限公司*1	Former subsidiary of the Company's controlling shareholder
惠州中興新通訊設備有限公司*2	Former subsidiary of the Company's controlling shareholder
Xi'an Microelectronics Technology Research Institute*3	Entity at which a former connected natural person of the Company acted as head and a connected natural person of the Company acted as deputy head
南京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
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
Zhongxing Energy (Shenzhen) Limited	Subsidiary of an associate of the Company
Shenzhen Zhongxing WXT Equipment Company Limited	Company for which a connected natural person of the Company acted as director
北京中興協力科技有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
深圳市航天歐華科技發展有限責任公司	Subsidiary of a company for which a connected natural person of the Company served as senior management
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 acted as director
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
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as director

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship
Lishan Microelectronics Corporation*4	Company for which a former connected natural person of the Company acted as executive director and general manager
興天通訊技術有限公司*5	Company for which a former connected natural person of the Company had previously acted as chairman
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	Company for which a connected natural person of the Company acted as chairman
Zhongxing Development Company Limited	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
ZTE Software Technology (Shenyang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
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
Hangzhou Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Technology Co., Ltd.	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Software Technology (Nanjing) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
CASIC Shenzhen (Group) Company Limited	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 acted as director

*1 Such company has ceased to be a subsidiary of the Controlling Shareholder of the Company as from 14 December 2017, and such company has ceased to be a connected person of the Company as from 14 December 2018.

*2 The said company has ceased to be a subsidiary of the controlling shareholder of the Company as from 10 January 2018 and has ceased to be a connected party of the Company as from 10 January 2019.

*3 The connected natural person of the Company has ceased to be the deputy head of the institute as from January 2019 and the institute will cease to be a connected party of the Company as from January 2020.

*4 The executive director and general manager of the said company has ceased to be a Director of the Company as from 29 June 2018 and the said company has ceased to be a connected party of the Company as from 29 June 2019.

*5 The former chairman of the said company has ceased to be a connected natural person of the Company as from 21 February 2018 and the said company has ceased to be a connected party of the Company as from 21 February 2018.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties

(1) Transaction of goods with related parties

Sales of goods to related parties

	Six months ended 30 June 2019 Amount	Six months ended 30 June 2018 Amount
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**48**	6
Whale Cloud Technology Co., Ltd.	**1,123**	—
Puxing Mobile Tech Company Limited	**10,684**	8,229
ZTE Quantum Co., Ltd.	**—**	3
Sindi Technologies Co., Ltd	**6,092**	—
深圳市航天歐華科技發展有限責任公司	**280,655**	110,350
Telecom Innovations	**645**	—
興天通訊技術有限公司	**—**	5
深圳市中興新雲服務有限公司	**415**	—
Shenzhen Zhongxing Information Company Limited	**1,305**	—
上海中興思秸通訊有限公司	**207**	1
中興儀器(深圳)有限公司	**—**	5,306
深圳中興節能環保股份有限公司	**—**	393
Shenzhen Xinyu Tengyue Electronics Co., Ltd	**—**	133
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**63**	7
南京中興和泰酒店管理有限公司	**128**	—
西安中興和泰酒店管理有限公司	**1,186**	—
中興智慧成都有限公司	**—**	11,801
重慶前沿城市大數據管理有限公司	**—**	24,300
Nubia Technology Limited	**150,450**	405,419
ZTE Energy (Shenzhen) Limited	**—**	1
上海市和而泰酒店投資管理有限公司	**962**	858
深圳市中興新力精密機電技術有限公司	**—**	56
Pylon Technologies Co., Ltd.	**—**	78
Huanggang Education Valley Investment Holdings Co., Ltd.	**26**	7
Kron Telekomunikasyon Hizmetleri A.S.	**—**	26
惠州中興新通訊設備有限公司	**—**	18
	453,989	566,997

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods with related parties (continued)

Purchases of goods and services from related parties

	Six months ended 30 June 2019 Amount	Six months ended 30 June 2018 Amount
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**1,062**	46,179
Sindi Technologies Co., Ltd	**40,080**	23,932
Shenzhen Xinyu Tengyue Electronics Co., Ltd	**9,387**	25,536
ZTE Software Technology (Nanchang) Company Limited	**4,492**	5,389
深圳市中興新力精密機電技術有限公司	**92,596**	–
Huatong Technology Company Limited	**19,415**	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**11,130**	9,128
南京中興和泰酒店管理有限公司	**2,132**	1,746
上海市和而泰酒店投資管理有限公司	**1,875**	2,937
西安中興和泰酒店管理有限公司	**2,132**	1,283
Puxing Mobile Tech Company Limited	**–**	3,231
北京中興協力科技有限公司	**–**	1,490
中興儀器(深圳)有限公司	**–**	288
Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	**66,012**	21,703
Nubia Technology Limited	**39,471**	573,100
Laxense,Inc.	**–**	2,533
深圳市中興新雲服務有限公司	**–**	34
ZTE Software Technology (Shenyang) Company Limited	**2,616**	–
Whale Cloud Technology Co., Ltd.	**2,927**	–
	295,327	718,509

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

As lessor

	Property leased	**Six months ended 30 June 2019 Lease income**	Six months ended 30 June 2018 Lease income
Puxing Mobile Tech Company Limited	Office	**348**	318
中興儀器(深圳)有限公司	Office	**–**	834
Hengyang ICT Real Estate Co., Ltd.	Office	**6**	105
上海中興思秸通訊有限公司	Office	**180**	213
上海中興科源實業有限公司	Office	**208**	95
Huatong Software Technology (Nanjing) Company Limited	Office	**185**	2
Zhongxingxin Telecom Company Limited	Office	**–**	6
深圳市中興新雲服務有限公司	Office	**560**	280
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	**8,738**	8,245
南京中興和泰酒店管理有限公司	Property and equipment and facilities	**9,773**	3,555
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	**4,139**	13,702
西安中興和泰酒店管理有限公司	Property and equipment and facilities	**13,364**	13,019
深圳中興節能環保股份有限公司	Office	**59**	–
深圳市中興新力精密機電技術有限公司	Office	**6**	–
		37,566	40,374

As lessee

	Property leased	**Six months ended 30 June 2019 Lease expense**	Six months ended 30 June 2018 Lease expense
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	Office	**4,697**	4,414
Zhongxing Development Company Limited	Office	**704**	11
Chongqing Zhongxing Development Company Limited	Office	**3,823**	53
三河中興發展有限公司	Office	**6,159**	67
三河中興物業服務有限公司	Office	**2,002**	19
Tianjin ZTE International Investment Company Limited	Office	**2,359**	30
Hangzhou Zhongxing Development Company Limited	Quarters and plants	**48**	1
		19,792	4,595

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(3) Lending to/from related parties

Lending from related parties

Six months ended 30 June 2019

	Amount	Start date	Maturity
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**500,000**	31 October 2018	30 October 2019
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**500,000**	2 January 2019	1 January 2020
	1,000,000		

(4) Other major related transactions

	Six months ended 30 June 2019 Amount	Six months ended 30 June 2018 Amount
Remuneration of key management personnel	**4,976**	6,178

Notes:

(i) Commercial transactions with related parties: During the period, commercial transactions with related parties was conducted by the Group at market price.

(ii) Leasing property from/to related parties: During the period, office space, equipment and facilities were leased to the aforesaid related parties by the Group and lease income of RMB37,566,000 (Six months ended 30 June 2018: RMB40,374,000) was recognized in accordance with relevant lease contracts.

During the period, office space was leased to the Group by the aforesaid related parties and lease expenses of RMB19,792,000 (Six months ended 30 June 2018: RMB4,595,000) was recognized in accordance with relevant lease contracts.

(iii) Other major related transactions: During the period, the total amount of remuneration (in the form of monetary amounts, physical rewards or otherwise) for the key management personnel of the Company incurred the Group for the year was RMB4,976,000 (Six months ended 30 June 2018: RMB6,178,000). The corresponding cost for share-based payment was RMB1,056,000 (Six months ended 30 June 2018: RMB0). Certain of the key management personnel referred to above were concurrently entitled to defined benefit plans provided by the Group, which were not included in the remuneration set out above.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties

Item	Name of related parties	30 June 2019 Amount	31 December 2018 Amount
Other current assets/ bills receivable	深圳市航天歐華科技發展有限責任公司	**81,395**	252,992
	中興儀器(深圳)有限公司	**–**	7,380
	Nubia Technology Limited	**–**	991
		81,395	261,363
Trade receivable	Puxing Mobile Tech Company Limited	**27,874**	15,801
	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**36**	14
	Xi'an Microelectronics Technology Research Institute	**9**	9
	ZTE Quantum Co., Ltd.	**304**	304
	深圳市航天歐華科技發展有限責任公司	**11,049**	13,948
	鄂爾多斯市雲端科技有限公司	**1**	–
	興天通訊技術有限公司	**–**	1,588
	Shenzhen Zhongxing Information Company Limited	**1,180**	–
	中興儀器(深圳)有限公司	**–**	5,577
	廈門智慧小區網絡科技有限公司	**1**	1
	Huanggang Education Valley Investment Holdings Co., Ltd.	**902**	925
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**–**	2
	Hengyang ICT Real Estate Co., Ltd	**236**	–
	Nubia Technology Limited	**203,224**	46,423
	Whale Cloud Technology Co., Ltd.	**22,567**	172,033
	Zhongxing Development Company Limited	**–**	21
		267,383	256,646

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2019 Amount	31 December 2018 Amount
Prepayments	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**–**	242
	Whale Cloud Technology Co., Ltd.	**462**	–
	Laxense,Inc.	**1,280**	–
		1,742	242
Other receivables	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**–**	14
	南京中興和泰酒店管理有限公司	**2,149**	6,962
	ZTE 9 (Wuxi) Co., Ltd	**90**	90
	Shenzhen Zhongxing Information Company Limited	**14**	14
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**2,913**	28,336
	Sindi Technologies Co., Ltd.	**445**	445
	西安中興和泰酒店管理有限公司	**8,388**	9,526
	Zhongxing Development Company Limited	**14**	14
	Huanggang Education Valley Investment Holdings Co., Ltd	**2**	–
	廈門智慧小區網絡科技有限公司	**13**	–
	山東興濟置業有限公司	**21,761**	21,761
	Hengyang ICT Real Estate Co., Ltd	**–**	236
	上海市和而泰酒店投資管理有限公司	**29,732**	29,412
	Whale Cloud Technology Co., Ltd.	**2,103**	2,101
		67,624	98,911
Dividend receivable	前海融資租賃股份有限公司	**–**	5,400

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2019 Amount	31 December 2018 Amount
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd	**96**	220
Trade payables	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**7,664**	8,514
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	**2,837**	3,096
	Sindi Technologies Co., Ltd.	**10,329**	3,802
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	**183**	183
	Shenzhen Zhongxing WXT Equipment Company Limited	**327**	327
	Shenzhen Zhongxing Information Company Limited	**1,956**	3,811
	興天通訊技術有限公司	**397**	397
	Xi'an Microelectronics Technology Research Institute	**192**	192
	北京中興協力科技有限公司	**—**	36
	ZTE Software Technology (Nanchang) Company Limited	**—**	50
	中興儀器(深圳)有限公司	**15,135**	16,021
	ZTE 9 (Wuxi) Co., Ltd	**83**	83
	Nubia Technology Limited	**173,586**	134,115
	Laxense,Inc.	**18**	—
	Kron Telekomunikasyon Hizmetleri A.S.	**—**	88
	Puxing Mobile Tech Company Limited	**250**	—
	深圳市中興新力精密機電技術有限公司	**21,799**	—
	Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	**15,680**	2,943
	Whale Cloud Technology Co., Ltd.	**170,559**	81,793
		420,995	255,451

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2019 Amount	31 December 2018 Amount
Contract liabilities	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,025
	Puxing Mobile Tech Company Limited	**43,623**	23,704
	Xi'an Microelectronics Technology Research Institute	**1,628**	1,391
	北京中興協力科技有限公司	**155**	132
	深圳市航天歐華科技發展有限責任公司	**15,933**	53,097
	ZTE Software Technology (Shenyang) Company Limited	**13**	12
	ZTE Energy Limited	**6**	5
	Zhongxing Development Limited	**61**	—
	ZTE 9 (Wuxi) Co., Ltd	**17**	1
	紹興市智慧城市集團有限公司	**1,105**	476
	Huanggang Education Valley Investment Holdings Co., Ltd.	**20**	35
	深圳市中興宜和投資發展有限公司	**40**	38
	深圳市中興新力精密機電技術有限公司	**—**	5
	Whale Cloud Technology Co., Ltd.	**—**	11,434
		67,928	95,355
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Zhongxing Development Company Limited	**215**	215
	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)*	**1,000,310**	500,812
	深圳中興新源環保股份有限公司	**4**	4
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	**5,191**	5,184
	中山優順置業有限公司	**2,000**	2,000
	Huanggang Education Valley Investment Holdings Co., Ltd.	**155**	178
	Hengyang ICT Real Estate Co., Ltd	**434**	434
	Nubia Technology Limited	**10**	10
	山東興濟置業有限公司	**544**	272
	ZTE Software Technology (Nanchang) Company Limited	**50**	50
	Lishan Microelectronics Corporation	**65**	65
	南京中興軟創軟件技術有限公司	**47,883**	—
	思卓中興(杭州)科技有限公司	**131**	—
	玄雀數據科技(南京)有限公司	**47,264**	—
	深圳市中興宜和投資發展有限公司	**1,680**	—
	Whale Cloud Technology Co., Ltd.	**419,381**	419,560
		1,525,329	928,796

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

* The amount included a RMB1,000,000,000 loan to Zhongxing Telecom Company Limited. The loan is subject to an annual interest rate of 5.30% and has a 1-year term.

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivable from related parties were interest-free and unsecured with an usual credit term of 0–90 days, which may be extended to up to 1 year.

7. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Customer deposits

	30 June 2019 Amount	31 December 2018 Amount
Whale Cloud Technology Co., Ltd.	3	–
深圳市中興宜和投資發展有限公司	88	88
	91	88

(2) Interest expenses

	Six months ended 30 June 2019 Amount	Six months ended 30 June 2018 Amount
Huanggang Education Valley Investment Holdings Co., Ltd.	–	3
深圳市中興宜和投資發展有限公司	–	548
	–	551

(3) Interest income from loans and bills discounting

	Six months ended 30 June 2019 Amount	Six months ended 30 June 2018 Amount
Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	–	78
	–	78

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XI SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Accumulated balance of equity-settled share-based payments credited to capital reserves*	**589,057**	344,785
Total costs of equity-settled share-based payments in the period	**150,266**	78,709

* No equity-settled share-based payment cost was transferred to the share capital premium in the capital reserve for the year as a result of the exercise of share options.

2. Share option incentive scheme

2017 Share Option Incentive Scheme

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017 and 149,601,200 share options were granted to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company's business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity ("ROE");

(2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

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XI SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options of each exercise period:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/3	2019.7.7–2020.7.6	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	2020.7.7–2021.7.6	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	2021.7.7–2022.7.6	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 non-fulfilment of exercise conditions for the second vesting period, the Group recognised share option expenses of RMB150,266,000 for the first six months of 2019 based on the best estimates of expected number of exercisable options at the end of the period for the first vesting period and the third vesting period.

Share options issued and outstanding under the Scheme are as follows:

	30 June 2019		31 December 2018	
	Weighted average exercise price* RMB/share	**Number of share options In '000**	Weighted average exercise price* RMB/share	Number of share options In '000
At the beginning of the period	**17.06**	**81,864**	17.06	149,601
Lapsed		**(2,473)**		(67,737)
At the end of the period	**17.06**	**79,391**	17.06	81,864

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XI SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2019

Number of share options In '000	Exercise price* RMB/share	Valid exercise period
39,664	**17.06**	**7 July 2019 to 6 July 2020**
39,727	**17.06**	**7 July 2021 to 6 July 2022**
79,391		

31 December 2018

Number of share options In '000	Exercise price* RMB/share	Valid exercise period
40,932	17.06	7 July 2019 to 6 July 2020
40,932	17.06	7 July 2021 to 6 July 2022
81,864		

There were no ordinary shares issued pursuant to the exercise of options under the 2017 Scheme.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Estimated dividend payment (RMB)		0.18	0.18	0.18
Volatility (%)		43.35	42.2	42.9
Risk-free interest rate (%)		3.498	3.506	3.517
Demission rate	Directors & senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	30 June 2019	31 December 2018
Contracted but not provided of		
Capital commitments	**3,176,964**	3,414,134
Investment commitments	**55,586**	73,452
	3,232,550	3,487,586

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events

2.1. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,980,000 (equivalent to approximately RMB31,923,100). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB13,725,200) should be paid by the Company. The Company had made provision for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. On 23 June 2018, the district court ruled to reject the objection of the Company against the arbitration award and uphold the original arbitration award. On 19 July 2018, the Company intends to appeal to the higher court against the ruling of the district court in accordance with local laws.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated. Hence, no additional provision was made in respect of the litigation for the year.

2.2. On 11 June 2010, a lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company and subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the district court of Dallas, Texas in respect of the aforesaid ruling. On 19 November 2018, the court of appeal of Dallas, Texas ruled to overturned the ruling of the district court of Dallas, Texas of annulling the arbitration award and reinstated the arbitration award. On 4 December 2018, UTE made an application to the court of appeal of Dallas, Texas for review. On 4 January 2019, UTE made an application to the court of appeal of Dallas, Texas for the case to be heard by the full court. On 14 February 2019, the court of appeal of Dallas, Texas ruled to reject the aforesaid application of UTE. On 1 April 2019, UTE made an application to the Supreme Court of Texas for Civil Matters for review. As of now, the Supreme Court of Texas for Civil Matters has yet to make a ruling on UTE's application for review.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.2. (continued)

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.3 On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with the United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, Inc ("ZTE USA"), a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, the ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of the ITC.

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly owned subsidiary of InterDigital, Inc.) filed a claim with the ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defence of the case and file an appeal to the United States Court of Appeals for the Federal Circuit based on the verdicts on the three patents involved in the litigation ruled by the Federal District Court of Delaware to have been subject to infringement. In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.3. (continued)

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.4. In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The company filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again in respect of the said verdict of the Federal District Court of California. In February 2019, the United States Court of Appeals for the Federal Circuit ruled to uphold the judgement of the Federal District Court of California that the Company and ZTE USA had not infringed upon the patents under litigation. On 26 April 2019, the United States Court of Appeals for the Federal Circuit ruled to reject the said company's application for the case to be heard by the full court of the United States Court of Appeals for the Federal Circuit.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.5. 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 RMB56,236,000). 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 RMB56,003,900), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB56,003,900) 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 RMB56,003,900) 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 RMB149 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.6 On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary"). The Sudanese carrier and its Mauritanian Subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

On 10 August 2017, the Company submitted its written defences to LCIA and DIFC-LCIA, respectively, for the aforementioned arbitrations. In the meantime, the Company filed counter arbitration petitions against the Mauritanian Subsidiary for an aggregate amount of approximately USD22,711,900.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.6 (continued)

In May 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to DIFC-LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD37.45 million and other damages for breach of contract, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to DIFC-LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

In October 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD31.88 million, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to LCIA.

In May 2019, the aforesaid Sudanese carrier withdrew its application for LCIA arbitration.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this arbitration cannot be reliably estimated.

2.7. 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) 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.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.7. (continued)

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. 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 Probationary Period (10 years from the issue of the 8 June 2018 Order) (The USD0.4 billion penalty will be waived after the end of Probation Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order (the "Probationary Period") that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR to be imposed by BIS, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the superseding settlement agreement of 2018 and the settlement agreement with the U.S. government in 2017, 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 agreement of 2017, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; (ii) the USD0.4 billion placed in an escrow account with a U.S. bank shall become payable immediately and shall be paid in full or in part.

The Company places a strong emphasis on export control compliance and regards compliance as the cornerstone of its strategy as well as the pre-requisite condition and bottom line of its operations.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.7. (continued)

The Company has formed an export compliance committee under the Board comprising the Company's Executive Directors, Non-executive Directors and Independent Non-executive Directors. An export control compliance team comprising the chief export control compliance officer, the regional export control compliance officer and senior export control compliance experts from around the world has been formed with the support of professional external legal and consultants' teams. A number of consulting firms has been engaged to provide professional guidance for the development and improvement of the Company's administrative structure, system and processes for export control compliance. The SAP trade compliance control system (GTS) has been introduced and implemented to facilitate automated export control compliance administration. Online and offline compliance training has been provided to senior management personnel, subsidiaries, compliance coordinators, account managers and new employees. Supervisory initiatives has been carried out in support of the work of the independent compliance monitor and the Special Compliance Coordinator, complemented by ongoing input in export control compliance.

The Company will remain dedicated to export compliance and the development of updated and comprehensive export compliance programmes to avoid any risks and safeguard the sustainable development of the Company as well as protect the interests of its staff, customers and shareholders.

In 2019, the Company will continue to comply with all applicable local and international laws and regulations, including economic sanction and export control laws and regulations, to ensure sustainable development of business with our customers and partners.

Strict implementation of controls under export compliance requirements to ensure the sustainable operation of the Company's principal businesses in a compliant manner represents a fundamental requirement for the staff, contractors and any business development initiatives of the Company.

We will uphold the principle of compliance to ensure fulfillment of export control compliance policies and processes, prevent system risks and safeguard the interests of all parties concerned.

During the period from 1 January 2019 to the date of publication of these financial statements, 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.

2.8. 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.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this arbitration cannot be reliably estimated.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.9. As at 30 June 2019, an amount of RMB12,843,398,000 (31 December 2018: RMB10,726,178,000) was outstanding under the bank guarantee letters issued by the Group.

XIII. POST-BALANCE SHEET DATE EVENTS

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

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

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

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

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

2. Anji Microelectronics Technology (Shanghai) Co., Ltd. ("Anji Technology") in which Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership) ("Zhonghe Chunsheng Fund III"), a company reported in the consolidated statements of the Company, had invested was listed on the STAR Market of the Shanghai Stock Exchange (stock code: 688019) on 22 July 2019. Anji Technology issued 13.28 million shares at an issue price of RMB39.19/share. Zhonghe Chunsheng Fund III held 2,314,500 shares in Anji Technology, accounting for 4.36% of the total share capital of Anji Technology. As at 30 June 2019, Zhonghe Chunsheng Fund III accounted for its equity investment in Anji Technology under other non-current financial assets and the item was valued at RMB42,171,000 at fair value using the market method. After the listing of Anji Technology, it was measured at fair value based on the market price of the shares after listing.

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XIV. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

Supplementary information on lease expenses

The Group has adopted a simplified approach in the accounting of short-term leases and low-value asset leases. Unrecognised right-of-use assets and lease liabilities, short-term leases, low-value assets and variable lease payment not included in the measurement of lease liabilities and charged to current expenses for the current period are as follows:

	Six months ended 30 June 2019
Short-term lease expenses	**177,029**

Material operating leases (applicable to 2018 only): According to the lease contract signed with the lessors, minimum lease payments under non-cancellable operating leases falling due are as follows:

	31 December 2018
Within 1 year (including 1 year)	479,365
1 to 2 years (including 2 years)	243,953
2 to 3 years (including 3 years)	154,819
More than 3 years	147,238
	1,025,375

As lessor:

Finance leasing: as at 30 June 2019, the balance of unrealised finance income amounting to RMB15,904,000 was amortised over the respective periods in the lease period using the effective interest rate method. According to the lease contract signed with the lessees, minimum lease payments under non-cancellable operating leases falling due are as follows:

	30 June 2019
Within 1 year (including 1 year)	**92,560**
1 to 2 years (including 2 years)	**97,982**
2 to 3 years (including 3 years)	**20,710**
Less: unrealised finance income	**15,904**
Lease investment, net	**195,348**

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

1. Leases (continued)

As lessor: (continued)

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

	30 June 2019
Within 1 year (including 1 year)	101,720
1 to 2 years (including 2 years)	61,879
2 to 3 years (including 3 years)	60,249
3 to 4 years (including 4 years)	54,695
4 to 5 years (including 5 years)	50,227
More than 5 years	238,987
	567,757

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.

2. Segment reporting

Operating segment

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

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

(2) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, wearable devices, 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, bonds payable, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segment (continued)

	Carriers' networks	Consumer business	Government and corporate business	Total
Segment revenue				
Six months ended 30 June 2019				
Revenue from external transactions	32,485,158	7,424,030	4,549,262	44,458,450
Rental income	—	—	150,769	150,769
Sub-total	32,485,158	7,424,030	4,700,031	44,609,219
Segment results	11,164,485	454,661	1,249,742	12,868,888
Unallocated revenue				935,108
Unallocated cost				(10,602,960)
Finance costs				(662,809)
Gain from changes in fair values				(142,604)
Investment gain from associates and joint ventures				(158,146)
Total profit				2,237,477
Total assets				
30 June 2019				
Segment assets	46,855,294	9,764,702	6,779,137	63,399,133
Unallocated assets				77,343,515
Sub-total				140,742,648
Total liabilities				
Segment liabilities	12,557,710	2,179,894	1,816,880	16,554,484
Unallocated assets				90,371,532
Sub-total				106,926,016
Supplemental information				
Six months ended 30 June 2019				
Depreciation and amortization expenses	979,104	223,761	352,569	1,555,434
Capital expenditure	2,171,090	496,173	585,376	3,252,639
Asset impairment losses	342,260	78,219	49,519	469,998
Credit impairment loss	1,031,221	235,671	149,199	1,416,091

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segment (continued)

	Carriers' networks	Consumer business	Government and corporate business	Total (Restated)
Segment revenue				
Six months ended 30 June 2018				
Revenue from external transactions	23,506,876	11,493,605	4,366,917	39,367,398
Rental income	—	—	66,379	66,379
Sub-total	23,506,876	11,493,605	4,433,296	39,433,777
Segment results	6,650,002	(525,812)	694,495	6,818,685
Unallocated revenue				103,497
Unallocated cost				(14,673,039)
Finance costs				(84,013)
Gain from changes in fair values				(377,439)
Investment gain from associates and joint ventures				(213,534)
Total profit				(8,425,843)
Total assets				
30 June 2018				
Segment assets	38,903,524	11,734,829	6,290,953	56,929,306
Unallocated assets				72,421,443
Sub-total				129,350,749
Total liabilities				
Segment liabilities	11,113,248	2,595,090	1,797,085	15,505,423
Unallocated assets				80,884,651
Sub-total				96,390,074
Supplemental information				
Six months ended 30 June 2018				
Depreciation and amortization expenses	697,163	340,876	131,482	1,169,521
Capital expenditure	1,189,841	581,768	224,399	1,996,008
Asset impairment losses	733,126	358,460	138,265	1,229,851
Credit impairment loss	987,662	482,914	186,269	1,656,845

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group Information

Geographic information

Revenue from external customers

	Six months ended 30 June 2019	Six months ended 30 June 2018
PRC	27,421,729	25,746,045
Asia (excluding PRC)	7,807,728	4,262,810
Africa	2,715,340	1,283,203
Europe, America and Oceania	6,664,422	8,141,719
	44,609,219	39,433,777

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	30 June 2019	31 December 2018
PRC	21,527,198	20,260,245
Asia (excluding PRC)	2,405,259	1,741,804
Africa	951,661	540,986
Europe, America and Oceania	965,998	953,920
	25,850,116	23,496,955

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 noncurrent assets, are analysed by geographic locations where the assets are located.

Information of major customers

Operating revenue of RMB11,950,398,000 was derived from carriers' networks and handset terminal revenue from one major customer (first half of 2018: RMB9,482,827,000 from one major customer).

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

The aging analysis of trade receivables is set out as follows:

	30 June 2019	31 December 2018
Within 1 year	15,693,823	18,786,786
1–2 years	8,603,436	7,546,493
2- 3 years	2,842,393	2,627,386
Over 3 years	9,344,815	9,643,102
	36,484,467	38,603,767
Less: bad debt provision for trade receivables	9,644,723	9,557,940
	26,839,744	29,045,827

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

1. Trade receivables (continued)

	30 June 2019				31 December 2018			
	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	**6,078,583**	**17**	**6,078,583**	**100**	4,743,118	12	4,743,118	100
For which bad debt provision has been collectively made								
0–6 months	**8,606,022**	**23**	**223,407**	**3**	11,660,246	31	228,095	2
6–12 months	**5,381,622**	**15**	**192,546**	**4**	5,282,249	14	159,596	3
12–18 months	**3,625,185**	**10**	**212,802**	**6**	3,620,399	9	187,758	5
18–24 months	**2,711,113**	**7**	**134,188**	**5**	2,086,197	5	158,751	8
2–3 years	**2,167,985**	**6**	**361,033**	**17**	2,549,977	7	1,046,319	41
Over 3 years	**7,913,957**	**22**	**2,442,164**	**31**	8,661,581	22	3,034,303	35
	30,405,884	**83**	**3,566,140**	**12**	33,860,649	88	4,814,822	14
	36,484,467	**100**	**9,644,723**		38,603,767	100	9,557,940	

Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision for the period	Reversed for the period	Write off	Closing balance
30 June 2019	**9,557,940**	**1,112,031**	**–**	**(1,025,248)**	**9,644,723**
31 December 2018	6,630,794	3,021,151	–	(94,005)	9,557,940

As at 30 June 2019, RMB0 (31 December 2018: Nil).was reversed and RMB996,761,000 (31 December 2018: Nil).was written off in respect of bad-debt provision in respect of 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".

2. Other receivables

The aging analysis of other receivables:

	30 June 2019	31 December 2018
Within 1 year	**13,841,420**	8,898,896
1–2 years	**4,228,797**	3,085,770
2–3 years	**2,323,811**	2,615,148
Over 3 years	**1,874,260**	1,349,401
Bad debt provision	**(14,234)**	(13,540)
Total	**22,254,054**	15,935,675

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

2. Other receivables (continued)

Other receivables are analysed as follows:

	30 June 2019	31 December 2018
Dividend receivable	150,787	23,753
Staff loans	221,971	243,676
Transactions with third parties	21,881,296	15,668,246
Total	22,254,054	15,935,675

3. Long-term trade receivables

	30 June 2019	31 December 2018
Loans granted to subsidiaries (Note 1)	5,424,431	5,415,135
Installment payments for the provision of telecommunication system construction projects	58,392	130,322
Less: Bad debt provision for long-term receivables	1,399	2,571
	5,481,424	5,542,886

Note 1 Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the period are as follows:

	Opening balance	Provision for the period	Reversed for the period	Write off	Closing balance
30 June 2019	2,571	—	—	(1,172)	1,399
31 December 2018	—	2,571	—	—	2,571

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".

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

4. Long-term equity investments

		30 June 2019	31 December 2018
Equity method			
Joint Ventures	(1)	**80,992**	84,513
Associates	(2)	**1,901,373**	1,996,509
Less: Provision for impairment in long-term equity investments		**7,241**	7,241
		1,975,124	2,073,781
Cost method			
Subsidiaries	(3)	**10,924,633**	11,156,132
Less: Provision for impairment in long-term equity investments	(4)	**61,192**	61,192
		10,863,441	11,094,940
		12,838,565	13,168,721

30 June 2019

(1) Joint Ventures

	Opening book balance	Movements during the period							Closing book balance	Impairment provision at the end of the period
		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	57,234	–	–	(1,410)	–	–	–	–	55,824	–
德特賽維技術有限公司	27,279	–	–	(2,111)	–	–	–	–	25,168	–
	84,513	–	–	(3,521)	–	–	–	–	80,992	–

(2) Associates

	Opening balance	Movements during the period								Closing book balance	Impairment provision at the end of the period
		Increase of investment	Decrease of investment	Investment gains/losses undue equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Other		
KAZNURTEL Limited Liability Company	–	–	–	–	–	–	–	–	–	–	(2,477)
ZTE Software Technology (Nanchang) Company Limited	3,947	–	–	(69)	–	–	–	–	–	3,878	–
ZTE Energy Limited	426,995	–	–	10,219	–	–	–	–	–	437,214	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	1,790	–	–	(466)	–	–	–	–	–	1,324	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,360	–	–	(1,400)	–	–	–	–	–	2,960	–
中興江蘇耀維科技	2,927	–	–	(247)	–	–	–	–	–	2,680	–
廣東中興城智信息技術有限公司	4,634	–	–	332	–	–	–	–	–	4,966	–
上海博色信息科技有限公司	26,134	–	–	2,844	–	–	–	–	–	28,978	–
南京寧網科技有限公司	3,876	–	–	(1,045)	–	–	–	–	–	2,831	–
Nubia Technology Limited	801,118	–	–	(105,540)	–	–	–	–	–	695,578	–
Whale Cloud Technology Co., Ltd.	665,209	–	–	1,594	–	–	–	–	–	666,803	–
石家莊市智慧產業有限公司	48,278	–	–	(1,358)	–	–	–	–	–	46,920	–
	1,989,268	–	–	(95,136)	–	–	–	–	–	1,894,132	(7,241)

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

4. Long-term equity investments (continued)

30 June 2019 (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%	100%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	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	76.0%	76.0%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90.0%	90.0%	4,000
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80.0%	80.0%	–
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%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	(2,100)	–	100.0%	100.0%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100.0%	100.0%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90.0%	90.0%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100.0%	100.0%	–
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	4,101	19,301	90.0%	90.0%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100.0%	100.0%	–
PT. ZTE Indonesia	15,275	15,275	–	15,275	100.0%	100.0%	–
ZTE Wistron Telecom AB	2,137	2,137	–	2,137	100.0%	100.0%	–
ZTE Holdings (Thailand) Co.,Ltd	10	10	–	10	100.0%	100.0%	–
ZTE (Thailand) Co.,Ltd.	5,253	5,253	–	5,253	100.0%	100.0%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100.0%	100.0%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	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	100.0%	100.0%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100.0%	100.0%	–
ZTE-Communication Technologies, Ltd.	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%	12,100
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	–	–	–	–	31.0%	*	96,000
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%	–
北京中興高達通信技術有限公司	47,500	42,750	–	42,750	100.0%	100.0%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100.0%	100.0%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
中興新能源汽車有限責任公司	112,500	218,240	14,120	232,360	85.0%	85.0%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100.0%	100.0%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50.0%	50.0%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100.0%	100.0%	–
Jiaxing Xinghe Equity Investment Partnership	92,800	92,800	(15,000)	77,800	30.0%	*	–

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

4. Long-term equity investments (continued)

30 June 2019 (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
中興捷維通訊技術有限責任公司	46,530	46,530	–	46,530	100.0%	100.0%	–
深圳市興聯達科技有限公司	30,000	30,000	(30,000)	–	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%	–
長沙中興智慧技術有限公司	350,000	350,000	–	350,000	100.0%	100.0%	–
深圳市中興視通科技有限公司	35,400	35,400	–	35,400	100.0%	100.0%	–
ZTE (Wenzhou) Railway Communication Technology Limited	25,500	25,500	–	25,500	51.0%	51.0%	–
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	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%	–
ZTE (Huai'an) Smart Industries Company Limited	31,620	31,620	(31,620)	–	51.0%	51.0%	–
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
Zhongxing Feiliu Information Technology Company Limited	48,960	48,960	–	48,960	51.0%	51.0%	–
ZTE Gaoneng Technology Company Limited	400,000	400,000	–	400,000	80.0%	80.0%	–
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	2,550	–	2,550	51.0%	51.0%	–
ZTE Smart Auto Company Limited	790,500	790,500	–	790,500	86.4%	86.4%	127,035
Shijiazhuang Smart City Research Institute Company Limited	2,000	2,000	(2,000)	–	80.0%	80.0%	–
中興光電子技術有限公司	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	300,000	300,000	(180,000)	120,000	25.0%	*	–
深圳市中瑞檢測科技有限公司	10,000	10,000	–	10,000	100.0%	100.0%	–
ZTE Kela Technology (Suzhou) Co., Ltd.	44,100	44,100	–	44,100	90.0%	90.0%	–
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.	36,000	36,000	–	36,000	75.0%	75.0%	–
西安中興電子科技有限公司	11,250	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 (Kunming) ZTE Smart City Industry Research Institute Co., Ltd.	–	2,000	(2,000)	–	100.0%	100.0%	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	5,000	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%	–
深圳市英博超算科技有限公司	13,000	–	13,000	13,000	45.2%	**	–
		11,156,132	(231,499)	10,924,633			239,135

* 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.

** 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 3 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.

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

4. Long-term equity investments (continued)

30 June 2019 (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 LTDA	10,059	–	10,059
ZTE Integration Telecom Limited	4,591	–	4,591
Wistron Telecom AB	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.	1,654	–	1,654
ZTE Romania S.R.L	827	–	827
	61,192	–	61,192

31 December 2018

(1) Joint Ventures

		Movements during the year								
	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	56,687	–	–	547	–	–	–	–	57,234	–
德特賽維技術有限公司	29,395	–	–	(2,116)	–	–	–	–	27,279	–
	86,082	–	–	(1,569)	–	–	–	–	84,513	–

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

4. Long-term equity investments (continued)

31 December 2018 (continued)

(2) Associates

		Movements during the year									
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Other	Closing book balance	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	(2,477)	–	–	(2,477)
ZTE Software Technology (Nanchang) Company Limited	3,799	–	–	148	–	–	–	–	–	3,947	–
ZTE Energy Limited	421,510	–	–	5,485	–	–	–	–	–	426,995	–
思卓中興(杭州)科技有限公司	21,248	–	(21,248)	–	–	–	–	–	–	–	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	3,155	–	–	(1,365)	–	–	–	–	–	1,790	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,179	–	–	181	–	–	–	–	–	4,360	–
中興江蘇耀維科技	3,834	–	–	(907)	–	–	–	–	–	2,927	–
廣東中興城智信息技術有限公司	4,392	–	–	242	–	–	–	–	–	4,634	–
上海博色信息科技有限公司	20,909	–	–	5,225	–	–	–	–	–	26,134	–
南京寧網科技有限公司	3,460	–	–	416	–	–	–	–	–	3,876	–
Nubia Technology Limited	1,400,518	–	–	(599,400)	–	–	–	–	–	801,118	–
Whale Cloud Technology Co., Ltd.	–	–	–	55,723	–	–	–	–	609,486	665,209	–
石家莊市智慧產業有限公司	–	48,000	–	278	–	–	–	–	–	48,278	–
	1,889,481	48,000	(21,248)	(533,974)	–	–	–	(2,477)	609,486	1,989,268	(7,241)

Notes to Financial Statements

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

4. Long-term equity investments (continued)

31 December 2018 (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 year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	–
Whale Cloud Technology Co., Ltd	–	250,441	(250,441)	–	89.0%	89.0%	80,099
Shanghai Zhongxing Telecom Equipment Technology Company Limited	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	76.0%	76.0%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90.0%	90.0%	4,667
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80.0%	80.0%	–
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%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100.0%	100.0%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100.0%	100.0%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90.0%	90.0%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100.0%	100.0%	–
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76.0%	76.0%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100.0%	100.0%	–
PT. ZTE Indonesia	15,275	15,275	–	15,275	100.0%	100.0%	–
ZTE Wistron Telecom AB	2,137	2,137	–	2,137	100.0%	100.0%	–
ZTE Holdings (Thailand) Co.,Ltd	10	10	–	10	100.0%	100.0%	–
ZTE (Thailand) Co.,Ltd.	5,253	5,253	–	5,253	100.0%	100.0%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100.0%	100.0%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	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	100.0%	100.0%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100.0%	100.0%	–
ZTE-Communication Technologies, Ltd.	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%	–
Closed Joint Stock Company TK Mobile	16,871	16,871	(16,871)	–	51.0%	51.0%	–
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%	57,200
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	–	–	–	–	31.0%	*	96,000
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%	–
ZTE Supply Chain Co., Ltd.	289,341	289,341	–	289,341	100.0%	100.0%	–
北京中興高達通信技術有限公司	47,500	47,500	(4,750)	42,750	100.0%	100.0%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100.0%	100.0%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
中興新能源汽車有限責任公司	112,500	112,500	105,740	218,240	85.0%	85.0%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100.0%	100.0%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50.0%	50.0%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100.0%	100.0%	–
Jiaxing Xinghe Equity Investment Partnership	92,800	92,800	–	92,800	30.0%	*	–

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

4. Long-term equity investments (continued)

31 December 2018 (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 year
中興捷維通訊技術有限責任公司	46,530	46,530	–	46,530	100.0%	100.0%	–
深圳市興聯達科技有限公司	30,000	30,000	–	30,000	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%	–
河南中興光伏科技有限責任公司	–	3,000	(3,000)	–	100.0%	100.0%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	–	19,500	65.0%	65.0%	–
長沙中興智慧技術有限公司	350,000	350,000	–	350,000	100.0%	100.0%	–
深圳市中興視通科技有限公司	35,400	35,400	–	35,400	100.0%	100.0%	–
ZTE (Wenzhou) Railway Communication Technology Limited	25,500	25,500	–	25,500	51.0%	51.0%	–
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	26,500	18,500	45,000	100.0%	100.0%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
ZTE (Huai'an) Smart Industries Company Limited	31,620	31,620	–	31,620	51.0%	51.0%	–
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
Zhongxing Feiliu Information Technology Company Limited	48,960	48,960	–	48,960	51.0%	51.0%	–
ZTE Gaoneng Technology Company Limited	400,000	400,000	–	400,000	80.0%	80.0%	–
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	2,550	–	2,550	51.0%	51.0%	–
Shenyang (ZTE) Big Data Research Company Limited	–	2,000	(2,000)	–	100.0%	100.0%	–
ZTE Smart Auto Company Limited	790,500	790,500	–	790,500	100.0%	100.0%	–
Shijiazhuang Smart City Research Institute Company Limited	2,000	2,000	–	2,000	80.0%	80.0%	–
ZTE Group Finance Holdings (Hangzhou) Limited	–	500,000	(500,000)	–	100.0%	100.0%	–
ZTE (Yiwu) Research Institute Company Limited	–	2,800	(2,800)	–	70.0%	70.0%	–
中興光電子技術有限公司	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	300,000	300,000	–	300,000	25.0%	*	–
深圳市中瑞檢測科技有限公司	10,000	10,000	–	10,000	100.0%	100.0%	–
ZTE Kela Technology (Suzhou) Co., Ltd.	44,100	44,100	–	44,100	90.0%	90.0%	–
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.	36,000	36,000	–	36,000	75.0%	75.0%	–
Xi'an Zhongxing Software Co., Ltd.	11,250	11,250	33,750	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 (Kunming) ZTE Smart City Industry Research Institute Co., Ltd.	–	–	2,000	2,000	100.0%	100.0%	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	5,000	5,000	5,000	10,000	100.0%	100.0%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
		11,771,004	(614,872)	11,156,132			237,966

* 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.

Notes to Financial Statements

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

4. Long-term equity investments (continued)

31 December 2018 (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 LTDA	10,059	–	10,059
ZTE Integration Telecom Limited	4,591	–	4,591
Wistron Telecom AB	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.	1,654	–	1,654
ZTE Romania S.R.L	827	–	827
	61,192	–	61,192

5. Operating revenue and costs

	Six months ended 30 June 2019		Six months ended 30 June 2018	
	Revenue	Cost	Revenue	Cost
Principal operations	31,856,507	32,276,787	32,005,732	33,112,899
Other businesses	7,618,769	13,455	7,573,756	946
	39,475,276	32,290,242	39,579,488	33,113,845

Notes to Financial Statements

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Investment income

	Six months ended 30 June 2019	Six months ended 30 June 2018
Investment loss from long-term equity investment under equity method	**(98,657)**	(180,228)
Investment income from long-term equity investment under cost method	**239,135**	209,099
Investment income/(loss) from the disposal of derivative investment	**18,061**	(30,162)
Investment gain earned during the period of holding other non-current financial assets	**1,176**	10,460
Investment loss from the disposal of long-term equity investment	**(24,918)**	(3,115)
Loss on derecognition of financial assets at amortised cost	**(21,607)**	(45,284)
	113,190	(39,230)

Supplementary Information to Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2019
Loss from the disposal of non-current assets	(16,975)
Investment gain from the disposal of long-term equity investments	90,772
Gain/loss from fair-value change in derivative financial assets and derivative financial liabilities, and investment gain from disposal of derivative financial assets and derivative financial liabilities	26,104
Reversal of impairment provision for individually tested receivables	67,171
Gain/loss from change in fair value of investment properties	3,320
Other income (other than software VAT refund and refund of tax handing fees)	130,422
Net amount of other non-operating income and expenses and others other than the above	(88,757)
Other profit or loss items meeting the criteria for extraordinary profit or loss	810,644
	1,022,701
Effect of income tax	(153,405)
Effect of non-controlling interests (net of tax)	(10,735)
	858,561

Note 1 The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Six months ended 30 June 2019	Reason
Refund of VAT on software products	729,764	In line with national policies and received on an ongoing basis
Return of tax refund fee	614	In line with national policies and received on an ongoing basis
Venture capital firm	407,010	Within the scope of business

Supplementary Information to Financial Statements (continued)

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

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 2019

	Weighted average return on net assets	**Earnings per share**	
		Basic	**Diluted**
Net profit attributable to ordinary shareholders of the Company	**6.20%**	**RMB0.35**	**RMB0.35**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**2.58%**	**RMB0.15**	**RMB0.14**

30 June 2018

	Weighted average return on net assets	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	(29.71%)	RMB(1.87)	RMB(1.87)
Net profit after extraordinary items attributable to ordinary shareholders of the Company	(9.03%)	RMB(0.57)	RMB(0.57)

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 period.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared under Hong Kong Accounting Standard 34)
Six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 (Unaudited) RMB'000	Six months ended 30 June 2018 (Unaudited) RMB'000 (Restated)
REVENUE	4	**44,609,219**	39,433,777
Cost of sales		**(28,058,303)**	(29,136,633)
Gross profit		**16,550,916**	10,297,144
Other income and gains	4	**1,818,453**	2,091,251
Research and development costs		**(6,471,866)**	(5,060,624)
Selling and distribution expenses		**(4,025,746)**	(4,795,563)
Administrative expenses		**(2,766,954)**	(1,388,118)
Impairment losses on financial and contract assets, net		**(1,416,091)**	(1,656,845)
Loss on disposal of financial assets measured at amortised cost		**(84,063)**	(99,338)
Other expenses		**(385,973)**	(7,210,005)
Finance costs	6	**(823,053)**	(390,211)
Share of profits and losses of:			
Joint ventures		**(3,363)**	113
Associates		**(154,783)**	(213,647)
PROFIT/(LOSS) BEFORE TAX	5	**2,237,477**	(8,425,843)
Income tax	7	**(412,914)**	565,033
Profit/(Loss) for the period		**1,824,563**	(7,860,810)
Attributable to:			
Ordinary equity holders of the parent		**1,470,699**	(7,824,190)
Perpetual capital instruments		**172,867**	214,918
Non-controlling interests		**180,997**	(251,538)
		1,824,563	(7,860,810)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**51,077**	(815,502)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**51,077**	(815,502)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**51,077**	(815,502)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**1,875,640**	(8,676,312)
Attributable to:			
Ordinary equity holders of the parent		**1,522,528**	(8,618,581)
Perpetual capital instruments holders		**172,867**	214,918
Non-controlling interests		**180,245**	(272,649)
		1,875,640	(8,676,312)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**RMB 0.35**	RMB(1.87)
Diluted		**RMB 0.35**	RMB(1.87)

Consolidated Statement of Financial Position

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

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

Consolidated Statement of Financial Position (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
CURRENT LIABILITIES			
Trade and bills payables	12	**26,798,597**	27,443,104
Contract liabilities	10	**15,497,576**	14,479,355
Other payables and accruals		**16,540,349**	19,076,536
Provision		**1,668,151**	2,167,614
Derivative financial instruments		**92,527**	101,332
Interest-bearing bank borrowings		**34,911,173**	24,983,323
Bank advances on factored trade receivables		**554,263**	591,931
Dividend payables		**1,322**	1,322
Tax payable		**394,509**	532,281
Current portion of lease liabilities		**517,034**	—
Total current liabilities		**96,975,501**	89,376,798
NET CURRENT ASSETS		**5,007,385**	3,624,115
TOTAL ASSETS LESS CURRENT LIABILITIES		**43,767,147**	39,973,951
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**3,330,373**	2,366,568
Bank advances on factored long-term trade receivables		**502,645**	434,137
Deferred tax liabilities		**180,178**	155,041
Provision for retirement benefits		**134,561**	136,245
Lease liabilities		**597,171**	—
Other non-current liabilities		**5,205,587**	3,921,285
Total non-current liabilities		**9,950,515**	7,013,276
Net assets		**33,816,632**	32,960,675
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Issued capital		**4,192,672**	4,192,672
Reserves		**20,327,638**	18,704,904
		24,520,310	22,897,576
Perpetual capital instruments	13	**6,076,632**	6,252,364
Non-controlling interests		**3,219,690**	3,810,735
Total equity		**33,816,632**	32,960,675

Li Zixue
Director

Xu Ziyang
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Accounting Standard 34)
Six months ended 30 June 2019

	Attributable to ordinary equity holders of the parent										
	Issued capital (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Hedging reserve (Unaudited) RMB'000	Share Incentive Scheme (Unaudited) RMB'000	Statutory reserves (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000	Perpetual capital instruments (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2019	4,192,672	11,777,106	(67,982)	438,791	2,324,748	(2,751,020)	6,983,261	22,897,576	6,252,364	3,810,735	32,960,675
Profit for the period	–	–	–	–	–	–	1,470,699	1,470,699	172,867	180,997	1,824,563
Other comprehensive income											
Exchange differences on translation of foreign operations	–	–	–	–	–	51,829	–	51,829	–	(752)	51,077
Total comprehensive income for the period	–	–	–	–	–	51,829	1,470,699	1,522,528	172,867	180,245	1,875,640
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(273,581)	(273,581)
Capital contributions by non-controlling shareholders	–	43,434	–	–	–	–	–	43,434	–	111,917	155,351
Acquisition of non-controlling shareholders	–	(93,494)	–	–	–	–	–	(93,494)	–	(24,790)	(118,284)
Capital withdrawal by non-controlling shareholders	–	–	–	–	–	–	–	–	–	(584,836)	(584,836)
Distribution to perpetual capital instrument holders	–	–	–	–	–	–	–	–	(348,599)	–	(348,599)
Share Incentive Scheme:											
– Equity-settled share option expense	–	–	–	150,266	–	–	–	150,266	–	–	150,266
At 30 June 2019	4,192,672	11,727,046*	(67,982)*	589,057*	2,324,748*	(2,699,191)*	8,453,960*	24,520,310	6,076,632	3,219,690	33,816,632

	Attributable to ordinary equity holders of the parent										
	Issued capital (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Hedging reserve (Unaudited) RMB'000	Share Incentive Scheme (Unaudited) RMB'000	Statutory reserves (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000	Perpetual capital instruments (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2018	4,192,672	12,269,304	(67,982)	245,603	2,205,436	(1,865,841)	14,667,683	31,646,875	9,321,327	4,411,945	45,380,147
Adjustments	–	(438,135)	–	–	(63,082)	–	(518,366)	(1,019,583)	–	27,565	(992,018)
At 1 January 2018 after adjustments	4,192,672	11,831,169	(67,982)	245,603	2,142,354	(1,865,841)	14,149,317	30,627,292	9,321,327	4,439,510	44,388,129
Profit for the period	–	–	–	–	–	–	(7,824,190)	(7,824,190)	214,918	(251,538)	(7,860,810)
Other comprehensive income											
Exchange differences on translation of foreign operations	–	–	–	–	–	(794,391)	–	(794,391)	–	(21,111)	(815,502)
Total comprehensive income for the period	–	–	–	–	–	(794,391)	(7,824,190)	(8,618,581)	214,918	(272,649)	(8,676,312)
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(313,249)	(313,249)
Capital contributions by non-controlling shareholders	–	(6,680)	–	–	–	–	–	(6,680)	–	187,280	180,600
Acquisition of non-controlling shareholders	–	(31,606)	–	–	–	–	–	(31,606)	–	15,866	(15,740)
Distribution to perpetual capital instrument holders	–	–	–	–	–	–	–	–	(433,949)	–	(433,949)
Share Incentive Scheme:											
– Equity-settled share option expense	–	–	–	78,709	–	–	–	78,709	–	–	78,709
Repurchase the perpetual capital instrument	–	(4,500)	–	–	–	–	–	(4,500)	(1,495,500)	–	(1,500,000)
At 30 June 2018	4,192,672	11,788,383*	(67,982)*	324,312*	2,142,354*	(2,660,232)*	6,325,127*	22,044,634	7,606,796	4,056,758	33,708,188

* These reserve accounts comprise the consolidated reserves of approximately RMB20,327,638,000 (30 June 2018: RMB17,851,962,000) in the consolidated statement of financial position.

Consolidated Cash Flow Statement

(Prepared under Hong Kong Accounting Standard 34)
Six months ended 30 June 2019

Item	**Six months ended 30 June 2019 (Unaudited) RMB'000**	Six months ended 30 June 2018 (Unaudited) RMB'000
Net cash outflows from operating activities	**(625,067)**	(7,472,465)
Net cash outflows from investing activities	**(4,637,865)**	(83,851)
Net cash inflows/(outflows) from financing activities	**10,687,566**	(6,801,889)
Net increase/(decrease) in cash and cash equivalents	**5,424,634**	(14,358,205)
Cash and cash equivalents at the beginning of the period	**21,134,111**	30,109,268
Effect of changes in foreign exchange rate	**77,915**	32,223
Cash and cash equivalents at the end of the period	**26,636,660**	15,783,286
Analysis of balances of cash and cash equivalents		
Unrestricted bank balances and cash	**26,261,213**	14,529,545
Time deposits with original maturity of less than three months	**375,447**	1,253,741
	26,636,660	15,783,286

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

1. CORPORATE BACKGROUND

ZTE Corporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, development, manufacture and sale of telecommunications system equipment and solutions.

In the opinion of the directors, in accordance with Chapter 8 "Qualifications For Listing" of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the controlling shareholder of the Group is Zhongxingxin Telecom Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

2.2 Changes in accounting policies and disclosures

(a) Overview

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

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Details of the changes in accounting policies are discussed in note 2.2(b) for IFRS 16.

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

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

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

New definition of a lease

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

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

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

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impacts on transition

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

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

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

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

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

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impacts on transition (continued)

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

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

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

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

Lease liabilities

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

As a lessee — Leases previously classified as operating leases (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

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

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

(b) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the demands of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, as well as the provision of related software application and value-added services.

(c) The Government and Corporate Business is focused on meeting the demands of government and corporate clients, providing top-level design and consultation services and integrated informatisation solutions for the government and corporate informatisation projects through the application of Communications Networks, Internet of Things, Big Data technologies, Cloud Computing and related core ICT products.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

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

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

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

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

Geographical information

(a) Revenue from external transactions

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information (continued)

(b) Non-current assets

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

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

Information of major customers

Operating revenue of RMB11,950,398,000 represented revenue for carriers' networks and consumer business from one major customer for the reporting period (Six months ended 30 June 2018: RMB9,482,827,000 from one major customer).

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregated revenue information

Six months ended 30 June 2019

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

Six months ended 30 June 2018

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2019

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

	Six months ended 30 June 2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	9,076,839

(ii) Performance obligations

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

Sale of hardware products

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

Installation services

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

A bundle of sales of equipment and installation services

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

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4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

Maintenance services

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

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

\# VAT refund for software products represents tax payments by subsidiaries of the Group on any effective VAT rate in excess of 3% in respect of software product sales which are immediately refundable upon payment pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

\## "Others" included government grants, contract penalty gains and other miscellaneous gains.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2019 RMB'000	Six months ended 30 June 2018 RMB'000
Cost of goods and services	**24,638,913**	23,631,946
Depreciation of property, plant and equipment	**602,416**	586,472
Depreciation of right-of-use assets	**287,365**	—
Amortisation of land lease payments	**—**	15,059
Amortisation of intangible assets other than deferred development costs	**162,529**	177,422
Research and development costs:		
Deferred development costs amortised	**562,157**	390,485
Current period expenditure	**6,926,255**	5,639,948
Less: deferred development costs	**(1,016,546)**	(969,809)
	6,471,866	5,060,624
Fair value loss, net*:		
Derivative instruments	**23,278**	85,059
Investment properties	**(3,320)**	(6,964)
Equity investments at fair value through profit or loss	**122,832**	306,000
Wealth management products	**(186)**	(6,656)
Impairment of trade receivables/long-term trade receivables*	**1,072,831**	1,656,845
Impairment of contract assets*	**341,058**	(20,996)
Impairment of prepayments, other receivables and other assets*	**2,974**	—
Impairment of debt investments at fair value through other comprehensive income*	**204**	—
Impairment of factored trade receivables*	**(778)**	—
Impairment of factored long-term trade receivables*	**(198)**	—
Dividend income from equity investments at fair value through profit or loss/available-for-sale investments	**9,972**	14,460
Provision for onerous contract**	**434,513**	793,454
Provision for warranties**	**86,132**	1,041,183
Provision for legal obligation*	**22,737**	287,186
Write-down of inventories to net realisable value**	**469,998**	1,250,847
Costs related to the comprehensive settlement with US authorities	**—**	6,416,700
Minimum lease payments under operating leases	**—**	327,214
Short-term operating lease charge	**177,029**	—
Contingent rental income in respect of operating leases	**(68,691)**	(3,402)
Auditors' remuneration	**700**	650
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	**9,344,178**	9,199,791
Equity-settled share option expense	**150,266**	78,709
Retirement benefit scheme contributions:		
Defined contribution pension schemes	**614,065**	691,045
	10,108,509	9,969,545
Foreign exchange loss*	**59,823**	82,575
Loss on disposal of items of property, plant and equipment*	**16,975**	9,552
(Gain)/loss on disposal of subsidiaries*	**(90,772)**	3,749
Gain on disposal of derivative financial instruments	**(49,382)**	(169,395)
Gain on disposal of financial assets at fair value through profit or loss	**(407,010)**	(14,726)
Loss on disposal of financial assets measured at amortised cost	**84,063**	99,338

Notes to Condensed Consolidated Interim Financial Statements (continued)

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5. PROFIT BEFORE TAX (CONTINUED)

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

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

6. FINANCE COSTS

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

7. INCOME TAX

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

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

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

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

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

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7. INCOME TAX (CONTINUED)

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Zhongxing Smart Auto Company Limited is subject to an enterprise income tax rate of 15% from 2018 to 2020 as a national-grade hi-tech enterprise

Nanjing Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an Cris Semiconductor Technology Company Limited is subject to an enterprise income tax rate of 10% for 2019 as an IC design enterprise designated by national planning.

Chongqing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2019 as a national-grade key software enterprise.

Shenzhen Zhongxing SI Technology Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Sanya Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2019 as a national-grade key software enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% in 2019 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Yilian Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company is subject to an enterprise income tax rate of 15% in 2019 as an approved enterprise engaged in nationally encouraged industries.

ZTE (Xi'an) Company Limited is subject to an enterprise income tax rate of 15% in 2019 under the West China development preferential policy and as an approved enterprise engaged in nationally encouraged industries.

8. DIVIDEND

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

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

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

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9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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

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

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

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

10. CONTRACT ASSETS/CONTRACT LIABILITIES

(a) Contract assets

	30 June 2019 RMB'000	31 December 2018 RMB'000
Contract assets	**11,057,390**	8,614,711
Impairment	**(494,085)**	(152,485)
	10,563,305	8,462,226

The expected timing of recovery or settlement for contract assets as at 30 June 2019 is as follows:

	RMB'000
Within one year	10,563,305

Notes to Condensed Consolidated Interim Financial Statements (continued)

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10. CONTRACT ASSETS/CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (continued)

The movements in the loss allowance for impairment of contract assets are as follows:

	Six months ended 30 June 2019 RMB'000
At the beginning of the period	152,485
Impairment losses recognised	363,298
Amount written off as uncollectible	(22,240)
Fluctuation in exchange	542
At the end of the period	494,085

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases.

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

	As at 30 June 2019
Expected credit loss rate	4.47%
	RMB'000
Gross carrying amount	11,057,390
Expected credit losses	494,085

(b) Contract liabilities

	30 June 2019 RMB'000	31 December 2018 RMB'000
Right to an amount of consideration	7,956,263	7,636,303
Consideration received	7,541,313	6,843,052
	15,497,576	14,479,355

Contract liabilities include short-term advances received to deliver hardware products and render installation, construction and management services.

11. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES

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

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11. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES (CONTINUED)

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

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

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

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

	30 June 2019 RMB'000	31 December 2018 RMB'000
Opening balance	**12,412,280**	9,175,345
Effect of adoption of HKFRS 9	**—**	23,139
Opening balance post adjustment	**12,412,280**	9,198,484
Impairment losses, net (note 5)	**1,072,831**	3,445,793
Amount written off as uncollectible	**(1,121,598)**	(419,730)
Fluctuation in exchange	**99,982**	187,733
Closing balance	**12,463,495**	12,412,280

Impairment under HKFRS 9 for the period ended 30 June 2019

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

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

As at 30 June 2019

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

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As at 30 June 2019

11. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES (CONTINUED)

As at 31 December 2018

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

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

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

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

12. TRADE AND BILLS PAYABLES

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

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

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

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

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

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

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13. PERPETUAL CAPITAL INSTRUMENTS

(1) Medium Term Notes outstanding as at the end of the period

The Company issued the 2015 Tranche I Medium Term Notes with a total principal amount of RMB6,000,000,000 on 27 January 2015. The notes will remain valid indefinitely until they are redeemed by the issuer (the "Company") pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 5th interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests). The coupon interest rate for the first 5 years for which interest is accruable is 5.81% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 6th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread (the difference between the coupon interest rate and the initial benchmark rate), the initial benchmark rate being the arithmetic average (rounding to the nearest 0.01%) of the yield rates of treasury bonds with a 5-year term in the interbank fixed rate treasury bond yield curve for China bonds announced on www.chinabond. com.cn or other websites approved by CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD. 5 working days prior to setting up the account book. The coupon rate will thereafter remain unchanged from the 6th to the 10th interest accruing years. Thereafter, the coupon interest rate is reset every 5 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

Unless an event triggering mandatory interest payment has occurred, the issuer may choose prior to each interest payment date to defer the payment of current interests and deferred interests and the compound interest in full or in part to the next interest payment date pursuant to this clause. There is no limit to the timing and frequency of payment deferrals. Deferral of any interest payments under this clause shall not be deemed as default. Each deferred interest payment shall accrue interests at the current coupon rate for the period of deferral.

In the event the issuer conducts the following within 12 months prior to the current interest payment date for the Medium Term Note, it should not defer the payment of current interests and all deferred interests and compound interest:

1. Dividend distribution to holders of ordinary shares;
2. Reduction of registered capital.

(2) Movement of issued Medium Term Note as at the end of the period

Face value RMB'000	Issue date	Volume ('000)	Amount RMB'000	Opening balance RMB'000	Interest charge for the period RMB'000	Decreased Amount RMB'000	Interest payment for the period RMB'000	Closing balance RMB'000
6,000,000	2015.1.27	60,000	6,000,000	6,252,364	172,867	–	(348,599)	6,076,632

14. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements of the Group were as follows:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Guarantees given to banks in respect of performance bonds	12,843,398	10,726,178

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14. CONTINGENT LIABILITIES (CONTINUED)

(b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,980,000 (equivalent to approximately RMB31,923,100). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000(equivalent to approximately RMB13,725,200) should be paid by the Company. The Company had made provision for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. On 23 June 2018, the district court ruled to reject the objection of the Company against the arbitration award and uphold the original arbitration award. On 19 July 2018, the Company intends to appeal to the higher court against the ruling of the district court in accordance with local laws.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated. Hence, no additional provision was made in respect of the litigation for the current period.

(c) On 11 June 2010, a lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20,000,000 in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10,000,000 in actual damages and USD20,000,000 in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company and subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the district court of Dallas, Texas in respect of the aforesaid ruling. On 19 November 2018, the court of appeal of Dallas, Texas ruled to overturned the ruling of the district court of Dallas, Texas of annulling the arbitration award and reinstated the arbitration award. On 4 December 2018, UTE made an application to the court of appeal of Dallas, Texas for review. On 4 January 2019, UTE made an application to the court of appeal of Dallas, Texas for the case to be heard by the full court. As of now, the court of appeal of Dallas, Texas has ruled to reject the aforesaid application of UTE. On 14 February 2019, the court of appeal of Dallas, Texas ruled to reject the aforesaid application of UTE. On 1 April 2019, UTE made an application to the Supreme Court of Texas for Civil Matters for review. As of now, the Supreme Court of Texas for Civil Matters has yet to make a ruling on UTE's application for review.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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14. CONTINGENT LIABILITIES (CONTINUED)

(d) On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with the United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, Inc ("ZTE USA"), a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, the ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of the ITC.

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly owned subsidiary of InterDigital, Inc.) filed a claim with the ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defence of the case and file an appeal to the United States Court of Appeals for the Federal Circuit based on the verdicts on the three patents involved in the litigation ruled by the Federal District Court of Delaware to have been subject to infringement. In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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14. CONTINGENT LIABILITIES (CONTINUED)

(e) In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The company filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again in respect of the said verdict of the Federal District Court of California. In February 2019, the United States Court of Appeals for the Federal Circuit ruled to uphold the judgement of the Federal District Court of California that the Company and ZTE USA had not infringed upon the patents under litigation. On 26 April 2019, the United States Court of Appeals for the Federal Circuit ruled to reject the said company's application for the case to be heard by the full court of the United States Court of Appeals for the Federal Circuit.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(f) 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 RMB56,236,000). 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 RMB56,003,900), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB56,003,900) 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 RMB56,003,900) 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.

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14. CONTINGENT LIABILITIES (CONTINUED)

(f) (continued)

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB149,000,000). The Company has appointed legal counsel to conduct active defence in respective of the said case.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(g) On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary"). The Sudanese carrier and its Mauritanian Subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31,800,000 in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

On 10 August 2017, the Company submitted its written defences to LCIA and DIFC-LCIA, respectively, for the aforementioned arbitrations. In the meantime, the Company filed counter arbitration petitions against the Mauritanian Subsidiary for an aggregate amount of approximately USD22,711,900.

In May 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to DIFC-LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD37,450,000 and other damages for breach of contract, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to DIFC-LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

In October 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD31,880,000, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to LCIA.

In May 2019, the aforesaid Sudanese carrier withdrew its application for LCIA arbitration.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(h) 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) 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.

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14. CONTINGENT LIABILITIES (CONTINUED)

(h) (continued)

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. 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 Probationary Period (10 years from the issue of the 8 June 2018 Order) (The USD0.4 billion penalty will be waived after the end of Probation Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order (the "Probationary Period") that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR to be imposed by BIS, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the superseding settlement agreement of 2018 and the settlement agreement with the U.S. government in 2017, 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 agreement of 2017, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; (ii) the USD0.4 billion placed in an escrow account with a U.S. bank shall become payable immediately and shall be paid in full or in part.

The Company places a strong emphasis on export control compliance and regards compliance as the cornerstone of its strategy as well as the pre-requisite condition and bottom line of its operations.

The Company has formed an export compliance committee under the Board comprising the Company's Executive Directors, Non-executive Directors and Independent Non-executive Directors. An export control compliance team comprising the chief export control compliance officer, the regional export control compliance officer and senior export control compliance experts from around the world has been formed with the support of professional external legal and consultants' teams. A number of consulting firms has been engaged to provide professional guidance for the development and improvement of the Company's administrative structure, system and processes for export control compliance. The SAP trade compliance control system (GTS) has been introduced and implemented to facilitate automated export control compliance administration. Online and offline compliance training has been provided to senior management personnel, subsidiaries, compliance coordinators, account managers and new employees. Supervisory initiatives has been carried out in support of the work of the independent compliance monitor and the Special Compliance Coordinator, complemented by ongoing input in export control compliance.

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14. CONTINGENT LIABILITIES (CONTINUED)

(h) (continued)

The Company will remain dedicated to export compliance and the development of updated and comprehensive export compliance programmes to avoid any risks and safeguard the sustainable development of the Company as well as protect the interests of its staff, customers and shareholders.

In 2019, ZTE will continually comply with local and international rules and regulations, as applicable, including economic sanctions and export control laws and regulations, to ensure the sustainable development of businesses with customers and partners.

Formulating and strictly implementing the export compliance program to ensure the sustainable operation of ZTE's main businesses under the premise of compliance is an essential requirement for ZTE's employees, contractors, and businesses.

Stick to the bottom line of compliance, ensure that export control compliance policies and procedures are implemented, prevent systemic risks, and safeguard the interests of all parties.

During the period from 1 January 2019 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.

(i) 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 RMB200,000,000 compensation payable to him by the Company; and (2) the assumption of all costs of the litigation (including but not limited to litigation costs and legal fees amounting to RMB200,000) by ZTE.

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.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this arbitration cannot be reliably estimated.

15. COMMITMENTS

Capital commitments

	30 June 2019 RMB'000	31 December 2018 RMB'000
Contracted, but not provided for:		
Land and buildings	**3,176,964**	3,414,134
Investments in associates	**49,890**	65,312
	3,226,854	3,479,446

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16. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the period:

	Notes	**Six months ended 30 June 2019 RMB'000**	Six months ended 30 June 2018 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	**1,062**	46,179
Sales of finished goods	(b)	**48**	6
Rental expense	(c)	**4,697**	4,414
Rental income		**—**	6
Associates:			
Purchase of raw materials	(a)	**58,020**	596,116
Sales of finished goods	(b)	**152,514**	418,120
Rental income	(d)	**8,924**	38,839
Interest expense	(f)	**3**	3
Joint ventures:			
Purchase of raw materials	(a)	**—**	3,231
Sales of finished goods	(b)	**10,684**	32,529
Rental income	(d)	**348**	318
Companies under significant influence of key management personnel of the Group			
Purchase of raw materials	(a)	**28,170**	1,490
Sales of finished goods	(b)	**284,236**	110,748
Rental expense	(e)	**15,095**	181
Rental income	(d)	**27,728**	97
Interest income	(f)	**88**	—
Interest expense	(f)	**—**	548
Entities controlled by the controlling shareholder			
Purchase of raw materials	(a)	**208,075**	71,493
Sales of finished goods	(b)	**6,507**	5,594
Rental income	(d)	**566**	1,114
Interest income	(f)	**—**	78

In the opinion of the directors, the related party transactions were conducted in the ordinary course of business.

Notes:

(a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the Group's suppliers to their major customers.

(b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.

(c) The housing rental expense was charged at rates of RMB40 to RMB40.6 per square metre per month and RMB200 per car parking space per month.

(d) Rental income ranged from RMB34.5 to RMB220 per square metre.

(e) Rental expense ranged from RMB14.13 to RMB75 per square metre per month and RMB150 per car parking space per month.

(f) The interest rates for deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

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16. RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Compensation of key management personnel of the Group

	Six months ended 30 June 2019 RMB'000	Six months ended 30 June 2018 RMB'000
Short-term employee benefits	**3,793**	6,178
Post-employment benefits	**127**	—
Equity-settled share option expense	**1,056**	—
Total compensation paid to key management personnel	**4,976**	6,178

Certain key management personnel mentioned above were simultaneously entitled to defined benefit plans provided by the Group, the amounts of which are not included in the aforesaid remuneration.

17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, an amount due to the ultimate holding company and loans from associates approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, trade receivables, other receivables and other assets and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2019 was assessed to be insignificant.

The fair value of a listed equity investment is based on quoted market prices. The fair value of the equity investment in the listed company which was subject to a lockup period has been estimated using the closing price quoted in the active stock market discounted by the percentage of the lack of marketability during the lockup period.

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17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of unlisted equity investments designated at fair value through profit or loss, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes ("EV/EBIT") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in debt investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019 and 31 December 2018:

	Valuation technique	Significant unobservable input	Range
Listed equity investment with lock up period	Market approach	Discount for lack of marketability %	4~10
Non- listed equity investment	Market approach	Discount for lack of marketability %	30
		Price-Earnings ratio ("P/E ratio")	13~55
		Entity Value/Revenue ratio ("EV/Revenue ratio")	2~7
		Entity Value/EBIT ratio ("EV/EBIT ratio")	11~23

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

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17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Equity investments designated at fair value through profit or loss				
— listed entities	**528,497**	**—**	**58,560**	**587,057**
— unlisted entities	**—**	**—**	**1,595,800**	**1,595,800**
Wealth management products	**—**	**33,136**	**—**	**33,136**
Derivative financial instruments	**—**	**204,652**	**—**	**204,652**
Debt investments designated at fair value through other comprehensive income	**—**	**2,352,485**	**—**	**2,352,485**
	528,497	**2,590,273**	**1,654,360**	**4,773,130**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through profit or loss				
— listed entities	761,359	—	49,052	810,411
— unlisted entities	—	—	1,502,499	1,502,499
Wealth management products	—	666,412	—	666,412
Derivative financial instruments	—	228,117	—	228,117
Debt investments designated at fair value through other comprehensive income	—	2,730,351	—	2,730,351
	761,359	3,624,880	1,551,551	5,937,790

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17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities measured at fair value

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(92,527)**	**—**	**(92,527)**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(101,332)	—	(101,332)

The movements in fair value measurements within Level 3 during the year are as follows:

	30 June 2019 RMB'000
Equity investments at fair value through profit or loss — unlisted:	
At 1 January	**1,502,499**
Total gains recognised in profit or loss included in other income	**30,667**
Additions	**82,035**
Transfer out of level 3	**(19,401)**
Disposals	**—**
At 30 June 2019	**1,595,800**

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18. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

(b) Anji Microelectronics Technology (Shanghai) Co., Ltd. ("Anji Technology") in which Suzhou Zhonghe Chunsheng Investment Centre III (Limited Partnership) ("Zhonghe Chunsheng Fund III"), a company reported in the consolidated financial statements of the Company, had invested was listed on the STAR Market of the Shanghai Stock Exchange (stock code: 688019) on 22 July 2019. Anji Technology issued 13,280,000 shares at an issue price of RMB39.19/share. Zhonghe Chunsheng Fund III held 2,314,500 shares in Anji Technology, accounting for 4.36% of the total share capital of Anji Technology following the issue. As at 30 June 2019, the equity investment in Anji Technology of Zhonghe Chunsheng Fund III was accounted for under " Financial assets at fair value through profit or loss" and measured at fair value by reference to comparable companies with a value of RMB42,171,000. Following the listing of Anji Technology, it has been measured at fair value based on the post-listing market price of the shares.

19. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 August 2019.

Documents Available for Inspection

(I) Text of the 2019 interim report signed by the Chairman of the Board of Directors;

(II) Original copies of the Group's unaudited financial reports and consolidated financial statements for the six months ended 30 June 2019 prepared under the PRC ASBEs and HKFRSs, respectively, and duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

(III) Original copies of all documents and announcements of the Company published in China Securities Journal, Securities Times and Shanghai Securities News and on http://www.cninfo.com.cn; and

(IV) Articles of Association.

By order of the Board
Li Zixue
Chairman

28 August 2019