

ZTE 中兴通讯股份有限公司

ZTE CORPORATION

stock code : 000063.SZ 763.HK



5G



ZTE中兴



INTERIM REPORT 2020

Important

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

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

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

The interim financial reports of the Group for the six months ended 30 June 2020 were unaudited.

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

No profit distribution or conversion of capital reserves will be implemented in respect of the interim period of 2020.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors are asked to beware of investment risks and their attention is drawn to the description of the potential risks inherent in the operations of the Company set out in the section headed “Report of the Board of Directors (VI) Business outlook for the second half of 2020 and risk exposures” in this report.

This report has been prepared in Chinese and English respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial statements prepared in accordance with Hong Kong Financial 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 are asked to beware of investment risks.

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Definitions

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

| | |
|--------------------------|--|
| Company or ZTE | ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively |
| Articles of Association | The Articles of Association of ZTE Corporation |
| 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 |
| Mentech | Dongguan Mentech Optical & Magnetic Co., Ltd |
| Union Optech | Union Optech Co., Ltd. |

| | |
|------------------------------------|--|
| Shijia Science & Technology | Suzhou Shijia Science & Technology Inc. |
| China Eagle Electronic | Huizhou China Eagle Electronic Technology Inc. |
| Beken | Beken Corporation |
| Anji Technology | Anji Microelectronics Technology (Shanghai) Co., Ltd. |
| Novoray | Novoray Corporation |
| ST PD Group | Pang Da Automobile Trade Co., Ltd |
| 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 | 航天歐華信息技術有限公司 |
| 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. |
| 5G | Fifth-generation mobile communications, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than currently available) and more connections (100 times more than currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the internet of vehicles. |
| ICT | New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology). |
| 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. |
| AR | Augmented Reality, 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. |
| VR | Virtual Reality, 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). |
| 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. |
| 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, FTTP, FTTB and FTTC based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON, etc based on different standards. |
| SA | Standalone Access. In the context of 5G, it refers to the use of 5G base stations for signalling and data transmission at the same time. It adopts the new 5G packet switching core network architecture instead of the 4G core network. 5G SA networks can be deployed entirely independent of the 4G network. |
| NSA | Non-Standalone Access. In the context of 5G, non-standalone access is an option in 5G deployment. Under this model, the control function is dependent on the control interface of the existing LTE network, while 5G is entirely focused on the user interface. |
| MEC | Mobile Edge Computing, through which services and cloud computing functions required by telecom users IT can be provided from a nearby point using wireless access networks to create a telecom service environment featuring high performance, low latency and high bandwidth, accelerating the fast download of contents, services and applications in the network to allow uninterrupted premium network experience on the part of consumers. |

| | |
|---------------------------|---|
| Common Edge | An innovative plan launched by ZTE, Common Edge is a platform engaged in both the provision of resource computation and wireless network capacity. By facilitating the in-depth integration of mobile access network and Internet services, it does not only improve user experience and conserve bandwidth resources, but can also provide third-party applications integration by submerging computing capacities to the edge of the network, thereby offering opportunities for innovative services at the mobile edge entrance. |
| 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. |
| 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. |
| 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. In particular, 4K is a range of resolution, namely, a display quality approximating 4096 pixels in horizontal resolution. |
| 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. |
| 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. |
| 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. |
| Cloud computer | An overall service plan including cloud resources, transmission protocol and cloud terminal, providing desktop, application, hardware and other resources to users on a service-on-demand basis with flexible allocation using multiple forms of cloud terminals through efficient and safe transmission protocol. |

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

Highlights of Accounting Data and Financial Indicators

I WHETHER THE COMPANY HAS MADE RETROSPECTIVE ADJUSTMENTS TO OR RESTATEMENT OF ACCOUNTING DATA OF THE PREVIOUS YEAR BECAUSE OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

Yes No

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 2020) | End of last year (31 December 2019) | Changes as at the end of the reporting period compared with the end of last year |
|---|--|-------------------------------------|--|
| Total assets | 165,432,364 | 141,202,135 | 17.16% |
| Owners' equity attributable to holders of ordinary shares of the listed company | 41,156,116 | 28,826,868 | 42.77% |
| Share capital (thousand shares) ^{Note 1} | 4,613,435 | 4,227,530 | 9.13% |
| Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share) | 8.92 | 6.82 | 30.79% Increased by 0.12 percentage point |
| Gearing ratio (%) | 73.24% | 73.12% | |

Unit: RMB in thousands

| Item | Reporting period (Six months ended 30 June 2020) | Same period of last year (Six months ended 30 June 2019) | Changes compared with the same period of last year |
|---|--|--|--|
| Operating revenue | 47,199,373 | 44,609,219 | 5.81% |
| Operating profit | 2,840,600 | 2,343,209 | 21.23% |
| Total profit | 2,840,971 | 2,237,477 | 26.97% |
| Net profit attributable to holders of ordinary shares of the listed company | 1,857,289 | 1,470,699 | 26.29% |
| Net profit after extraordinary items attributable to holders of ordinary shares of the listed company | 902,115 | 612,138 | 47.37% |
| Basic earnings per share (RMB/share) ^{Note 2} | 0.40 | 0.35 | 14.29% |
| Diluted earnings per share (RMB/share) ^{Note 3} | 0.40 | 0.35 | 14.29% |
| Basic earnings per share after extraordinary items (RMB/share) ^{Note 2} | 0.20 | 0.15 | 33.33% Decreased by 0.92 percentage point |
| Weighted average return on net assets | 5.28% | 6.20% | Decreased by 0.02 percentage point |
| Weighted average return on net assets after extraordinary items | 2.56% | 2.58% | |
| Net cash flows from operating activities | 2,040,770 | 1,266,617 | 61.12% |
| Net cash flows from operating activities per share (RMB/share) | 0.44 | 0.30 | 46.67% |

Highlights of Accounting Data and Financial Indicators

Note 1: The total share capital of the Company was increased from 4,227,529,869 shares to 4,613,434,832 shares following the non-public issue of 381,098,968 A shares by the Company and the exercise of 4,805,995 A share options by scheme participants under the 2017 Share Option Incentive Scheme of the Company during the reporting period.

Note 2: 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 3: As the 2017 share options granted by the Company have given rise to 22,143 thousand and 30,440 thousand potentially dilutive ordinary share for the six months ended 30 June 2020 and the six months ended 30 June 2019, 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 | 1,272,667 |
| Gains/(Losses) from fair value change | (121,434) |
| Investment income | 57,351 |
| Less: Losses on disposal of non-current assets | 26,618 |
| Less: Other non-operating expenses | 28,670 |
| Less: Asset impairment loss | 7,165 |
| Less: Effect of income tax | 171,920 |
| Less: Effect of non-controlling interests (after tax) | 19,037 |
| Total | 955,174 |

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

| Item | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|----------------------------------|----------------------------------|
| Basic earnings per share (RMB/share) ^{Note} | 0.40 | 0.35 |
| Weighted average return on net assets | 5.28% | 6.20% |
| Weighted average return on net assets after extraordinary items | 2.56% | 2.58% |

| Item | 30 June 2020 | 31 December 2019 |
|---|-----------------|---------------------|
| Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share) | 8.92 | 6.82 |

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 2020 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' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer networks, core networks, telecommunication software systems and services and other innovative technologies and product solutions.

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

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

II. THE INDUSTRY IN WHICH WE OPERATE

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

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

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

IV. TECHNOLOGICAL INNOVATION

Thanks to consistent investment in innovation over the years in line with its core 5G development strategy, the Group is equipped with the ability to provide a complete range of end-to-end 5G solutions and well-positioned to advance its large-scale global 5G commercial deployment on the back of its leading technologies, products and solutions in wireless products, core networks, bearers, chips, terminals and industrial applications.

Summary of the Company's Business

In connection with wireless products, the Group has won a number of second-phase 5G centralised procurement projects of the domestic big three carriers, assisting China Mobile in the construction of a 5G SA network with the highest specifications, largest scale and most complete scenarios on a global basis. We have also assisted China Telecom and China Unicom in the construction of the world's largest shared and jointly constructed 5G SA network capable of providing consecutive coverage above the Gb level. The Group's practical experience in large-scale 5G SA construction in China has provided a useful example for 5G commercial applications elsewhere in the world.

The Group is equipped with the ability in chip design and development. Our full range of high-performance wireless products based on our proprietary 7nm chip have helped carriers to build evolution-ready 5G networks with maximum cost efficiency.

In addition to typical scenarios such as macro-coverage, indoors, hotspot streets and high-speed rail tunnels, the full-scenario and full-frequency 5G products of the Group also provide coverage of special scenarios such as air flight routes and surface ultra-high speed EMS trains. Our FAST (time and frequency synchronisation), SuperDSS (super dynamic spectrum sharing), Massive MIMO performance optimisation and other solutions have generally enhanced the ratio of network resource utilization. Common Core, our fully integrated core network based on cloud native and an advanced micro-service based architecture, have formed a most powerful brain supporting the integrated access of 2/3/4/5G and IOT access, while also supporting 5G SA and NSA to deliver a one-stop architecture that facilitates swift connection of services and intelligent end-to-end slicing deployment. Our Common Edge supports multiple modes such as 4G/5G/WiFi and provides full-scenario MEC hardware, fully-integrated edge cloud and an open platform. Our 5G news centre platform supports traditional SMS, GSMA UP2.4 rich media news and business news. In April, the Group and Zhejiang Mobile connected the first call of 5G news. In May, we completed the first service dispatch in the world. Our ubiquitous AI has contributed to energy conservation and efficiency enhancement for networks on all fronts and provided support to business innovation.

In the 5G bearer segment, we have completed the large-scale deployment of our full range of end-to-end products. As at the end of June 2020, close to 100,000 units had been dispatched. The proprietary chip for FlexE (Flex Ethernet), network processor and switch triplet which supports ultra-low latency has yielded the best test indicators in power consumption leading peers by a significant gap, while the indicator for ultra-high precision time protocol synchronisation technology has attained perfect synchronisation under 3GPP, winning the highest rating of "Established Player" from GlobalData. In connection with optical transmission, we have constructed more than 600 OTN networks around the world featuring 100G/100G+. Our unique Flex Shaping technology has facilitated a 30% improvement in 100G+ transmission distance, making 100G+ deployment substantially easier and upgrade substantially cheaper. Our ZXONE 9700 products have received the top "Leader" rating of GlobalData, an authoritative third-party institution.

In fixed-line access, TITAN, our flagship product in optical access claims the largest capacity and highest level of integration among peers. Our serialised optical and copper-wire access solutions based on resource-sharing have expedited the integrated application of fixed and mobile 5G communication, as investigations have been made in the support of simultaneous 5G+FTTH (Fiber to the home) using one optical fibre to share FTTH network facilities and accelerate 5G deployment. We have deployed the world's largest PON-based mobile backhaul network in Indonesia, where more than 16,000 base stations are supported through the Group's FTTM (Fiber to the mobile) solution. Our OLT (Optical Line Terminal) equipped with a built-in blade solution has expedited our home broadband and 5G service for better user experience. Its unique built-in blade server features the integration of edge computing and access equipment, and the trial commercial application of Access CDN has commenced at Zhejiang Mobile and Anhui Mobile. Our PON and OLT have twice won the National Class II Scientific and Technological Progress Award.

In the business of Big Video, our Big Video systems with an aggregate capacity of 130 million has captured further market shares, leading the market in competitiveness and progress in commercial application on the back of integration of CDN products. Our innovative 5G smart pavilion live broadcast solution, the first of its kind in the world, has been put to application in numerous collaborations with the big three carriers of China.

The Group has grown into a Chinese enterprise with a global track record of success in the communication energy sector and an integrated network energy solution provider with global servicing capabilities. As a pioneer in 5G power supply solutions, and a mainstream supplier for data centres, the Group has been engaged in ongoing innovation to provide high-quality green energy solutions to global customers. As at 30 June 2020, the energy products of the Group served 386 carriers in over 160 countries and regions with the successful completion of more than 280 data centre cases.

In the cloud video business, the Group provides users with integrated “5G+ smart video” industry applications through the assortment of latest and most sought-after technologies in 5G, Cloud Computing, Big Data and AI. Our recently announced operational grade uSmart cloud computer solution has profoundly unlocked a new form of safe office to assist the speedy resumption of work and production in the aftermath of the epidemic. Meanwhile, remote live broadcast, remote medical consultation, remote interview and AI smart temperature have all played a part in making outstanding contributions to the fight against the epidemic. In the financial market, the Group facilitated stable online operation of the first new-generation omni-channel coordination centre at a major state-owned bank to contribute to the digital transformation of the financial industry.

As one of the Group’s strategic products targeting the ICT sector developed on the back of 18 years of R&D efforts and more than 100 licensed patents, our GoldenDB (distributed database), leading innovative development in China’s basic financial technology field, has been successfully commissioned for CITIC Bank’s credit card and core accounting business system as the only domestically developed distributed database covering the full range of banking businesses and all types of services.

In 5G industry application, the Group advocates a scenario-focused and value-driven approach and the principle of developing clouds on an as-needed basis and activating networks in tandem with the clouds. The first defined integrated cloud network solution has been developed to empower the transformation and upgrade of industries and extensive applications have been commenced in association with our partners.

The Group is positioned within the first quadrant in terms of global patents and a major participant in and contributor to global 5G technology research and standard formulation. As at 30 June 2020, the Group had filed applications for approximately 76,000 patented assets globally, among which more than 36,000 patents had been licensed. We had filed patent applications for more than 4,100 chips and more than 5,000 5G patents in strategic global deployment, positioning ourselves within the first quadrant in terms of strategic global 5G deployment. According to the February 2020 report of IPIytics, the Group has submitted disclosures of 2,561 5G SEP (standard essential patents) to ETSI, ranking among the top three globally. The Group is a member of more than 70 international organisations and forums for standardisation, such as ITU, 3GPP, ETSI, IEEE, NGMN (The Next Generation Mobile Networks) and CCSA (The China Communications Standards Association), and more than 60 specialists served in key roles such as chairmen and reporters of leading international standardisation organisation.

Report of the Board of Directors

FINANCIAL RESULTS

Please refer to page 73 and page 220 of this report for the results of the Group for the six months ended 30 June 2020 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

(I) REVIEW OF BUSINESS FOR THE FIRST HALF OF 2020

1. Overview of the domestic telecommunications industry for the first half of 2020

The domestic telecommunication industry sustained stable development during the first half of 2020. According to the data published by the Ministry of Industry and Information Technology of the PRC, the domestic telecommunications sector reported revenue of RMB692.7 billion for the six months ended 30 June 2020, representing year-on-year growth of 3.2%. Rapid growth was also sustained in domestic mobile Internet access traffic flow with an average mobile Internet access traffic volume (DOU) of 10.14 GB per user recorded for the month of June, representing year-on-year growth of 29.3% and more 1.55 GB per user compared to last December.

During the first half of 2020, domestic carriers expedited the launch and completion of second-phase 5G tenders, taking the development of 5G network to the stage of large-scale deployment, which will usher in a new round of opportunities for development in sectors such as consumers electronics, industrial manufacturing, port operation, mining, energy, railway transport, education and new media, among others.

Note: Data derived from the "Economic Performance of the Telecommunications Industry in the First Half of 2020" published by the Ministry of Industry and Information Technology of the PRC.

2. Overview of the global telecommunications industry for the first half of 2020

Investment in 5G was gaining pace around the world during the first half of 2020. According to the statistics of Global mobile Suppliers Association (GSA), 84 carriers from 36 countries and regions had launched 5G retail sales as at 30 June 2020. 5G terminals have been launched with growing variety in types and models, as an increasing number of users were signing up for 5G services.

The outbreak of COVID-19 has exerted a certain impact on the global telecommunications industry in the short term, as operations in technological exchange, business tender, project work and delivery in certain countries have been suspended or postponed. From a longer-term perspective, however, sound infrastructure facilities for communication and online applications (e.g., home office, online teaching) will play an increasingly crucial role in the control of the epidemic and protection of people's livelihood.

Underpinned by new technologies such as 5G, Cloud Computing, AI and Big Data, the ICT industry has continued to grow and expand, driving the digitalisation process in different industries and facilitating rapid development of the digital economy in various countries.

3. Operating results of the Group for the first half of 2020

For the first half of 2020, the Group reported operating revenue of RMB47.199 billion, representing a year-on-year increase of 5.81%, reflecting primarily the year-on-year growth in revenue from carrier's network and government and corporate business. Net profit attributable to holders of ordinary shares of the listed company for the six months ended 30 June 2020 amounted to RMB1.857 billion, representing a year-on-year increase of 26.29%. Basic earnings per share amounted to RMB0.40.

(1) By market*The domestic market*

For the reporting period, the Group's operating revenue from the domestic market amounted to RMB31.751 billion, accounting for 67.27% of the Group's overall operating revenue. During the first half of 2020, the Group maintained a stable overall market share with optimised market positions in key cities. The deployment of new products such as data centre and edge computing was completed in a satisfactory manner, forming a solid foundation for nurturing long-term product competitiveness and making breakthrough in future market positions.

The international market

For the reporting period, the Group's operating revenue from the international market amounted to RMB15.448 billion, accounting for 32.73% of the Group's overall operating revenue. While the first half of 2020 was characterised by increasing uncertainties in the international market, the Group overcame various difficulties and persisted in the globalisation strategy with a consistent focus on the carriers of populous nations and leading multinational carriers, as it reported overall stability in its international operations with an optimised revenue mix and further improvements in turnover efficiency.

(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 RMB34.970 billion, RMB4.816 billion and RMB7.413 billion, respectively.

Carriers' network

During the first half of 2020, the competitiveness of the Group's products in carriers' network was further enhanced, as it reported considerable breakthroughs in the international as well as domestic markets.

In connection with wireless products, the Group continued to command a pivotal role in the innovation of 5G technologies and applications as a first-quadrant player in terms of 5G industrialisation. The Group has secured 46 5G commercial contracts globally, covering major 5G markets such as China, Europe, Asia Pacific and the Middle East. The Group was actively involved in the second-phase 5G tendering of the big three domestic carriers, establishing itself firmly in the first quadrant in the domestic market. In connection with wireline products, the marketing of our proprietary specialised core chip featuring high integration density, high performance and low power consumption has significantly enhanced our competitiveness in wireline products, while we held a second-place global ranking in terms of the aggregate shipment volumes for PON, FTTx and 100G optical transmission networks. In connection with video and energy products, the Group offered a full range of products, such as video conference, video IOT and cloud computer, on the back of its technologies in video encoding/decoding, access, transmission and storage, which will form a new growth niche for carriers' network in the 5G era.

Government and corporate business

The Group is well-trusted by clients in the government and corporate business, having been involved in the segment for over a decade with in-depth development of the traditional key market sectors like energy, transportation, government affair and finance. Core products developed by the Group, such as server, video, digital communication, database and operating system, have enjoyed extensive applications in the government and corporate sector. During the first half of 2020, the Group was engaged in active efforts to develop new applications for the infrastructure and 5G sectors and popular new segments such as digital transformation and upgrade, while vigorously marketing its proprietary products to enhance the competitiveness of its two principal product types, namely, computing and connection, in an ongoing effort to optimise its market position.

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Consumer business

The Group's consumer business involves handset, mobile data terminal, home information terminal and integrated innovative terminal. The handset business focuses on the 5G terminal in an active effort to explore the domestic and international carrier and consumer markets, while the mobile data terminal business was targeted at the carriers' market. We have been a consistent global leader in home information terminal and integrated innovative terminal, thanks to our formidable strengths in R&D, customisation and delivery, as well as our longstanding intensive cooperation with upstream component manufacturers and downstream carriers along the industry chain.

(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 set out in this report.

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

Unit: RMB in thousands

| Revenue mix | Operating revenue | As a percentage of operating revenue | Operating costs | Gross profit margin | Year-on-year increase/decrease in operating revenue | Year-on-year increase/decrease in operating costs | Year-on-year increase/decrease in gross profit margin (percentage points) |
|--|-------------------|--------------------------------------|-------------------|---------------------|---|---|---|
| I. By industry | | | | | | | |
| Manufacturing of communication equipment | 47,199,373 | 100% | 31,418,303 | 33.43% | 5.81% | 15.85% | (5.78) |
| Total | 47,199,373 | 100% | 31,418,303 | 33.43% | 5.81% | 15.85% | (5.78) |
| II. By business segment | | | | | | | |
| Carriers' networks | 34,969,589 | 74.09% | 22,260,793 | 36.34% | 7.65% | 23.98% | (8.39) |
| Government and corporate business | 4,816,598 | 10.20% | 3,455,139 | 28.27% | 2.48% | 16.59% | (8.68) |
| Consumer business | 7,413,186 | 15.71% | 5,702,371 | 23.08% | (0.15%) | (8.03%) | 6.60 |
| Total | 47,199,373 | 100% | 31,418,303 | 33.43% | 5.81% | 15.85% | (5.78) |
| III. By region | | | | | | | |
| The PRC | 31,751,164 | 67.27% | 21,910,519 | 30.99% | 15.79% | 33.80% | (9.29) |
| Asia (excluding the PRC) | 6,923,102 | 14.67% | 3,856,222 | 44.30% | (11.33%) | (14.72%) | 2.21 |
| Africa | 2,522,750 | 5.34% | 1,147,424 | 54.52% | (7.09%) | (24.17%) | 10.25 |
| Europe, Americas and Oceania | 6,002,357 | 12.72% | 4,504,138 | 24.96% | (9.93%) | (4.34%) | (4.39) |
| Total | 47,199,373 | 100% | 31,418,303 | 33.43% | 5.81% | 15.85% | (5.78) |

(1) Analysis of change in revenue

The Group reported RMB47,199,373,000 in operating revenue for the six months ended 30 June 2020, a 5.81% increase as compared to the same period last year. Operating revenue from domestic business amounted to RMB31,751,164,000, increasing by 15.79% as compared to the same period last year; operating revenue from international business amounted to RMB15,448,209,000, decreasing by 10.12% 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 2020, reflecting mainly year-on-year growth in revenue from carriers' network and government and corporate business. For the first half of 2020, the Group reported a 7.65% year-on-year growth in operating revenue from carriers' network, reflecting mainly year-on-year growth in revenue from 5G system equipment and core networks in the domestic market. For the first half of 2020, the Group reported a 2.48% year-on-year growth in operating revenue from government and corporate business, reflecting mainly year-on-year growth in revenue from optical transmission products in the international and domestic markets and servers and railway transportation systems integration in the domestic 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 2020 | | | Six months ended 30 June 2019 ^{Note} | | | Year-on-year increase/ decrease in gross profit margin (percentage points) | | |
|----------------------------------|--------------------|---------------------------|--|--------------------|---------------------------|--|--|--|
| Operating revenue | Operating costs | Gross profit margin | Operating revenue | Operating costs | Gross profit margin | Year-on-year increase/ decrease in operating revenue | Year-on-year increase/ decrease in operating costs | Year-on-year increase/ decrease in gross profit margin (percentage points) |
| 47,199,373 | 31,418,303 | 33.43% | 44,561,890 | 27,086,193 | 39.22% | 5.92% | 15.99% | (5.79) |

Note: Figures of operating revenue and operating costs for the six months ended 30 June 2019 are stated after exclusion of operating revenue and operating costs of subsidiaries deconsolidated for the six months ended 30 June 2020.

ZTE Singapore Pte Ltd, ZTE (Albania) Limited, ZICT (Nigeria) Limited, ZTE (Lithuania) Limited, Shenzhen Zhongrui Detection Technology Co., Ltd and Foshan Zhongxing Gaojian New Energy Technology Limited completed deregistration with industrial and commercial administration authorities on 6 January 2020, 20 January 2020, 27 February 2020, 10 March 2020, 9 May 2020 and 12 May 2020, respectively, and the aforesaid companies have been excluded from the consolidated financial statements of the Group as from the respective dates on which such deregistrations were completed.

Zhongxing New Energy Automobile Company Limited, a subsidiary of the Company, completed the disposal of 5.1% equity interests in Shenzhen Zhongxin New Energy Technology Company Limited on 4 March 2020. Shenzhen Zhongxin New Energy Technology Company Limited and its subsidiaries have been excluded from the consolidated financial statements of the Group as from 4 March 2020.

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

Unit: RMB in thousands

| Industry | Item | Six months ended 30 June 2020 | | Six months ended 30 June 2019 | | Year-on-year increase/ decrease |
|--|----------------------|----------------------------------|---|----------------------------------|---|---------------------------------------|
| | | Amount | As a percentage of operating costs | Amount | As a percentage of operating costs | |
| Manufacturing of communication equipment | Raw materials | 23,951,198 | 76.23% | 19,859,301 | 73.23% | 20.60% |
| | Engineering costs | 5,988,551 | 19.06% | 6,103,113 | 22.50% | (1.88%) |
| | Total | 29,939,749 | 95.29% | 25,962,414 | 95.73% | 15.32% |

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

Unit: RMB in thousands

| Item | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Year-on-year increase/decrease |
|-----------------------------------|-------------------------------|-------------------------------|--------------------------------|
| Selling and distribution expenses | 3,940,595 | 4,025,746 | (2.12%) |
| Administrative expenses | 2,265,126 | 2,538,508 | (10.77%) |
| Finance expenses | 632,833 | 662,809 | (4.52%) |
| Income tax | 517,590 | 412,914 | 25.35% |

4. Research and development expense of the Group

Unit: RMB in thousands

| Item | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Year-on-year increase/decrease |
|--|-------------------------------|-------------------------------|-------------------------------------|
| Amount of R&D expense | 6,637,376 | 6,471,866 | 2.56% |
| R&D expense as a percentage of operating revenue | 14.06% | 14.51% | Decreased by 0.45 percentage points |
| Amount of capitalised R&D expense | 1,112,693 | 1,016,546 | 9.46% |
| Capitalised R&D expense as a percentage of R&D expense | 16.76% | 15.71% | Increased by 1.05 percentage points |

5. Breakdown of the Group's cash flow

Unit: RMB in thousands

| Item | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Year-on-year increase/decrease |
|--|-------------------------------|-------------------------------|--------------------------------|
| Sub-total of cash inflows from operating activities | 56,586,446 | 49,563,207 | 14.17% |
| Sub-total of cash outflows from operating activities | 54,545,676 | 48,296,590 | 12.94% |
| Net cash flows from operating activities | 2,040,770 | 1,266,617 | 61.12% ^{Note 1} |
| Sub-total of cash inflows from investing activities | 1,810,774 | 1,789,932 | 1.16% |
| Sub-total of cash outflows from investing activities | 9,458,696 | 6,657,961 | 42.07% |
| Net cash flows from investing activities | (7,647,922) | (4,868,029) | (57.11%) ^{Note 2} |
| Sub-total of cash inflows from financing activities | 47,536,790 | 23,807,769 | 99.67% |
| Sub-total of cash outflows from financing activities | 33,606,453 | 14,781,723 | 127.35% |
| Net cash flows from financing activities | 13,930,337 | 9,026,046 | 54.33% ^{Note 3} |
| Net increase in cash and cash equivalents | 8,469,212 | 5,502,549 | 53.91% |

Note 1: Reflecting mainly the increase in cash received from the sales of goods and provision of labour services by the Group during the period;

Note 2: Reflecting mainly the increase in cash paid in connection with investing activities by the Group during the period;

Note 3: Reflecting mainly the increase in cash received as investment by the Group during the period.

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 statements prepared under PRC ASBEs.

6. Reasons for substantial changes in the Group’s principal business and its structure, profit mix and profitability

- (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 2020, the Group reported operating profit of RMB2,840,600,000, a year-on-year increase by 21.23%, which was attributable mainly to the reduction in bad debt impairment; loss of trade receivable; expenses for the period amounted to RMB13,475,930,000, a year-on-year decrease by 1.63%, which was mainly attributable to the effect of the epidemic and strengthened control over expenses; investment gain decreased 90.41% to RMB30,257,000, which was attributable mainly to the decrease in gains on disposal of listed equity interests by fund partnerships under ZTE Capital during the period; net non-operating income and expenses amounted to RMB371,000, representing a year-on-year increase of 100.35%, which reflected mainly to the payment of default penalty to Shenzhen Investment Holdings Co., Ltd. during the same period last year.

- (3) Changes in the profitability (gross profit margin) of the 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 2020 was 33.43%, a reduction of 5.78 percentage points compared to the same period last year, reflecting mainly the year-on-year decline in gross profit margins for the carriers’ networks and government and corporate business. The year-on-year decline in the gross profit margin of carriers’ networks reflected the increase in revenue from low-margin domestic products as a percentage of total revenue, while the year-on-year decline in the gross profit margin of government and corporate business reflected decline in the gross profit margin of the government and corporate business of domestic subsidiaries and the increase in revenue from low-margin domestic products as a percentage of total revenue.

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7. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in thousands

| Item | As at 30 June 2020 | | As at 31 December 2019 | As a percentage of total assets | Year-on-year increase/decrease in percentage of total assets (percentage points) |
|-------------------------------------|--------------------|---------------------------------|------------------------|---------------------------------|--|
| | Amount | As a percentage of total assets | | | |
| Total assets | 165,432,364 | 100% | 141,202,135 | 100% | — |
| Cash | 45,867,997 | 27.73% | 33,309,347 | 23.59% | 4.14 |
| Trade receivables | 16,898,230 | 10.21% | 19,778,280 | 14.01% | (3.80) |
| Inventories | 37,179,092 | 22.47% | 27,688,508 | 19.61% | 2.86 |
| Investment properties | 1,960,864 | 1.19% | 1,957,242 | 1.39% | (0.20) |
| Long-term equity investments | 2,292,452 | 1.39% | 2,327,288 | 1.65% | (0.26) |
| Fixed assets | 10,314,505 | 6.23% | 9,383,488 | 6.65% | (0.42) |
| Construction in progress | 845,174 | 0.51% | 1,171,716 | 0.83% | (0.32) |
| Short-term loans | 16,619,177 | 10.05% | 26,645,966 | 18.87% | (8.82) |
| Long-term loans due within one year | 718,638 | 0.43% | 612,261 | 0.43% | — |
| Long-term loans | 21,835,076 | 13.20% | 10,045,093 | 7.11% | 6.09 |

(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 |
|---|------------------|--|---|----------------------------------|---------------------------------|-----------------------------------|------------------|
| | | | | | | | |
| Including: | | | | | | | |
| 1. Trading financial assets (excluding derivative financial assets) | 560,662 | 479,288 | — | — | 119,242 | 164,086 | 1,066,532 |
| 2. Derivative financial assets | 106,065 | (75,110) | 192 | — | — | — | 31,147 |
| 3. Other debt investment | 2,430,389 | — | — | 1,013 | 7,804,375 | 6,246,365 | 3,987,386 |
| 4. Investment in other equity instruments ^{Note 1} | 1,594,254 | (24,515) | — | — | 1,344 | 83,421 | 1,530,232 |
| Sub-total of financial assets | 4,691,370 | 379,663 | 192 | 1,013 | 7,924,961 | 6,493,872 | 6,615,297 |
| Investment properties | 1,957,242 | 3,622 | — | — | — | — | 1,960,864 |
| Productive living assets | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — |
| Total | 6,648,612 | 383,285 | 192 | 1,013 | 7,924,961 | 6,493,872 | 8,576,161 |
| Financial liabilities ^{Note 2} | 126,223 | 5,561 | (257) | — | — | — | 131,527 |

Note 1: Other equity investment comprised mainly other non-current financial assets.

Note 2: 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 current profit and loss, account receivables and investment properties at fair value through other comprehensive income, which are measured at fair value.

There was no substantial 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 ASBEs.*

8. Analysis of investments

(1) Overview

The Company's long-term equity investments at the end of the reporting period amounted to RMB2,292,452,000, representing a decrease of 18.03% compared to RMB2,796,606,000 as at 30 June 2019. Other third-party investments amounted to approximately RMB2,596,764,000, representing an increase of 17.18% compared to RMB2,215,993,000 as at 30 June 2019.

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

(3) Financial assets at fair value

Unit: RMB in ten thousands

| Asset type | Initial investment cost | Gains/ losses arising from fair value change for the period | Cumulative fair value change dealt with in equity | Amount purchased for the period | Amount disposed of for the period | Cumulative investment gain | Closing balance | |
|-----------------------------------|-------------------------|---|---|---------------------------------|-----------------------------------|----------------------------|-------------------|---|
| | | | | | | | Source of funds | |
| Stock | 14,950.86 | 47,671.97 | — | 1,394.16 | 9,156.60 | 21,195.20 | 100,378.84 | Issue fund, internal funds and conversion of debt interests into equity interests |
| Financial derivatives instruments | — | (7,511.00) | 19.20 | — | — | 7,047.45 | 3,114.67 | Internal funds |
| Others ^{Note} | 373,268.34 | (2,194.63) | — | 791,101.92 | 640,230.62 | 3,989.63 | 558,036.22 | Issue fund and internal funds |
| Total | 388,219.20 | 37,966.34 | 19.20 | 792,496.08 | 649,387.22 | 32,232.28 | 661,529.73 | — |

Note: "Others" includes entrusted fund management, receivable financing and equity investments at fair value through current profit or loss.

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(4) Investment in financial assets

① Investment in securities

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

Unit: RMB in ten thousands

| Type of securities | Stock code | Stock name | Initial investment | Accounting method | Book value at the beginning of the period | Gains/loss arising from fair value change for the period | Cumulative fair value change accounted for in equity | Amount purchased during the period | Amount disposed during the period | Gain/loss for the reporting period | Book value at the end of the period | Accounting classification | Source of funds |
|--|------------|---|--------------------|------------------------|---|--|--|------------------------------------|-----------------------------------|------------------------------------|-------------------------------------|------------------------------------|--|
| Stock | 002902 | Mentec ^{Note 1} | 379.30 | Fair-value measurement | 4,102.22 | (1,600.37) | — | — | 1,328.35 | (418.70) | 2,390.30 | Trading financial assets | Issue fund |
| Stock | 300691 | Union Optech ^{Note 2} | 1,277.63 | Fair-value measurement | 4,743.33 | (3,124.36) | — | — | 4,303.22 | (201.44) | 506.27 | Trading financial assets | Issue fund |
| Stock | 002796 | Shijia Science & Technology ^{Note 2} | 789.69 | Fair-value measurement | 2,776.63 | (1,986.94) | — | — | 3,525.03 | 574.99 | — | Trading financial assets | Issue fund |
| Stock | 002579 | China Eagle Electronic ^{Note 2} | 1,382.31 | Fair-value measurement | — | (13.40) | — | 1,382.31 | — | (2.76) | 1,368.91 | Trading financial assets | Issue fund |
| Stock | 603068 | Beken ^{Note 3} | 2,175.99 | Fair-value measurement | 9,097.11 | (54.20) | — | — | — | (12.68) | 9,042.91 | Trading financial assets | Issue fund |
| Stock | 688019 | Anji Technology ^{Note 3} | 4,350.00 | Fair-value measurement | 27,512.92 | 52,616.08 | — | — | — | 52,704.03 | 80,129.00 | Trading financial assets | Issue fund |
| Stock | 688300 | Novoray ^{Note 3} | 1,000.83 | Fair-value measurement | 4,090.50 | 2,099.70 | — | — | — | 2,149.70 | 6,190.20 | Trading financial assets | Issue fund |
| Stock | 601258 | ST PD Group ^{Note 4} | 11.85 | Fair-value measurement | — | 0.10 | — | 11.85 | — | 0.10 | 11.95 | Trading financial assets | Conversion of debt interests into equity interests |
| Stock | ENA: TSV | Enablence Technologies ^{Note 5} | 3,583.26 | Fair-value measurement | 1,003.94 | (264.64) | — | — | — | (264.64) | 739.30 | Other non-current financial assets | Internal funds |
| Other securities investments held at the end of the period | | | — | — | — | — | — | — | — | — | — | — | — |
| Total | | | 14,950.86 | — | 53,326.65 | 47,671.97 | — | 1,394.16 | 9,156.60 | 54,528.60 | 100,378.84 | — | — |

Note 1: 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. Figures corresponding to Mentec are provided with Zhonghe Chunsheng Fund I as the accounting subject;

Note 2: The Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Fund, a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Union Optech, Shijia Science & Technology and China Eagle Electronic are provided with Jiaxing Fund as the accounting subject;

Note 3: The Company and Changshu Changxing Capital Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 25.83% equity interests in Zhonghe Chunsheng Fund III, a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Beken, Anji Technology and Novoray are provided with Zhonghe Chunsheng Fund III as the accounting subject;

Note 4: Following the implementation of the reorganisation plan of ST PD Group during the first half of 2020, the debt interests of Shenzhen Zhongxing Cloud Service Company Limited ("Zhongxing Cloud"), a wholly-owned subsidiary of the company, in ST PD Group were converted into shares of ST PD Group. Figures corresponding to ST PD Group are provided with Zhongxing Cloud as the accounting subject;

Note 5: The initial investment for the acquisition of Enablence Technologies shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD8,103,200, equivalent to approximately RMB7,393,000 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.91235) on 30 June 2020.

B. Details in investment in securities during the reporting period

a. Shareholdings in Mentech

During the first half of 2020, Zhonghe Chunsheng Fund I transferred 520,000 shares in Mentech (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange). As at the end of the reporting period, Zhonghe Chunsheng Fund I held 1,248,200 shares in Mentech, accounting for 0.59% of the total share capital of Mentech.

b. Shareholdings in Union Optech

During the first half of 2020, Jiaxing Fund transferred 2,250,000 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 333,500 shares in Union Optech, accounting for 0.15% of the total share capital of Union Optech.

c. Shareholdings in Shijia Science & Technology

During the first half of 2020, Jiaxing Fund transferred 771,300 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 no longer held any shares in Shijia Science & Technology.

d. Shareholdings in China Eagle Electronic

During the first half of 2020, Zhuhai Topsun Electronic Technology Co.,Ltd. ("Zhuhai Topsun") was acquired by China Eagle Electronic (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange). Following the completion of the acquisition, the shares in Zhuhai Topsun held by Jiaxing Fund were converted into shares in China Eagle Electronic. As at the end of the reporting period, Jiaxing Fund held 1,063,600 shares in China Eagle Electronic, accounting for 0.27% of the total share capital of China Eagle Electronic.

e. Shareholdings in Beken

As at the end of the reporting period, Zhonghe Chunsheng Fund III held 1,122,200 shares in Beken (a company listed on the Shanghai Stock Exchange), accounting for 0.81% of the total share capital of Beken.

f. Shareholdings in Anji Technology

As at the end of the reporting period, Zhonghe Chunsheng Fund III held 2,314,509 shares in Anji Technology (a company listed on the STAR Market of the Shanghai Stock Exchange), accounting for 4.36% of the total share capital of Anji Technology.

g. Shareholdings in Novoray

As at the end of the reporting period, Zhonghe Chunsheng Fund III held 1,000,000 shares in Novoray (a company listed on the STAR Market of the Shanghai Stock Exchange), accounting for 1.16% of the total share capital of Novoray.

h. Shareholdings in ST PD Group

ST PD Group (a company listed on the Shanghai Stock Exchange) underwent reorganisation in the first half of 2020 and, following the implementation of the reorganisation plan, Zhongxing Cloud's debt interests in ST PD Group were converted into shares of ST PD Group. As at the end of the reporting period, Zhongxing Cloud held 108,900 shares in ST PD Group, accounting for 0.001% of the total share capital of ST PD Group.

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i. Shareholdings in Enablence Technologies

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

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

② Entrusted fund management

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

Unit: RMB in ten thousands

| Product type | Source of funds | Amount incurred ^{Note} | Outstanding balance | Overdue and unrecovered amount |
|------------------------|-----------------|---------------------------------|---------------------|--------------------------------|
| Bank financial product | Internal funds | 7,000 | 7,000 | — |
| Total | | 7,000 | 7,000 | — |

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

- B. The Group did not have high-risk entrusted fund management with individually material amounts, low level of security, poor liquidity or non-guaranteed repayment.
- C. The Group did not expect any principal amount under the Group's entrusted fund management to be irrecoverable or other situations that might result in impairment.

③ Derivative investments

Unit: RMB in ten thousands

| Name of party operating the derivative investment | Connected relationship | Whether a connected transaction ^{Note 1} | 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 | — | 2019/9/16 | 2021/6/18 | 196,739.61 | 46,516.64 | 160,699.16 | — | 82,557.09 | 2.01% | (156.49) |
| Financial institution | N/A | No | Foreign exchange forwards | — | 2019/11/15 | 2021/3/15 | 269,892.49 | 51,347.66 | 254,047.11 | — | 67,193.04 | 1.63% | (127.37) |
| Financial institution | N/A | No | Foreign exchange forwards | — | 2020/1/9 | 2021/5/13 | 35,797.75 | 54,726.92 | 39,486.72 | — | 51,037.95 | 1.24% | (96.74) |
| Other financial institutions | N/A | No | Foreign exchange forwards/interest rate swap/structured forwards | — | 2019/8/19 | 2022/12/26 | 979,575.89 | 405,645.75 | 1,048,117.71 | — | 337,103.93 | 8.19% | (639.08) |
| Total | | | | — | — | — | 1,482,005.74 | 558,236.97 | 1,502,350.70 | — | 537,892.01 | 13.07% | (1,019.68) |

| | |
|---|---|
| Source of funds for derivative investment | Internal funds |
| Litigation (if applicable) | Not involved in any litigation |
| Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any) | “Announcement Resolutions of the 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, and “Announcement Resolutions of the Fifteen Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2020,” both dated 27 March 2020. |
| Date of announcement of the general meeting in respect of the approval of derivative investments (if any) | “Announcement on Resolutions of the 2018 Annual General Meeting” dated 30 May 2019 and “Announcement on Resolutions of the 2019 Annual General Meeting” dated 19 June 2020. |
| 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 | <p>Value-protection derivative investments were conducted by the Company during the first half of 2020. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> 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. |

Report of the Board of Directors

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

The Company has recognised gains/losses from investments in derivatives during the reporting period. Total loss recognised for the reporting period amounted to RMB10 million, comprising losses from fair-value change of RMB80 million and recognised investment gains of RMB70 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. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with the provisions of relevant laws and regulations and of the Articles of Association.

Note 1: Derivative investments are classified according to the 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.

Applicable N/A

10. Analysis of principal subsidiaries and investee companies

Unit: RMB in thousands

| Name of company | Corporate type | Principal operations | Industry in which it operates | Registered capital | Total assets | Net assets | Operating revenue | Operating profit | Net profit |
|----------------------------|----------------|---|---|--------------------|--------------|------------|-------------------|------------------|------------|
| Zhongxing Software | Subsidiary | Software development | Software development | RMB51.08 million | 10,359,296 | 2,936,216 | 9,280,271 | 1,768,920 | 1,752,422 |
| ZTE Capital | Subsidiary | Entrusted management and venture investment fund | Investment fund | RMB30 million | 1,859,622 | 1,806,893 | — | 583,660 | 577,524 |
| Zhongxing Microelectronics | Subsidiary | Design, production and sales of integrated circuit | Design, production and sales of integrated circuit | RMB131,578,947 | 8,226,506 | 4,873,420 | 6,024,545 | 332,836 | 330,820 |
| ZTE HK | Subsidiary | Sales of and technical support for communication products | Sales of and technical support for communication products | HKD995 million | 19,208,134 | 744,616 | 4,758,410 | (344,133) | (381,556) |

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

During the reporting period, 4 subsidiaries made a material impact on the consolidated operating results and 4 of them reported year-on-year change in operating results of more than 30%: Zhongxing Software reported year-on-year growth in net profit of 100.72%, reflecting mainly growth in revenue; ZTE Capital reported year-on-year increase in net profit of 164.24%, reflecting mainly the increase in fair-value gain on stocks of listed companies held by subsidiary fund partnerships under ZTE Capital for the period; Zhongxing Microelectronics reported year-on-year increase in net profit of 240.88%, reflecting mainly growth in revenue; ZTE HK reported year-on-year decrease in net profit of 196.54%, reflecting mainly reduction in revenue.

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

| Business segment | For the six months ended 30 June 2020 | | For the six months ended 30 June 2019 | |
|--------------------------------------|--|--|--|--|
| | Revenue | As a percentage of operating revenue | Revenue | As a percentage of operating revenue |
| Carriers’ networks | 34,969.6 | 74.1% | 32,485.2 | 72.8% |
| Government and corporate business | 4,816.6 | 10.2% | 4,700.0 | 10.5% |
| Consumer business | 7,413.2 | 15.7% | 7,424.0 | 16.7% |
| Total | 47,199.4 | 100.0% | 44,609.2 | 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

| Regions | For the six months ended 30 June 2020 | | For the six months ended 30 June 2019 | |
|-------------------------------------|--|--|--|--|
| | Revenue | As a percentage of operating revenue | Revenue | As a percentage of operating revenue |
| The PRC | 31,751.2 | 67.3% | 27,421.7 | 61.5% |
| Asia (excluding the PRC) | 6,923.1 | 14.7% | 7,807.7 | 17.5% |
| Africa | 2,522.7 | 5.3% | 2,715.3 | 6.1% |
| Europe, the Americas and Oceania | 6,002.4 | 12.7% | 6,664.5 | 14.9% |
| Total | 47,199.4 | 100.0% | 44,609.2 | 100.0% |

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The Group reported RMB47,199.4 million in operating revenue for the six months ended 30 June 2020, a 5.8% increase as compared to the same period last year. Operating revenue from domestic business amounted to RMB31,751.2 million, increasing by 15.8% as compared to the same period last year; operating revenue from international business amounted to RMB15,448.2 million, decreasing by 10.1% 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 2020, reflecting mainly year-on-year growth in revenue from carriers' networks and government and corporate business. For the first half of 2020, the Group reported a 7.6% year-on-year growth in operating revenue from carriers' network, reflecting mainly year-on-year growth in revenue from products such as 5G system equipment and core network in the domestic market. For the first half of 2020, the Group reported a 2.5% year-on-year growth in operating revenue from government and corporate business, reflecting mainly year-on-year growth in revenue from optical transmission products in international as well as domestic markets, server and railway transportation integration in the domestic market.

Cost of Sales and Gross Profit

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

Unit: RMB in millions

| Business segment | For the six months ended 30 June 2020 | | For the six months ended 30 June 2019 | |
|--------------------------------------|--|--|--|--|
| | Cost of sales | As a percentage of business segment revenue | Cost of sales | As a percentage of business segment revenue |
| Carriers' networks | 22,547.2 | 64.5% | 18,665.9 | 57.5% |
| Government and corporate business | 3,483.5 | 72.3% | 3,059.9 | 65.1% |
| Consumer business | 5,733.7 | 77.3% | 6,332.5 | 85.3% |
| Total | 31,764.4 | 67.3% | 28,058.3 | 62.9% |

Unit: RMB in millions

| Business segment | For the six months ended 30 June 2020 | | For the six months ended 30 June 2019 | |
|--------------------------------------|--|------------------------|--|------------------------|
| | Gross profit | Gross profit margin | Gross profit | Gross profit margin |
| Carriers' networks | 12,422.4 | 35.5% | 13,819.3 | 42.5% |
| Government and corporate business | 1,333.1 | 27.7% | 1,640.1 | 34.9% |
| Consumer business | 1,679.5 | 22.7% | 1,091.5 | 14.7% |
| Total | 15,435.0 | 32.7% | 16,550.9 | 37.1% |

Cost of sales of the Group for the first half of 2020 increased by 13.2%, year-on-year, to RMB31,764.4 million, reflecting mainly year-on-year growth in the cost of carriers' network and government and corporate business. The Group's overall gross profit margin decreased by 4.4 percentage points to 32.7% for the first half of 2020, reflecting lower gross profit margin for carriers' network and the government and corporate business.

Cost of sales of the Group's carriers' networks for the first half of 2020 amounted to RMB22,547.2 million, a 20.8% increase compared to the same period last year. The relevant gross profit margin was 35.5%, compared to 42.5% for the same period last year. The lower gross profit margin for carriers' network reflected mainly increase in revenue from low-margin domestic products as a percentage of total revenue.

Cost of sales of the Group's government and corporate business for the first half of 2020 amounted to RMB3,483.5 million, a 13.8% increase compared to the same period last year. The relevant gross profit margin was 27.7%, compared to 34.9% for the same period last year. The lower gross profit margin for the government and corporate business reflected mainly decline in gross profit margin for the government and corporate business of domestic subsidiaries and the increase in revenue from domestic low-margin products as a percentage of total revenue.

Cost of sales of the Group's consumer business for the first half of 2020 amounted to RMB5,733.7 million, decreasing by 9.5% compared to the same period last year. The relevant gross profit margin was 22.7%, compared to 14.7% for the same period last year. The higher gross profit margin for the consumer business reflected mainly improved gross profit margin for handset products in the domestic market and home terminals in the international market.

Other Income and Gains

Other income and gains of the Group for the first half of 2020 amounted to RMB2,157.5 million, representing an 18.6% increase compared to RMB1,818.5 million for the same period last year, reflecting mainly the increase in the Group's interest income for the period.

Research and Development Costs

The Group's research and development costs for the first half of 2020 increased by 2.6% to RMB6,637.4 million from RMB6,471.9 million for the same period last year as the Group's consistent investment in core technologies such as 5G wireless, core network, bearer, access and chips during the period. Research and development costs as a percentage of operating revenue decreased by 0.4 percentage point to 14.1%, as compared to 14.5% for the same period last year.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the first half of 2020 decreased by 2.1% to RMB3,940.6 million from RMB4,025.7 million for the same period last year, attributable primarily to the impact of the epidemic and the Group's stronger effort in control over selling expenses during the period. Selling and distribution expenses as a percentage of operating revenue decreased by 0.7 percentage point to 8.3%, compared to 9.0% for the same period last year.

Administrative Expenses

Administrative expenses of the Group for the first half of 2020 decreased by 10.6% to RMB2,474.7 million, as compared to RMB2,767.0 million for the same period last year. Such decrease reflected mainly the decrease in staff cost for the period. Administrative expenses as a percentage of operating revenue decreased by 1.0 percentage point to 5.2%, compared to 6.2% for the same period last year.

Credit Impairment Loss

Credit impairment loss of the Group for the first half of 2020 amounted to RMB279.1 million, representing a decrease of 80.3% compared to RMB1,416.1 million for the same period last year, which was mainly attributable to the decrease in the Group's bad debts provision for trade receivables for the period.

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Loss on Disposal of Financial Assets Measured at Amortised Cost

Loss on disposal of financial assets measured at amortised cost of the Group for the first half of 2020 amounted to RMB69.8 million, representing a decrease of 17.0% compared to RMB84.1 million for the same period last year, reflecting mainly the decrease in the Group's international factored interest without recourse for the period.

Other Expenses

Other expenses primarily include non-operating expenses, loss on fair value changes and exchange loss. Other expenses of the Group for the first half of 2020 was RMB438.2 million, representing an increase of 13.5% from RMB386.0 million for the same period last year, which was attributable primarily to the increase in the Group's exchange loss for the period.

Profit from Operating Activities

The Group's profit from operating activities for the first half of 2020 amounted to RMB3,752.8 million, increasing by 16.6% as compared to RMB3,218.7 million for the same period last year, attributable mainly to the decrease in the Group's bad debts provision for trade receivables for the period. Operating profit margin was 8.0%, increasing by 0.8 percentage point compared to 7.2% for the same period last year.

Finance Costs

Finance costs of the Group for the first half of 2020 amounted to RMB847.9 million, increasing by 3.0% compared to RMB823.1 million for the same period last year, which was attributable mainly to the Group's higher interest expenses in line with the increase in financing for the period.

Income Tax Expense

The Group's income tax expense for the first half of 2020 was RMB517.6 million, increasing by 25.4% compared to RMB412.9 million for the same period last year, reflecting mainly the increase in the Group's profit for the period.

Profit Attributable to Non-Controlling Interests

The Group's profit attributable to non-controlling interests for the first half of 2020 amounted to RMB449.9 million, increasing by 148.6% compared to RMB181.0 million for the same period last year, which was attributable mainly to the increase in profit for the Group's subsidiaries with a higher level of minority interests for the period.

Other Comprehensive Income

Other comprehensive income of the Group for the first half of 2020 amounted to RMB-115.5 million, compared to RMB51.1 million for the same period last year, reflecting mainly the Group's losses on translation of the Group's statements denominated in foreign currencies owing to exchange rate fluctuation for the period versus gains on translation of statements denominated in foreign currencies owing to exchange rate fluctuation 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 2020 was 52.2%, increasing by 1.9 percentage points as compared to 50.3% for 2019, attributable mainly to the issue of SCPs by the Group during the period.

Cash Flow Data

Unit: RMB in millions

| Item | For the six months ended 30 June 2020 | For the six months ended 30 June 2019 |
|--|--|--|
| Net cash outflow from operating activities | (663.5) | (625.1) |
| Net cash outflow from investing activities | (6,100.7) | (4,637.9) |
| Net cash inflow from financing activities | 15,087.4 | 10,687.6 |
| Net increase in cash and cash equivalents | 8,323.2 | 5,424.6 |
| Cash and cash equivalents at the end of the period | 36,975.0 | 26,636.7 |

Cash and cash equivalents of the Group as of 30 June 2020 amounted to RMB36,975.0 million, which were mainly denominated in RMB and to a smaller extent in USD, EUR, INR and other currencies.

Operating Activities

The Group reported net cash outflow from operating activities of RMB663.5 million for the first half of 2020, compared to RMB625.1 million for the same period last year, reflecting mainly year-on-year increase in cash received from sales of goods and provision of services by RMB8,132.5 million, decrease in tax refund received by RMB883.1 million, decrease in other cash receipts relating to operating activities by RMB226.2 million, increase in cash paid for the purchase of goods and services by RMB6,371.2 million, increase in cash payments to and on behalf of employees by RMB2,272.2 million, decrease in payments of tax expenses by RMB1,746.4 million, and decrease in other cash payments relating to operating activities by RMB648.0 million.

Investing Activities

The Group's net cash outflow from investing activities was RMB6,100.7 million for the first half of 2020, compared to RMB4,637.9 million for the same period last year, reflecting mainly the increase in the Group's term deposits of three months or above included in cash paid for investment for the period.

Financing Activities

The Group's net cash inflow from financing activities for the first half of 2020 was RMB15,087.4 million, compared to RMB10,687.6 million for the same period last year, reflecting mainly the combined effect of the increase in cash received for the Group's non-public issue of A shares and issue of SCPs and the payment for perpetual instruments during the period.

Indebtedness

Unit: RMB in millions

| Item | 30 June 2020 | 31 December 2019 |
|----------------------|-----------------|---------------------|
| Secured bank loans | 229.5 | 252.2 |
| Unsecured bank loans | 38,510.8 | 36,530.9 |

Report of the Board of Directors

Unit: RMB in millions

| Item | 30 June 2020 | 31 December 2019 |
|-----------------------|-----------------|---------------------|
| Short-term bank loans | 16,905.2 | 26,738.0 |
| Long-term bank loans | 21,835.1 | 10,045.1 |

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 2020, the Group's RMB short-term and long-term bank loans subject to fixed interest rates amounted to RMB6,935.7 million and RMB1,084.5 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 RMB273.3 million and RMB214.7 million, respectively. Short-term USD bank loans subject to fixed interest rates amounted to the equivalent of approximately RMB1,203.3 million. The remaining RMB, 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 2020 increased by RMB1,957.2 million as compared to 31 December 2019, which were mainly applied to replenish its working capital.

Contractual Obligations

Unit: RMB in millions

| Item | 30 June 2020 | | | |
|------------|--------------|---------------------|-----------|----------------------|
| | Total | Less than 1 year | 2-5 years | More than 5 years |
| Bank loans | 38,740.3 | 16,905.2 | 21,795.3 | 39.8 |

Capital Commitments

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

Unit: RMB in millions

| Item | 30 June 2020 | 31 December 2019 |
|----------------------------------|-----------------|---------------------|
| Land and buildings: | | |
| Contracted, but not provided for | 3,196.3 | 3,097.0 |
| Investment in associates: | | |
| Contracted, but not provided for | 28.2 | 48.7 |

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

During the first half of 2020, no material acquisitions and disposals of subsidiaries, associates and joint ventures of the Group occurred.

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 2019 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

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

| Nature | Time | Location | Mode | Audience received | Key contents discussed | Information furnished |
|----------------------|------------|----------|-------------------------------|---|--------------------------------------|---|
| Results presentation | April 2020 | Shenzhen | Live Internet video broadcast | Investors and securities houses including Southern AMC, Bosera Fund, China AMC, GF Fund, Zhong Ou AMC, New China Life, Huitong Rongxin, China Merchants Securities, Haitong Securities, Huatai Securities and Credit Suisse | Day-to-day operations of the Company | Published announcements and regular reports |

(VI) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2020 AND RISK EXPOSURES

1. Business outlook for the second half of 2020

The 5G era has dawned upon us. Global 5G development is expected to roll out in full gear in the next 5 years, underpinned by a rapidly maturing industry chain and vigorous supply of innovative applications driving a new boom for the communications industry. First of all, 5G will continue to benefit from the volume of mobile data, as new applications such as ultra-HD video and AR/VR are poised to provide supreme experience to users, while mobile data consumption is expected to sustain robust growth. Meanwhile, the integration of infrastructure for the intelligent Internet of Everything built on the back of 5G, in a development no less significant than the birth of the global Internet in the 1990s, is expected to come initially into shape in the next 5 years. The industrial applications of 5G, such as automated driving and intelligent manufacturing to name but a few, will give rise to new businesses, models and growth opportunities in the ICT sector.

In connection with carriers' networks, global 5G investment is approaching its apex, as global carriers are estimated to splash out capital expenditure of USD1,100 billion from 2020 to 2025, 78% of which will be committed to 5G, according to GSMA (Global System for Mobile Communications Association). Firmly established as a first-quadrant 5G player, the Group will continue to play a pivotal role in the innovation of 5G technologies and applications with greater investment in core technologies such as chip, algorithm and network architecture to maintain its technological edge and facilitate the provision of end-to-end solutions that would enable carriers to build highly competitive 5G networks in a speedy manner. Meanwhile, we will work with industry leaders of various sectors to develop innovative 5G applications as part of a mutually beneficial 5G business ecosystem built through cooperation.

In connection with the government and corporate business, the Group will seize opportunities presented by applications in new 5G infrastructure and vertical 5G sectors with a strong focus on the traditional key market sectors of energy, transportation, government affair and finance, incubating business channels to assist in further digital transformation in various industries.

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In connection with the consumer business, the Group will leverage opportunities in the markets for 5G terminals and multi-format terminals. We will enhance our brand promotion effort in key country markets, while making efforts to unveil, innovate, consolidate, explore and broaden major pathways for the generation of commercial value through cooperation with upstream as well as downstream partners along the industry chain, with a view to building a full-scenario smart experience and value chain for consumers.

The Group will be committed to the attainment of qualitative growth. In terms of corporate business operation, we will maintain revenue growth, sound profitability, ample liquidity and a reasonable gearing ratio to ensure healthy operation. In terms of the optimisation of market profile, we will focus on high-worth countries and markets and seek to increase our market shares therein. In terms of product R&D, we will remain committed to the investment in core products, such as 5G and bearer products and chips to establish our leading position in key technologies and enhance product safety for the benefit of business sustainability, while expediting digital transformation of the corporation and bolstering the incubation of innovative businesses. In terms of management processes, compliance control and internal governance will be enhanced to facilitate regulated operations, so as to foster a positive image in the international market and win greater trust among domestic and overseas clients. In terms of corporate value, we will strive for greater trust on the part of shareholders and actively seek to expand financing channels, so as to facilitate stable growth in corporate value by enhancing value management.

2. Risk exposures

(1) *Country risks*

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

(2) *Risk associated with intellectual property rights*

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

(3) Exchange rate risks

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

(4) Interest rate risk

The interest rate risk of the Group is mainly associated with interest-bearing liabilities. Fluctuations in the interest rates of RMB or foreign currencies will result in changes in the total amount of interest payable by the Group and will therefore affect the Group's profitability. The Group seeks to lower its interest rate risk mainly 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. The Company conducts internal control in accordance with the requirements of provisions such as the "Notice on the Publication of the Corporate Internal Control Supplementary Guide" (《關於印發企業內部控制配套指引通知》). During the reporting period, the general meeting, Board of Directors and Supervisory Committee of the Company were operated in compliance with the law, and the corporate governance of the Company was in compliance with provisions set out in the regulatory documents on corporate governance of listed companies issued by the CSRC.

Company focused its efforts on the following internal control work in the first half of 2020:

- (1) The conclusion and assessment of the internal control work for 2019 was completed, on which basis the 2019 Internal Control Audit Work Report and 2019 Internal Control Assessment Report were published; the internal control work plans for 2020 was formulated and internal control assessment for 2020 was commenced with stronger effort in pre-emptive supervision and inspection as well as supervision and inspection during the process.
- (2) Improvements were made to our internal control organisation with trial implementation of the penetrating management model for internal control; institutional development was strengthened to improve the internal control system and regime; inspection was implemented through a three-tier line of defense comprising business execution, ability building and supervision of implementation, utilising internal control self-assessment and business audit tools.
- (3) Risk evaluation methods were optimise and risk classification and hierarchy was developed to strengthen duties of risk management units at all levels, while standardising the risk control process for identifying, assessing and addressing risks; key internal control tasks for various segments were streamlined and launched and the operating model of the internal control system was optimised to enhance the management duties of the internal control ability development modules and improve the process for rectifying deficiencies.
- (4) The organisational ability relating to internal control was enhanced as management officers were asked to sign 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 and sharing of internal control cases were organised on a continuous basis.

2. Information on the convening of general meeting

On 19 June 2020, the Company convened the 2019 Annual General Meeting by way of a combination of on-site and online voting. For details, please refer to the "Announcement of Resolutions of the 2019 Annual General Meeting" published by the Company on 19 June 2020 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 2020, the Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules, save for the deviation described in the below.

Code Provision A.1.3 stipulates that a notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend.

Such requirement for the length of notice of meeting was waived, upon the unanimous approval of all Directors on the Board of Directors of the Company, in respect of the notice sent by the Company to the Directors on 15 April 2020 to convene the Sixteenth Meeting of the Eighth Session of the Board of Directors on 24 April 2020 for the purpose of considering and approving the first quarter 2020 results of the Group and its announcement. The Directors' attendance at the meeting has not been affected by the said waiver.

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 2020.

(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.

According to the “Proposal for Profit Distribution for 2019” considered and approved at the Fifteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 27 March 2020: a dividend of RMB2 in cash (before tax) for every 10 shares shall be distributed to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. The proposal was approved at the 2019 Annual General Meeting of the Company held on 19 June 2020. A dividend of RMB2 in cash (before tax) for every 10 shares was distributed based on the total share capital of 4,613,434,898 shares (comprising 3,857,932,364 A shares and 755,502,534 H shares) as at the record date. The record date for A shares is 11 August 2020. The ex-dividend date for A shares is 12 August 2020. The record date for H shares is 30 June 2020. The dividend payment date is 12 August 2020. Profit distribution for 2019 was completed on 12 August 2020.

The aggregate profit distribution of the Company in the form of cash in 2017–2019 accounted for 101.31% of the annual average profit available for distribution in the past three years, in compliance with Article 234 of the Articles of Association which states that “the aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years.”

The Company did not 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 2020.

Material Matters

(III) MATERIAL LITIGATION AND ARBITRATION

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

1. 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 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 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. On 4 October 2019, the Supreme Court of Texas for Civil Matters rejected the application for review by UTE. On 2 January 2020, UTE submitted a petition to the U.S. Supreme Court for the review of the case. On 24 February 2020, the U.S. Supreme Court rejected petition of UTE, upon which all litigation procedures relating to the case was closed.

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

2. On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc. and referred to hereinafter as the “Three Companies”) filed a claim with 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, 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, ITC issued its preliminary judgment of the case, ruling that one of the patent 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, 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 ITC.

On 2 January 2013, the Three Companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with 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 Three Companies and InterDigital Holdings, Inc 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, 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 15 August 2014, 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 engaged a legal counsel to conduct active defense of the case and file an appeal to the United States Court of Appeals for the Federal Circuit against the ruling of the Federal District Court of Delaware that the three patents involved in the litigation 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. In January 2020, the court approved the request of the Company and the aforesaid Three Companies and InterDigital Holdings, Inc. to withdraw the case, upon which all litigation procedures relating to the case was closed.

Based on 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.

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3. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB40,484,300). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand an compensation amount of BRL31,224,300 (equivalent to approximately RMB40,317,300) together with accrued interests and legal fees payable immediately by the Brazilian company. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB40,317,300) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB40,317,300) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

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

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

4. 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 (Case No: LCIA No. 173683 and LCIA No. 173696). 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”) (Case No: DIFC-LCIA No. 17098). 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 and made counter-claims against the Mauritanian Subsidiary under the arbitration.

In May 2019, the aforesaid Sudanese carrier withdrew its application for LCIA arbitration (Case No: LCIA No.173696).

On 31 January 2020, LCIA made a ruling on case LCIA No.173683 to reject the USD30,060,326 claim of the counterparty and order the payment of USD4,209,877 and GBP260,095.20 together with interests to the Company by the said Mauritanian Subsidiary.

On 23 July 2020, DIFC-LCIA made a ruling on case No: DIFC-LCIA No. 17098 to order the payment of USD6,678,111.29 to the Company by the counterparty and USD1,562,796.50 by the Company to the counterparty with the two parties each assuming its respective arbitration costs.

Upon this ruling, all arbitration procedures for the three arbitration cases were concluded.

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.

5. 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 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.

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

Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2020 where BRL amounts are translated at the exchange rate of BRL1: RMB1.2912.

(IV) MEDIA QUERIES OF THE COMPANY DURING THE REPORTING PERIOD

Applicable N/A

(V) APPROPRIATION OF NON-OPERATING CAPITAL OF THE LISTED COMPANY BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES DURING THE REPORTING PERIOD

Applicable N/A

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

Applicable N/A

Material Matters

(VII) THE COMPANY'S SUBSCRIPTION FOR ZHONGTOU ZHANLU PHASE I FUND

ZTE Zhongchuang (Xi'an) Investment Management Company Limited, a subsidiary of the Company, has established by way of promotion as general partner Shaanxi Zhongxing Innovative Investment Fund Partnership Enterprise (Limited Partnership) (陝西省中興創新投資基金合夥企業(有限合夥)) (renamed as "Shaanxi Zhongtou Zhanlu Equity Investment Partnership Phase I (Limited Partnership)" (陝西眾投湛盧一期股權投資合夥企業(有限合夥)), "Zhongtou Zhanlu Phase I") and subscribed for Zhongtou Zhanlu Phase I with a capital contribution of RMB1 million. The Company has also subscribed for shares in Zhongtou Zhanlu Phase I as limited partner with a capital contribution of RMB39 million. For details, please refer to the "Announcement Resolutions of the Eleventh Meeting of the Eighth Session of the Board of Directors", "Overseas Regulatory Announcement Announcement on the Subscription for Shaanxi Zhongxing Innovative Investment Fund" and "Overseas Regulatory Announcement Announcement on the completion of filing and registration of Shaanxi Zhongxing Innovative Investment Fund" published by the Company on 19 November 2019, 21 November 2019 and 4 December 2019, respectively.

On 5 June 2020, the Company received a notice from ZTE Zhongchuang (Xi'an) Investment Management Company Limited, the fund manager, that the issue fund of Zhongtou Zhanlu Phase I had been completed. For details, please refer to the "Overseas Regulatory Announcement Announcement on the completion of issue fund of Zhongtou Zhanlu Phase I" published by the Company on 8 June 2020.

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

1. Approval procedures performed and grant of options

The 2017 Share Option Incentive Scheme has been implemented by the Company to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibility of the management and key personnel of the Company and retain talent, so as to facilitate sustainable development of the Company and ensure the realisation of its development targets pursuant to the "2017 Share Option Incentive Scheme (Draft) of ZTE Corporation" (the "2017 Share Option Incentive Scheme (Draft)") considered and approved by the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017. 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). The Company granted 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.

2. Scheme participants, number of share option and adjustments to the exercise price

Pursuant to the "Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme", "Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme", "Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme" and "Resolution on the cancellation of certain share options" considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 1 July 2019, the adjustments to participants and volume granted under the 2017 Share Option Incentive Scheme, confirmation of the fulfillment of exercise conditions for the first exercise period, 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, and the number of share options granted was adjusted from 149,601,200 to 119,115,591. The number of participants for the first exercise period was adjusted from 1,996 to 1,684, and the number of exercisable share options was adjusted from 49,866,471 to 39,664,153. A total of 70,210,561 share options, comprising share options previously granted to original participants who no longer qualified as participants, share

options previously granted to participants who did not qualify for exercise in the first exercise period under the share option incentive scheme and share options not exercisable as a result of the non-fulfillment of exercise conditions for the second exercise period under the share option incentive scheme, were cancelled. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Adjustment of Participants and Number of Share Options under the 2017 Share Option Incentive Scheme”, “Overseas Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the First Exercise Period under the 2017 Share Option Incentive Scheme”, “Overseas Regulatory Announcement Announcement Non-fulfillment of Exercise Conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme” and “Overseas Regulatory Announcement Announcement on the Cancellation of Certain Share Options” published by the Company on 1 July 2019.

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

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

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

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

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

Pursuant to the “Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme” and the “Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme” considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 1 July 2019, it was confirmed that the exercise conditions for the first exercise period had been fulfilled and the exercise conditions for the second exercise period had not been fulfilled under the 2017 Share Option Incentive Scheme. For details, please refer to the “Overseas

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Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the First Exercise Period under the 2017 Share Option Incentive Scheme” and “Overseas Regulatory Announcement Announcement Non-fulfillment of Exercise Conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme” published by the Company on 1 July 2019.

The first exercise period under the 2017 Share Option Incentive Scheme of the Company shall comprise the exercise dates within the period from 16 July 2019 to 5 July 2020. There were 1,684 participants entitled to exercise a total of 39,664,153 exercisable share options. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Commencement of the First Exercise Period under the 2017 Share Option Incentive Scheme” published by the Company on 14 July 2019.

4. Details of share options held by the participants and their exercise during the reporting period

The share options under the 2017 Share Option Incentive Scheme of the Company were exercised on a voluntary basis. During the reporting period, a total of 4,805,995 share options were exercised at an exercise price of RMB17.06. The closing price of A shares as at the end of the reporting period was RMB40.13 and the number of the Company’s A shares has increased by 4,805,995 shares accordingly. Proceeds received from the exercise of share options were placed in a designated account of the Company. Details of share options held and exercised by scheme participants during the reporting period are set out in the following table:

| Name of participant | Position of participant | Number of unexercised | Number of options granted during the reporting period | Number of options exercisable during the reporting period | Number of options exercised during the reporting period | Number of options cancelled during the reporting period | Number of options lapsed during the reporting period | Number of outstanding options at the end of the reporting period | Weighted average closing price (RMB/share) ^{Note} |
|---------------------|---|--|---|---|---|---|--|--|--|
| | | options at the beginning of the reporting period | | | | | | | |
| Xu Ziyang | Director and President | 126,000 | 0 | 42,000 | 42,000 | 0 | 0 | 84,000 | 39.16 |
| Wang Xiyu | Executive Vice President | 133,434 | 0 | 45,966 | 45,966 | 0 | 0 | 87,468 | 37.00 |
| Li Ying | Executive Vice President and Chief Financial Officer | 79,600 | 0 | 26,800 | 26,800 | 0 | 0 | 52,800 | 39.16 |
| Xie Junshi | Executive Vice President | 112,468 | 0 | 0 | 0 | 0 | 0 | 112,468 | N/A |
| Ding Jianzhong | Secretary to the Board of Directors and Company Secretary | 33,160 | 0 | 0 | 0 | 0 | 0 | 33,160 | N/A |
| Other participants | — | 44,047,951 | 0 | 4,691,361 | 4,691,229 | 0 | 0 | 39,356,722 | 41.76 |
| Total | — | 44,532,613 | 0 | 4,806,127 | 4,805,995 | 0 | 0 | 39,726,618 | 41.68 |

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

During the period from the end of the reporting period under review to the date of publication of this report, a total of 66 A share options have been exercised by scheme participants under the 2017 Share Option Scheme of the Company, and the cancellation of 66 share options unexercised after the close of the first exercise period under the 2017 Share Option Scheme has yet to be processed.

For details of the date of grant, validity period, vesting period, exercise period and exercise price under the 2017 Share Option Incentive Scheme in respect of the share options set out above, please refer to the above.

5. Accounting policies and impact on the financial conditions and operating results of the Company

For details of the specific accounting treatments of share options and the impact on the Company’s financial conditions and operating results for the reporting period and in future are set out in Note XI to the financial statements prepared under PRC ASBES.

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

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

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

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

On 14 February 2020, the Company applied issue proceeds raised from the non-public issue of A shares in replacement of internal funds previously invested in the projects for which the issue proceeds had been intended with a total fund replacement amount of RMB4,972 million. The application of unused issue proceeds amounting to not more than RMB2,500 million as interim working capital replenishment to be utilised over a term of not more than 12 months from the date of approval by the Board of Directors. The aforesaid matter has been considered and approved by the Fourteenth Meeting of the Eighth Session of the Board of Directors of the Company. For details, please refer to the "Announcement of the Resolutions of the Fourteenth Meeting of the Eighth Session of the Board of Directors", "Overseas Regulatory Announcement Announcement on the Application of Issue Proceeds In Replacement of Internal Funds Previously Invested in Projects for which the Issue Proceeds are Intended" and "Overseas Regulatory Announcement Announcement on the Partial Application of Unutilised Issue Proceeds to the Interim Replenishment of Working Capital" published by the Company on 14 February 2020.

Material Matters

The following table sets out the use of the issue proceeds of the non-public issue of A shares of the Company during the reporting period. As at the date of 30 June 2020, the balance of the issue proceeds was RMB93,494,900, and the Company stored the issue proceeds in a special account. For details, please refer to the “Overseas Regulatory Announcement Special report on the storage and use of the issue proceeds in the semi-annual period of 2020” published by the Company on 28 August 2020.

RMB in ten thousands

| Item | Amount |
|---|---------------------|
| Net proceeds | 1,145,941.87 |
| Plus: expenses related to the issuance that have not been replaced | 358.11 |
| Net accumulated interest income after deducting service fee | 294.66 |
| Minus: net fund replacement amount during the reporting period (technology research and product development relating to 5G network evolution) | 497,245.15 |
| Amount used during the reporting period (replenishment of working capital) | 390,000.00 |
| interim working capital replenishment | 250,000.00 |
| Balance of the issue proceeds as at the end of the reporting period | 9,349.49 |

The Company will continue to use the balance of the issue proceeds of the non-public issue of A shares in accordance with the plan for the use of the issue proceeds as disclosed in the Company’s circular dated 28 February 2019. The Company has repaid ahead of schedule the aforesaid unused issue proceeds utilised as interim working capital replenishment in the amount of RMB1,280 million to the designated account for issue proceeds. For details, please refer to the “Overseas Regulatory Announcement Announcement on the partial repayment ahead of schedule of the unused issue proceeds utilised as interim working capital replenishment” published by the Company on 28 July 2020.

On 28 July 2020, the Company applied issue proceeds in replacement of internal funds previously invested in the projects for which the issue proceeds had been intended with a total fund replacement amount of RMB1,357 million and further replaced internal funds amounting to RMB3,581,098.97 utilised for the payment of issue expenses. The aforesaid matter has been considered and approved at the Twentieth Meeting of the Eighth Session of the Board of Directors of the Company. For details, please refer to the “Announcement Resolutions of the Twentieth Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement of the application of issue proceeds in replacement of internal funds previously invested in the projects for which the issue proceeds had been intended and utilised for the payment of issue expenses” published by the Company on 28 July 2020.

(X) ISSUE AND PAYMENT OF THE COMPANY’S MEDIUM TERM NOTES AND SCPS

1. Completion of payment of 2015 tranche I medium term notes

The “Resolution of on the Proposed Registration and Issue of Perpetual Medium Term Notes” was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company, granting approval to the Company’s application to the National Association of Financial Market Institutional Investors for the registration and issue of Perpetual Medium Term Notes with an amount of not more than RMB9 billion. The National Association of Financial Market Institutional Investors has accepted the registration of the Company’s RMB9 billion Medium Term Notes.

On 27 January 2015, the Company completed the issue of 2015 Tranche I Medium Term Notes (“Medium Term Notes”) with an amount of RMB6,000 million for a term of 5+N years (maturity upon redemption by the Company pursuant to the terms of the issue). The Medium Term Notes became due on 27 January 2020 (the due payment date coincided with statutory holidays and was rescheduled to 31 January 2020). The Company completed the payment of the principal and interests of the Medium Term Notes with a total amount of RMB6,348,600,000 on 31 January 2020.

2. Issue of the Company's 2020 SCPs

The “Resolution on the Proposed Registration and Issue of Perpetual Medium Term Notes” and the “Resolution on the Proposed Registration and Issue of Super and Short-term Commercial Paper (“SCP”)” was considered and approved at the Twenty-fourth Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2017 of the Company. The Company's Tranche I Medium Term Notes with a registered amount of RMB2,000 million and SCP with a registered amount of RMB8,000 million have been registered with and approved by the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) (“NAFMII”). For details, please refer to the “Overseas Regulatory Announcement Announcement on the Approval of Registration for the Medium Term Notes and Super and Short-term Commercial Paper” published by the Company on 10 October 2019.

During the reporting period, the Company completed seven tranches of SCP issue for an aggregate amount of RMB8,000 million. For details, please refer to the relevant announcements published by the Company on 26 March 2020, 22 April 2020, 26 May 2020, 12 June 2020 and 28 June 2020, respectively.

The payment date for Tranche IV SCP 2020 would be 23 August 2020 (which is a statutory holiday, hence the due payment date was rescheduled to 24 August). The payment date for Tranche V SCP 2020 would be 24 August 2020. The Company completed a total payment of RMB2,006,657,534.24 in principal and interests for Tranche IV and Tranche V SCP 2020 on 24 August 2020.

3. The Company's registration and issue of medium term notes

The “Resolution on the Proposed Registration and Issue of Medium Term Notes” was considered and approved at the Fifteen Meeting of the Eighth Session of the Board of Directors of the Company and the 2019 Annual General Meeting of the Company. The registration of the Company's medium term notes with a total registered amount of RMB8,000 million have been approved by NAFMII. For details, please refer to the “Announcement Resolutions of the Fifteenth Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on the Proposed Registration and Issue of Medium Term Notes” published on 27 March 2020, “Announcement on Resolutions of the 2019 Annual General Meeting” published on 19 June 2020 “Overseas Regulatory Announcement Announcement on the Approval of Registration for the Medium Term Notes” published on 21 July 2020 by the Company.

(XI) REPURCHASE OF A SHARES BY THE COMPANY

At the Fifteenth Meeting of the Eighth Session of the Board of Directors and the 2019 Annual General Meeting of the Company, the “Resolution on the tabling of the proposed mandate for the repurchase of the Company's A shares at the general meeting for consideration” was considered and approved.

The “Resolution on the plan for the repurchase of the Company's A shares by way of centralised price bidding” was considered and approved at the Twenty-first Meeting of the Eighth Session of the Board of Directors of the Company held on 14 August 2020. The Company has proposed to repurchase its A shares by way of centralised price bidding using internal funds, which A shares will be allotted for the implementation the Company's staff shareholding schemes or as share incentives. The total amount of A share repurchase shall be not less than RMB100 million and not more than RMB120 million. The repurchase may be conducted within 12 months from the date on which it is considered and approved at the Twenty-first Meeting of the Eighth Session of the Board of Directors. The actual number of shares to be repurchased is subject to the actual number of shares repurchased upon the conclusion of the repurchase period. For details, please refer to the “Announcement of the Resolutions of the Twenty-first Meeting of the Eighth Session of the Board of Directors”, “Announcement on the plan for the repurchase of the Company's A shares by way of centralised price bidding” published by the Company on 14 August 2020.

In accordance with pertinent provisions of the “Shenzhen Stock Exchange Implementation Rules for the Repurchase of Shares By Listed Companies”, the Company published the “Announcement on shareholdings of top ten shareholders and top ten holders not subject to lock-up about the repurchase of A shares” on 20 August 2020 and “Overseas Regulatory Announcement Report on the repurchase of the Company's A shares” on 26 August 2020.

Material Matters

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

1. Connected transactions in the ordinary course of business

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

| Counterparty to connected transaction | Nature of connection | Classification | Subject matter | Pricing principle | Price (RMB) | As a percentage of transactions in the same classification | | Whether approved cap has been exceeded | Settlement | Market price for similar transactions available | | Domestic announcement date | Domestic announcement index |
|---|---|--|---|--|--|--|------------|--|---------------------------------------|---|------------|--|-----------------------------|
| | | | | | | Amount (RMB in ten thousands) | (%) | | | (RMB) | | | |
| 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 | 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. | 18,192.35 | 0.49% | 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 | 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. | Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB630-1,200 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day. | 2,323.49 | 0.06% | No | Tele-transfer | N/A | 2020-1-17 | Announcement No. 2020004 *Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange* | |
| ZTE Software Technology (Nanchang) Company Limited ("Nanchang Software") | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president | Purchase of software outsourcing services | The purchase of personnel hiring and project outsourcing services by the Company from the connected party | conditions of the projects, size of transaction and product costs. | Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB630-1,200 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day. | 1,203.55 | 0.03% | No | Tele-transfer | N/A | 2020-1-17 | Announcement No. 2020004 *Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange* | |
| Nanchang Software | Subsidiary of a 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 RMB433-1,197 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* | |
| 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. | 1,059.98 | 0.03% | No | Tele-transfer | N/A | 2018-12-25 | Announcement No. 2018104 *Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange* | |
| Zhongxing Hetai or its subsidiaries | A company for which a connected natural person of the Company acted as director and its subsidiaries | Lease of property and equipment and facilities | The lease of property and related equipment and facilities by the Company to the connected party | | In 2020 RMB80/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB62/sq.m./month for hotel properties in Nanjing; RMB84/sq.m./month for hotel properties in Shanghai; RMB53/sq.m./month for hotel properties in Xi'an. The rental fee for related equipment and facilities required by the hotel operations in Shenzhen, Shanghai, Nanjing and Xi'an was 1,370,000/year. | 3,669.52 | 14.48% | No | Tele-transfer | N/A | 2020-1-17 | Announcement No. 2020004 *Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange* | |
| 航沃数事 | 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. | 45,638.37 | 0.97% | No | Tele-transfer or bank acceptance bill | N/A | 2020-1-17 | Announcement No. 2020004 *Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange* | |
| Total | | | | | | 72,087.26 | N/A | - | - | - | - | - | |

| | |
|--|---|
| 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) | <p>At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries and companies in which it held equity interests of 30% or above by the Group in 2020 be capped at RMB800 million (before VAT);</p> <p>At the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, in 2020 be capped at RMB86.19 million and RMB52.30 million (before VAT), respectively;</p> <p>At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of engineering services from Nanchang Software, a connected party during the periods from 1 November 2019 to 31 October 2020 be capped at RMB1 million (before VAT);</p> <p>At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of hotel services from Zhongxing Hetai, a connected party, or its subsidiaries by the Group in 2020 be capped at RMB36.50 million (before VAT);</p> <p>At the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020, 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 2020 be capped at RMB73.40 million (before VAT);</p> <p>At the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020 and the 2019 Annual General Meeting of the Company held on 19 June 2020, it was considered and approved that the estimated sales of products to 航天微華, a connected party, by the Group in 2020 be capped at RMB800 million (before VAT); and</p> <p>Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.</p> |
| Reason for the substantial difference between transaction prices and referential market prices (if applicable) | N/A |

Note: 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. **During the year, the Company did not incur any creditors or debtors with connected parties of a non-operating nature.**

(XIII) MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

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

| Guaranteed party | Date and index of domestic announcement disclosing the guarantee amount | Amount guaranteed | Date incurred | Actual amount guaranteed | Type of guarantee | Term of guarantee | Whether fully performed parties | 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 balance of third-party guarantee actually incurred as at the end of the reporting period (A4) | RMB21,019,300 | |

Material Matters

Guarantees provided by the Company on behalf of subsidiaries

| Guaranteed party | Date and index of domestic announcement disclosing the guarantee amount | Amount guaranteed | Date incurred | Actual amount guaranteed | Type of guarantee | 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 (Malaysia) Corporation SDN. BHD ^{Note 4} | 24 September 2014 201440 8 January 2016 201605 | USD60 million | 27 November 2014 | USD2,250,000 | 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 4} | 24 September 2014 201440 8 January 2016 201605 | USD2 million | 4 January 2015 | USD20,000 | 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 (Wenzhou) Railway Communication Technology Limited ^{Note 5} | 30 September 2017 201765 | RMB3,300,000 | 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 fulfillment 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 6} | 16 March 2018 201822 | Not more than USD600 million | 1 June 2020 | USD300 million | Joint liability assurance | From 1 June 2020 to (1) six months after 1 June 2023, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first | No | No |
| PT. ZTE Indonesia ^{Note 7} | 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 7} | 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 |
| Total amount of guarantee approved during the reporting period (B1) | | RMB1,414,060,000 ^{Note 8} | | | | Total amount of guarantee actually incurred during the reporting period (B2) | | RMB2,121,090,000 |
| Total amount of guarantee approved as at the end of the reporting period (B3) | | RMB6,997,424,200 ^{Note 8} | | | | Total amount of guarantee actually incurred as at the end of the reporting period (B4) | | RMB2,963,812,900 |

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 |
|---|---|-------------------|------------------|--------------------------|---------------------------|--|-------------------------|---|
| 西安中興通訊技術有限公司 ^{Note 9} | N/A | RMB60,005,000 | 13 March 2015 | RMB60,005,000 | Joint liability | 5 years | Yes | No |
| Shenzhen Zhongxin New Energy Technology Company Limited ^{Note 10} (formerly known as Zhongxing New Energy Automobile Company Limited) | N/A | RMB60 million | 29 December 2015 | — | Joint liability assurance | Commencing on the date on which the "CDB Development Fund Investment Agreement" comes into effect and ending upon the conclusion of a period of 2 years from the date on which the amounts payable by Zhongxing New Energy Automobile Company Limited under the contract are settled in full | Yes | No |
| 西安克瑞斯半導體技術有限公司 ^{Note 11} | N/A | USD30 million | 26 January 2017 | USD7,932,000 | Joint liability | Commencing on the date on which the "Guarantee Contract" comes into effect and ending upon the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. | No | No |
| Netas Bilisim Teknolojileri A.Ş. ^{Note 12} | N/A | USD2,153,300 | 14 November 2012 | — | 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 Bilisim under the "Systems Integration Agreement" is completed. | No | No |
| BDH Bilisim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ^{Note 12} | 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 |
| Netas Bilisim Teknolojileri A.Ş. ^{Note 13} | 6 May 2020 202036 | USD93 million | 7 May 2020 | USD3,201,600 | Joint liability | Ending on the date on which the repayment of debt relating to the guarantee is completed | No | No |
| BDH Bilisim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ^{Note 13} | | USD18 million | 30 June 2020 | USD298,200 | Joint liability | Ending on the date on which the repayment of debt relating to the guarantee is completed | No | No |
| NETAŞ TELEKOMÜNİKASYON A.Ş. ^{Note 13} | | USD28 million | — | — | Joint liability | Ending on the date on which the repayment of debt relating to the guarantee is completed | No | No |
| ZTE ICT (Guangxi) Company Limited ^{Note 14} | 19 March 2019 201916 | 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 15} | 27 May 2019 201937 | RMB80 million | 4 June 2019 | RMB80 million | Guarantee with pledge | During the incurrence of the primary creditor rights | Yes | No |
| ZTE ICT Company Limited ^{Note 16} | 24 April 2020 202032 | RMB100 million | 7 May 2020 | RMB100 million | Mortgage guarantee | Commencing on the date on which the "Maximum Mortgage Contract" comes into effect and ending on 3 January 2023 | No | No |
| Total amount of guarantee for subsidiary approved during the reporting period (C1) | | RMB1,082,771,700 | | | | Total amount of guarantee for subsidiary actually incurred during the reporting period (C2) | | RMB180,826,300 |
| Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3) | | RMB1,605,645,900 | | | | Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4) | | RMB276,362,000 |

Total amount guaranteed by the Company (sum of the three categories set out above)

| | | | | | | | | |
|--|------------------|--|--|--|--|---|--|------------------|
| Total amount of guarantee approved during the reporting period (A1+B1+C1) | RMB2,496,831,700 | | | | | Total amount of guarantee actually incurred during the reporting period (A2+B2+C2) | | RMB2,301,916,300 |
| Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3) | RMB8,624,089,400 | | | | | Total amount of balance of guarantee actually incurred as at the end of the reporting period (A4+B4+C4) | | RMB3,261,194,200 |
| Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company | | | | | | | | 7.92% |
| 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) | | | | | | | | RMB2,983,296,600 |
| Amount of total guarantee exceeding 50% of net assets (F) | | | | | | | | 0 |
| Aggregate amount of the three guarantee amounts stated above (D+E+F) | | | | | | | | RMB2,983,296,600 |
| Statement on liability incurred during the reporting period or potential joint liability for debt settlement (if any) in respect of outstanding guarantees | | | | | | | | N/A |
| Statement on provision of guarantee to third parties in violation of stipulated procedures (if any) | | | | | | | | N/A |

- Note 1: It was considered and approved at the Tenth Meeting of the Seventh Session of the Board of Directors of the Company that guarantee be provided by the Company by way of joint liability assurance for the performance of obligations by Beijing Fuhua Yuqi Information Technology Co., Ltd. (“Fuhua Yuqi”) under the Technology Development (Entrustment) Contract for a guarantee amount of not more than RMB21,019,250 for a term commencing on the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi’s performance of obligations under the Technology Development (Entrustment) Contract. The Technology Development (Entrustment) Contract came into effect on 1 April 2017 upon execution. Fuhua Yuqi has provided a third-party counter-guarantee to the Company in respect of the aforesaid guarantee.
- Note 2: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France SASU (“ZTE France”), a wholly-owned subsidiary of the Company under the 2010 SMS Execution Contract (“SMS Contract”) and the PATES-NG Execution Contract (“PATES Contract”). As at the end of the reporting period, the PATES Contract was completed 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 of the Company and the Third Extraordinary General Meeting of 2013 of the Company that a performance guarantee of USD40 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD15 million. As at the end of the reporting period, the aforesaid guarantee was under normal performance.
- Note 4: At the Twenty-first Meeting of the Sixth Session of the Board of Directors of the Company, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, 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, USD2.25 million of the USD60 million performance guarantee provided by the Company for ZTE Malaysia had come into effect, while USD520,000 bank letter of guarantee issued by relevant banks and applied for by the Company on behalf of ZTE Malaysia remained in effect.
- Note 5: As considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors of the Company, the provision by the Company of a guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE (Wenzhou) Railway Communication Technology Limited (“ZTE Wenzhou”) under the “Wenzhou Public Security Communications Contract” for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate was approved. The Company has applied to the relevant bank for the issuance of a bank guarantee letter providing guarantee by way of performance bond with a cumulative maximum amount of RMB3,152,500 in respect of the performance obligations of ZTE Wenzhou under the “Wenzhou Public Security Communications Contract”. As 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. As at the end of the reporting period, the aforesaid guarantee was under normal performance.
- Note 6: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million. The aforesaid guarantee was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting of the Company. In June 2020, ZTE HK entered a USD300 million loan agreement with 8 Chinese/foreign banks headed by Bank of China, Macau Branch (“BOC Macau”). At the same time, the Company entered into a guarantee agreement with BOC Macau to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder.
- Note 7: As considered and passed at the Thirty-ninth Meeting of the Seventh Session of the Board of Directors of the Company, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of an IDR300 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. The aforesaid guarantee was within the limit of USD200 million for the guarantee of contract performance provided for wholly-owned overseas subsidiaries as considered and passed at the 2017 Annual General Meeting. The aforesaid performance guarantee and letter of guarantee have come into effect. As at the end of the reporting period, the aforesaid guarantee was under normal performance.

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- Note 8: As considered and passed at the Fifteen Meeting of the Eighth Session of the Board of Directors of the Company and the 2019 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 is considered and approved at the 2019 Annual General Meeting of the Company and ending on the date on which the Company's 2020 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 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 aforesaid guarantee had not been applied.
- Note 9: 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. The term of the aforesaid guarantee expired and the guarantee was released during the reporting period.
- Note 10: It was considered and approved at the board meeting and general meeting of Zhongxing New Energy Automobile Company Limited, a subsidiary of the Company, that Zhongxing New Energy Automobile Company Limited 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 Zhongxing New Energy Automobile Company Limited (now renamed "Shenzhen Zhongxin New Energy Technology Company Limited"), 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 the conclusion of a period of 2 years from the date on which the amounts payable by Zhongxing New Energy Automobile Company Limited are settled in full. As at the end of the reporting period, the amounts payable by Shenzhen Zhongxin New Energy Technology Company Limited were settled in full and the guarantee was released.
- Note 11: It was considered and approved at the board meeting of ZTE Micro-electronics, a subsidiary of the Company, that ZTE Micro-electronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between 西安克瑞斯半導體技術有限公司, 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 the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. As at the end of the reporting period, the aforesaid guarantee was under normal operation and guarantee for an amount of USD7,932,000 had come into effect.
- Note 12: The Company completed the acquisition of Netaş, a listed Turkish company, on 28 July 2017. Prior to the acquisition of Netaş by the Company, Netaş had provided the following guarantee for its subsidiaries Probil Bilgi İşlem Destek ve Danışmanlık San.ve Tic.A.Ş. (renamed Netas Bilişim Teknolojileri A.Ş and hereinafter as "Netas Bilişim") and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ("BDH"): (1) guarantee in respect of the performance obligations of Netas Bilişim under the "Systems Integration Agreement" for an amount of approximately USD2,153,300 for a term commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which the performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" are completed. As at the end of the reporting period, the actual amount of guarantee incurred by Netas Bilişim was 0; (2) guarantee in respect of the performance obligations of BDH under the "Procurement and Installation Agreement" for an amount of EUR10,753,800 for a term commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed. As at the end of the reporting period, the aforesaid guarantees were under normal performance.
- Note 13: As considered and approved at the Seventeenth Meeting of the Eighth Session of the Board of Directors of the Company and the Netaş board of directors, it was approved that a reciprocal joint-liability guarantee would be effected among Netaş and its subsidiaries in respect of composite credit facilities sought from financial institutions for an amount of not more than USD139 million. The guaranteed entities would apply to financial institutions for credit facilities such as loans, letter of guarantee and reverse supply chain financing, among others. As at the end of the reporting period, Netaş and BDH had provided guarantee for credit facilities amounting to USD3,201,600 for Netaş Bilişim; while Netaş and Netaş Bilişim had provided guarantee for credit facilities amounting to USD298,200 for BDH.
- Note 14: As considered and approved at the Forty-fifth Meeting of the Seventh Session of the Board of Directors of the Company and by the board of directors and general meeting of ZTE ICT, ZTE ICT would provide guarantee by way of assurance with an amount of RMB10 million in respect of the obligations of ZTE ICT (Guangxi) Company Limited ("Guangxi ICT"), under the "Working Capital Maximum Borrowing Contract" in favour of Guilin Bank, Wuzhou Branch, for a term commencing on the date on which the "Maximum Guarantee Contract" comes into effect and ending on the date on which a period of 3 years has lapsed since the conclusion of the performance period for the primary creditor rights guaranteed. On 20 March 2019, ZTE ICT entered into a "Maximum Guarantee Contract" with Guilin Bank, Wuzhou Branch and the aforesaid guarantee documents has come into effect.

Note 15: 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 Shenzhen Zhongxing Zhiping Technology Company Limited (“Zhongxing Zhiping”), Zhongxing Zhiping would provide an RMB80 million guarantee pledged by trade receivables in favour of China Minsheng Banking Corp., Ltd., Shenzhen Branch (“Minsheng Bank”) in respect of a loan extended to ZICT by Minsheng Bank. On 4 June 2019, Zhongxing Zhiping entered into the Contract for Maximum Pledge Secured by Trade Receivables with Minsheng Bank. The aforesaid guarantee was released after ZICT had settled the loans with Minsheng Bank in full and filed registration for the cancellation of the pledge in June 2020.

Note 16: As considered and approved at the Sixteenth Meeting of the Eighth Session of the Board of Directors of the Company and by the board of directors and general meeting of Hunan ZICT Technology Co., Ltd (“Hunan ZICT”), Hunan ZICT would provide guarantee backed by real estate mortgages with an amount of not more than RMB100 million in favour of Shanghai Pudong Development Bank Corporation Shenzhen Branch (“PDB”) in respect of financing for ZICT. The real estate mortgage came into effect after ZICT entered into a Finance Facility Agreement with PDB and Hunan ZICT entered into a Maximum Mortgage Contract with PDB and completed registration of the mortgage on 7 May 2020.

Note 17: The guaranteed amounts are translated at the following book exchange rates of the Company as at 30 June 2020: USD1: RMB7.0703, EUR1: RMB7.954, IDR1: RMB0.000494357.

3. **For details of the special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company furnished by Independent Non-Executive Directors of the Company, please refer to the “Independent opinion on Matters pertaining to the Twenty-second Meeting of the Eighth Session of the Board of Directors” published on 28 August 2020.**
4. **Progress of material contracts entered into during or prior to the reporting period**

Applicable N/A

(XIV) UNDERTAKING

1. **Undertakings by relevant undertaking parties including the 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.

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

(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

(XV) 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

(XVI) 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

(XVII) 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**(XVIII) EXPLANATORY STATEMENT ON RECTIFICATION OF SIGNIFICANT ACCOUNTING ERRORS FOR THE REPORTING PERIOD REQUIRING RETROSPECTIVE RESTATEMENT.** Applicable N/A**(XIX) EXPLANATION STATEMENT ON CHANGES TO THE SCOPE OF CONSOLIDATED FINANCIAL STATEMENT IN COMPARISON WITH THE LAST ANNUAL FINANCIAL REPORT**

Subsidiaries deregistered during the reporting period included: tier-one subsidiaries Shenzhen Zhongrui Detection Technology Co., Ltd; tier-two subsidiaries ZTE (Albania) Limited, ZTE (Lithuania) Limited, Foshan Zhongxing Gaojian New Energy Technology Limited and tier-three subsidiaries ZTE Singapore Pte Ltd and ZICT (Nigeria) Limited.

Zhongxing New Energy Automobile Company Limited, a subsidiary of the Company, completed the disposal of 5.1% equity interests in Shenzhen Zhongxin New Energy Technology Company Limited on 4 March 2020. Shenzhen Zhongxin New Energy Technology Company Limited and its subsidiaries have been excluded from the consolidated financial statements of the Group as from 4 March 2020.

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

(XX) REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS BY THE COMPANY DURING THE REPORTING PERIOD. Applicable N/A**(XXI) 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 AGAINST THE COMPANY, ITS INCUMBENT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER DURING THE REPORTING PERIOD.** Applicable N/A**(XXII) 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** Applicable N/A

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

Applicable N/A

(XXIV) PUBLIC ISSUE OF CORPORATE BONDS BY THE COMPANY FOR LISTING ON A STOCK EXCHANGE DURING THE REPORTING PERIOD

Applicable N/A

(XXV) ENVIRONMENTAL PROTECTION

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

Applicable N/A

The Company is concerned with the environmental impact of its operations. We have streamlined and improved the environmental management systems in our production and operations and strived to reduce the environmental impact through the entire life cycle of our products by exercising control at the source of production. In the meantime, in active response to climate changes, the Company has introduced clean energy and reduced the discharge of waste on the back of its formidable strengths in technology. In active fulfilment of our environmental responsibility, we have given careful consideration to the environmental implications of every stage in our operations and taken environmental requirements into full account during the entire life cycle of our products to ensure implementation of the green strategy in all business segments of our Company. We have also launched new products and services with higher commercial value and environmental efficiency so that our supply chain and the community can fulfill environmental responsibilities together.

(XXVI) OTHER MATERIAL MATTERS

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

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

Applicable N/A

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: share

| | 31 December 2019 | | Increase/decrease as a result of the change during the reporting period (+, -) | | | | | 30 June 2020 | |
|---|------------------|------------|--|-------------|-------------------------------|--------|--------------|------------------|------------|
| | Number of shares | Percentage | New issue ^{Note} | Bonus issue | Transfer from capital reserve | Others | Sub-total | Number of shares | Percentage |
| I. Shares subject to lock-up | 493,522 | 0.01% | +381,185,042 | - | - | - | +381,185,042 | 381,678,564 | 8.27% |
| 1. State-owned shares | - | - | - | - | - | - | - | - | - |
| 2. State-owned corporate shares | - | - | +43,032,108 | - | - | - | +43,032,108 | 43,032,108 | 0.93% |
| 3. Other domestic shares | - | - | +338,066,860 | - | - | - | +338,066,860 | 338,066,860 | 7.33% |
| Comprising: domestic non-state-owned corporate shares | - | - | +338,066,860 | - | - | - | +338,066,860 | 338,066,860 | 7.33% |
| Domestic natural person shares | - | - | - | - | - | - | - | - | - |
| 4. Foreign shares | - | - | - | - | - | - | - | - | - |
| Comprising: | - | - | - | - | - | - | - | - | - |
| Foreign corporate shares | - | - | - | - | - | - | - | - | - |
| Foreign natural person shares | - | - | - | - | - | - | - | - | - |
| 5. Senior management shares | 493,522 | 0.01% | +86,074 | - | - | - | +86,074 | 579,596 | 0.01% |
| II. Shares not subject to lockup | 4,227,036,347 | 99.99% | +4,719,921 | - | - | - | +4,719,921 | 4,231,756,268 | 91.73% |
| 1. RMB ordinary shares | 3,471,533,813 | 82.12% | +4,719,921 | - | - | - | +4,719,921 | 3,476,253,734 | 75.35% |
| 2. Domestic-listed foreign shares | - | - | - | - | - | - | - | - | - |
| 3. Overseas-listed foreign shares (H shares) | 755,502,534 | 17.87% | - | - | - | - | - | 755,502,534 | 16.38% |
| 4. Others | - | - | - | - | - | - | - | - | - |
| III. Total number of shares | 4,227,529,869 | 100.00% | +385,904,963 | - | - | - | +385,904,963 | 4,613,434,832 | 100.00% |

Note: The A share capital of the Company was increased by 385,904,963 shares following the non-public issue of 381,098,968 A shares by the Company and the exercise of 4,805,995 A share options by scheme participants under the 2017 Share Option Incentive Scheme of the Company during the reporting period.

(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 2019 | Number of A shares released from lock-up during the reporting period | Increase in the number of A shares subject to lock-up during the reporting period | Number of A shares subject to lock-up at 30 June 2020 | Reason for lock-up | Date of unlocking |
|-----|--|--|--|---|---|---|-------------------|
| 1 | New China Life Insurance Company Limited – New Traditional Products 2 | - | - | 43,032,108 | 43,032,108 | | |
| 2 | Shenzhen Investment Holding Capital Co., Ltd. – Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership) | - | - | 43,032,108 | 43,032,108 | | |
| 3 | Guangdong Hengjian Asset Management Co., Ltd. – Guangdong Henghui Equity Investment Fund (Limited Partnership) | - | - | 43,032,108 | 43,032,108 | | |
| 4 | Shenzhen Huitong Rongxin Investment Co., Ltd. | - | - | 43,032,108 | 43,032,108 | Restricted shares under non-public issue | Note 1 |
| 5 | Nanjing Xinchuangxing Consulting and Management Partnership (Limited Partnership) | - | - | 43,032,108 | 43,032,108 | | |
| 6 | NSSF Portfolio #101 | - | - | 42,204,567 | 42,204,567 | | |
| 7 | NSSF Portfolio #108 | - | - | 18,205,892 | 18,205,892 | | |
| 8 | Basic Pension Insurance Fund Portfolio #808 | - | - | 7,447,864 | 7,447,864 | | |
| 9 | NSSF Portfolio #115 | - | - | 6,620,324 | 6,620,324 | | |
| 10 | NSSF Portfolio #401 | - | - | 6,620,324 | 6,620,324 | | |
| 11 | Other restricted shares under non-public issue | - | - | 84,839,457 | 84,839,457 | | |
| 12 | Other restricted senior management shares | 493,522 | - | 86,074 | 579,596 | Restricted senior management shares ^{Note 2} | - |
| - | Total | 493,522 | - | 381,185,042 | 381,678,564 | - | - |

Note 1: New shares issued under the Company's non-public issuance of A shares were listed on Shenzhen Stock Exchange on 4 February. The aforesaid restricted shares under the non-public issuance is subject to a 12-month moratorium from 4 February 2020. Thereafter, any trading should be conducted in accordance with the provisions of CSRC and Shenzhen Stock Exchange.

Note 2: The increase in the number of shares subject to lock-up is attributable to the exercise of 2017 A share options by the Directors and senior management of the Company. In accordance with relevant domestic regulations, 75% of unrestricted shares newly acquired by the Directors, Supervisors and senior management shall be subject to automatic lock-up.

Changes in Shareholdings and Information of Shareholders

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

- 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. During the reporting period, a total of 4,805,995 A share options were exercised by scheme participants under the 2017 Share Option Incentive Scheme of the Company, and the total share capital of the Company was increased by 4,805,995 shares accordingly. Subsequent to the end of the reporting period up to the date of publication of this report, 66 A share options were exercised by the scheme participants under the 2017 Share Option Incentive Scheme of the Company, and the total share capital of the Company was increased by 66 shares accordingly.
- On 15 January 2020, the Company entered into the Subscription Agreement with 10 subscribers. The issue price for the Company’s non-public issuance of A shares was set at RMB30.21 per share and a total of 381,098,968 shares were issued, raising gross proceeds of RMB11,512,999,823.28. The new shares under the non-public issue of A shares by the Company were listed on the Shenzhen Stock Exchange on 4 February 2020.
- The Company had no employees’ shares.

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

- 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 2020 | | There were 513,906 shareholders (comprising 513,585 holders of A shares and 321 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) | Type of 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 | 23.40% | 1,077,531,700 | A share | -69,279,900 | – | 98,667,983 ^{Note 2} |
| | | | 2,038,000 ^{Note 1} | H share | – | – | Nil |
| 2. HKSCC Nominees Limited ^{Note 3} | Foreign shareholders | 16.31% | 752,327,016 | H share | +15,630 | – | Unknown |
| 3. Hong Kong Securities Clearing Company Limited ^{Note 4} | Overseas corporation | 1.38% | 63,869,835 | A share | -3,998,471 | – | Nil |
| 4. NSSF Portfolio #101 | Others | 1.27% | 58,524,205 | A share | +42,204,567 | 42,204,567 | Nil |
| 5. Bank of China Limited – Huaxia Securities 5G Themed Traded Open-ended Index Securities Fund | Others | 1.27% | 58,362,288 | A share | +36,897,586 | – | Nil |
| 6. Central Huijin Asset Management Co. Ltd. | State-owned corporation | 1.14% | 52,519,600 | A share | – | – | Nil |
| 7. Shenzhen Huitong Rongxin Investment Co., Ltd. | State-owned corporation | 0.93% | 43,032,108 | A share | +43,032,108 | 43,032,108 | Nil |
| 8. Nanjing Xinchuangxing Consulting and Management Partnership (Limited Partnership) | Domestic general corporation | 0.93% | 43,032,108 | A share | +43,032,108 | 43,032,108 | Nil |
| 9. New China Life Insurance Company Limited – New Traditional Products 2 | Others | 0.93% | 43,032,108 | A share | +43,032,108 | 43,032,108 | Nil |
| 10. Shenzhen Investment Holding Capital Co., Ltd. – Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership) | Others | 0.93% | 43,032,108 | A share | +43,032,108 | 43,032,108 | Nil |
| 11. Guangdong Hengjian Asset Management Co., Ltd. – Guangdong Henghui Equity Investment Fund (Limited Partnership) | Others | 0.93% | 43,032,108 | A share | +43,032,108 | 43,032,108 | Nil |

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

| Name of shareholders | Number of shares not subject to lock-up (shares) | Class of shares |
|--|---|-----------------|
| 1. Zhongxingxin | 1,077,531,700 | A share |
| | 2,038,000 | H share |
| 2. HKSCC Nominees Limited | 752,327,016 | H share |
| 3. Hong Kong Securities Clearing Company Limited | 63,869,835 | A share |
| 4. Bank of China Limited – Huaxia Securities 5G Themed Traded Open-ended Index Securities Fund | 58,362,288 | A share |
| 5. Central Huijin Asset Management Co. Ltd. | 52,519,600 | A share |
| 6. Hunan Nantian (Group) Co., Ltd. | 41,516,065 | A share |
| 7. China Life Insurance Company Limited – Dividend – Personal Dividend – 005L-FH002 Shen | 26,377,623 | A share |
| 8. China Mobile No. 7 Research Institute | 19,073,940 | A share |
| 9. China Construction Bank Corporation – China-Europe New Blue-chip Flexible Allocation Hybrid Securities Fund | 18,070,440 | A share |
| 10. NSSF Portfolio #101 | 16,319,638 | A share |
| Descriptions of any connected party relationships or concerted actions among the above shareholders | 1. Zhongxingxin was neither a connected party nor a party of concerted action of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up. | |
| Description of involvement in financing and securities lending businesses of top 10 shareholders (if any) | N/A | |

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

Note 2: Zhongxingxin pledged its holdings of 98,667,983 A shares in the Company for financing requirements on 20 December 2018. As a result of the expiry and renewal of the relevant financing agreement, Zhongxingxin released the aforesaid pledge and created a new pledge on 25 March 2020, which was subsequently released on 14 July 2020. For details, please refer to the “Overseas Regulatory Announcement on the Release of Pledge and Creation of New Pledge against Shares held by the Controlling Shareholder” and “Overseas Regulatory Announcement on the Release of Pledge on Shares held by the Controlling Shareholder” published by the Company on 26 March 2020 and 15 July 2020, respectively.

Note 3: Shares held by HKSCC Nominees Limited represented the sum of shares held in the accounts of the H shareholders of the Company traded on the trading platform of HKSCC Nominees Limited. To avoid repetition in counting, 2,038,000 H shares in the Company held by Zhongxingxin have been excluded from the number of shares held HKSCC Nominees Limited.

Note 4: 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 5: 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 6: Shareholders holding 5% or above of the Company’s shares – Zhongxingxin, holding 1,079,569,700 shares in the Company in aggregate, representing 23.40% 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 | -69,279,900 | 1,077,531,700 | A shares | 0 | 1,077,531,700 | 98,667,983 |
| | 0 | 2,038,000 | H shares | 0 | 2,038,000 | Nil |

Changes in Shareholdings and Information of Shareholders

Note: Zhongxingxin conducted a sell-down of 48,913,100 A shares in the Company through block trading at the stock exchange during the period from 2 April 2020 to 7 April 2020. On 22 June 2020, Zhongxingxin conducted a sell-down of 20,366,800 A shares in the Company through block trading at the stock exchange. As of 30 June 2020, Zhongxingxin held 1,079,569,700 shares in the Company in aggregate. On 1 July 2020, Zhongxingxin completed a sell-down of 44,089,500 A shares in the Company by way of block trading at the Stock Exchange. As at the date of the publication of this report, Zhongxingxin held 1,035,480,200 shares in the Company in aggregate, accounting for 22.44% of the Company's total share capital.

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

| | |
|----------------------------------|---|
| Name of controlling shareholder: | Zhongxingxin |
| Legal representative: | Wei Zaisheng |
| Date of incorporation: | 29 April 1993 |
| Uniform social credit code: | 91440300192224518G |
| Registered capital: | RMB100 million |
| Scope of business: | R&D of machine vision systems integration; design and production of optical instruments, industrial cameras and instruments and high-end mechanical equipment; computer systems integration; R&D, technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software and hardware; electronic components and raw materials 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, each of Xi'an Microelectronics, Aerospace Guangyu, Zhongxing WXT and Guoxing Ruike held a 34%, 14.5%, 49% and 2.5% stake in Zhongxingxin, respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin, respectively. Therefore, no shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of the four shareholders of Zhongxingxin are as follows:

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

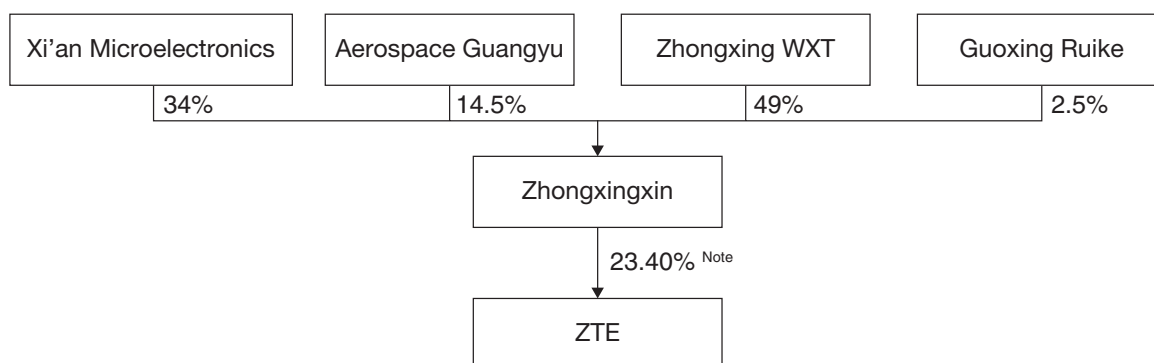
12100000H0420141X7. It is the only large-scale integrated research institute in China which features the complementary integration of the research and development, commercial production and inspection/testing of semi-conductor integrated circuits, hybrid integrated circuits and computers.

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a 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 sales of aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile and automobile. Domestic trade and import and export operations; trade brokerage and agency; lease of owned properties; wholesale of aqua-products; sales of mining products (other than mining products required to be centrally purchased by entities designated by the State) and timber; sales of goldware and silverware; logistics information service (excluding dangerous items) and sales of construction materials (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items). Cargo freight and warehousing; wholesale of pre-packaged food; wholesale of agricultural by-products; sales of coal products; sales of pre-packaged food (including refrigerated food) and sales of bulk food (including refrigerated food); sales of medical equipment; sales of Class II and Class III radioactive devices; sales of light cycle oil (excluding dangerous chemicals).

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

Guoxing Ruike is a limited partnership established on 2 December 2016 with Guoxing Ruike Capital Management Company Limited as executive partner and a registered capital of RMB500 million. Its uniform social credit code is 91440400MA4W1GHE5H and its scope of operation includes capital management, investment with owned funds and project investment (commencement of operations 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 2020.



Note: As at the date of the publication of this report, Zhongxingxin held 1,035,480,200 shares in the Company in aggregate, accounting for 22.44% of the Company's total share capital.

Changes in Shareholdings and Information of Shareholders

4. The Company had no other corporate shareholder which was interested in more than 10% of its shares.
5. Interests of substantial shareholders of the Company in shares and underlying shares

As at 30 June 2020, the following shareholders held interests or short positions in 5% or more in various 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 | Class shares |
| Zhongxingxin | Beneficial owner | 1,077,531,700 A share (L) | 23.36%(L) | 27.93%(L) |
| Zhongxing WXT | Interests of corporation controlled by you | 1,077,531,700 A share (L) | 23.36%(L) | 27.93%(L) |
| Xi'an Microelectronics | Interests of corporation controlled by you | 1,077,531,700 A share (L) | 23.36%(L) | 27.93%(L) |
| China Aerospace Electronics Technology Research Institute | Interests of corporation controlled by you | 1,077,531,700 A share (L) | 23.36%(L) | 27.93%(L) |
| China Aerospace Science and Technology Corporation | Interests of corporation controlled by you | 1,077,531,700 A share (L) | 23.36%(L) | 27.93%(L) |
| BlackRock, Inc. | Interests of corporation controlled by you | 44,814,284 H share (L) | 0.97%(L) | 5.93%(L) |
| | Interests of corporation controlled by you | 2,592,480 H share (S) | 0.06%(S) | 0.34%(S) |
| Citigroup Inc. | Person having a security interest in shares/ Interest of corporation controlled by you/ Approved lending agent | 41,198,644 H share (L) | 0.89%(L) | 5.45%(L) |
| | Interests of corporation controlled by you | 1,898,600 H share (S) | 0.04%(S) | 0.25%(S) |
| | Approved lending agent | 36,816,391 H share (P) | 0.80%(P) | 4.87%(P) |
| Capital Research and Management Company | Investment manager | 38,410,000 H share (L) | 0.83%(L) | 5.08%(L) |

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

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,613,434,832 shares, comprising 3,857,932,298 A shares and 755,502,534 H shares, as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, so far as the Directors, Supervisors and Chief Executive Officer of the Company are aware, except them, 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 ^{Note 1} | Term of office ending on ^{Note 1} | Number of A shares | | | Reasons for changes | |
|---|------------------------------------|--------|-----|---|------------------|--|--|--|--|--|---------------------|--|
| | | | | | | | | 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) | | held at the end of the reporting period (shares) |
| Directors of the Company | | | | | | | | | | | | |
| 1 | Li Zixue | Male | 56 | Chairman | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| 2 | Xu Ziyang | Male | 48 | Director President | Incumbent | 3/2019 4/2019 | 3/2022 3/2022 | 42,000 | 42,000 | – | 84,000 | Note 3 |
| 3 | Li Buqing | Male | 48 | Director | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| 4 | Gu Junying | Male | 53 | Director Executive Vice President | Incumbent | 3/2019 4/2019 | 3/2022 3/2022 | – | – | – | – | – |
| 5 | Zhu Weimin | Male | 54 | Director | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| 6 | Fang Rong | Female | 56 | Director | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| 7 | Cai Manli | Female | 47 | Independent Non-executive Director | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| 8 | Gordon Ng | Male | 56 | Independent Non-executive Director | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| 9 | Zhuang Jiansheng ^{Note 2} | Male | 55 | Independent Non-executive Director | Incumbent | 6/2020 | 3/2022 | – | – | – | – | – |
| 10 | Yuming Bao ^{Note 2} | Male | 48 | Independent Non-executive Director | Resigned | 3/2019 | 6/2020 | – | – | – | – | – |
| Supervisors of the Company | | | | | | | | | | | | |
| 11 | Xie Daxiong | Male | 57 | Chairman of Supervisory Committee | Incumbent | 3/2019 | 3/2022 | 495,803 | – | – | 495,803 | – |
| 12 | Xia Xiaoyue | Female | 45 | Supervisor | Incumbent | 3/2019 | 3/2022 | 50,927 | – | – | 50,927 | – |
| 13 | Li Quancai | Male | 59 | Supervisor | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| 14 | Shang Xiaofeng | Male | 45 | Supervisor | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| 15 | Zhang Sufang | Female | 46 | Supervisor | Incumbent | 3/2019 | 3/2022 | – | – | – | – | – |
| Senior management of the Company | | | | | | | | | | | | |
| 16 | Wang Xiyu | Male | 46 | Executive Vice President | Incumbent | 4/2019 | 3/2022 | 41,500 | 45,966 | – | 87,466 | Note 3 |
| 17 | Li Ying | Female | 42 | Executive Vice President and Chief Financial Officer | Incumbent | 4/2019 | 3/2022 | 27,800 | 26,800 | – | 54,600 | Note 3 |
| 18 | Xie Junshi | Male | 45 | Executive Vice President | Incumbent | 9/2019 | 3/2022 | – | – | – | – | – |
| 19 | Ding Jianzhong | Male | 44 | Secretary to the Board of Directors | Incumbent | 7/2019 | 3/2022 | – | – | – | – | – |
| – | Total | – | – | – | – | – | – | 658,030 | 114,766 | – | 772,796 | – |

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

Note 2: Mr. Yuming Bao resigned as Independent Non-executive Director of the Company on 10 April 2020, which resignation would become effective after the election of a new Independent Non-executive Director at the 2019 Annual General Meeting of the Company. At the 2019 Annual General Meeting of the Company held on 19 June 2020, Mr. Zhuang Jiansheng was elected as Independent Non-executive Director of the Eighth Session of the Board of Directors of the Company for a term commencing on 19 June 2020 and ending on 29 March 2022.

Note 3: Exercise of 2017 A share options by the Directors and senior management of the Company during the reporting period.

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

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

Directors, Supervisors and Senior Management

(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} | Conclusion of term of office ^{Note} | Whether receiving remuneration from other 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: 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.

(III) INFORMATION CONCERNING CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING MAJOR POSITIONS IN OTHER ENTITIES AS AT THE DATE OF THIS REPORT

| Name | Name of other entities | Position in other entities | Whether remuneration is received from other entities |
|-----------------------------|--|---------------------------------------|--|
| Xu Ziyang | ZTE Microelectronics | Chairman | No |
| Li Buqing ^{Note 1} | Shenzhen Aerospace Industrial Technology Research Institute Limited | Chief accountant | Yes |
| | CASIC Shenzhen (Group) Company Limited | Director and Chief accountant | No |
| | Shenzhen Aerospace Property Management Co., Ltd | Director | No |
| | HT—Hysa Security Technology Engineering Co., Ltd. | Supervisor | No |
| | Shenzhen Aerospace Liye Industry Development Co., Ltd. | Chairman | No |
| | Shenzhen Zhongxing Information Company Limited | Director | 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 2} | Zhongxing Development Company Limited | Director and Executive vice president | Yes |
| | Shenzhen ZTE International Investment Limited | Director | No |
| | Held positions in 11 subsidiaries or investees of Zhongxing Development including Beijing Holi Health Information Scientific and Technological Co., Ltd. | Director | No |
| | Beijing United ZTE International Investment Limited | Director | No |
| Cai Manli ^{Note 3} | HEYI Rising Assets Management Co., Ltd | General manager | Yes |
| | 浙江財和通易企業發展有限公司 | Chairman | No |
| | 上海和易諮詢管理集團有限公司 | General manager | No |
| | King & Wood Mallesons | Senior consultant | No |
| | Sichuan Xinwang Bank Co., Ltd | External supervisor | 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 |
| Gordon Ng | Dentons Hong Kong LLP | Partner | Yes |
| | China Engene International (Holdings) Limited | Independent non-executive director | Yes |
| | Mainland Headwear Holdings Limited | Independent non-executive director | Yes |
| Zhuang Jiansheng | Hui Ye Law Firm, Shanghai | Partner | Yes |
| Xie Daxiong | Held positions in 2 subsidiaries including Guangdong ZTE Newstart Technology Co., Ltd. | Chairman | No |

| Name | Name of other entities | Position in other entities | Whether remuneration is received from other entities |
|----------------------------------|--|---|--|
| Li Quancai ^{Note 4} | 深圳市中興宜和投資發展有限公司 深圳市益和天成投資發展有限公司 | Chairman Supervisor | No No |
| Shang Xiaofeng ^{Note 5} | Shenzhen Aerospace Guangyu Industrial Company Limited 廣東歐科空調製冷有限公司 | Director and general manager Director | Yes No |
| Zhang Sufang ^{Note 6} | Held positions in 18 subsidiaries or investee companies of Zhongxingxin including Sindi Technologies Co., Ltd. | Director/Chairman of the supervisory committee/Supervisor/General manager/Representative of executive partner | No |
| Wang Xiyu ^{Note 7} | Held positions in 15 subsidiaries including Zhongxing Software | Chairman/Director | No |
| Li Ying | Held positions in 4 subsidiaries including ZTE Group Finance | Chairman/Director | No |

Note 1: Mr. Li Buqing has ceased to be director of Shenzhen Aerospace Guangyu Industrial Company Limited as from June 2020 Director.

Note 2: Ms. Fang Rong has ceased to be director of Zhongxing Nonggu Hubei Company Limited as from January 2020 and of Zhongxing Food & Oil (Honghu) Company Limited as from March 2020.

Note 3: Ms. Cai Manli has ceased to be independent director Beijing Yadii Media Co., Ltd. as from January 2020 and has been appointed as chairman of 浙江財和通易企業發展有限公司 since June 2020.

Note 4: Mr. Li Quancai has ceased to be director of 深圳市小禾科技有限公司 as from January 2020.

Note 5: Mr. Shang Xiaofeng has ceased to be director of Aerospace Yinshan Electric Co., Ltd. and 深圳航天科創實業有限公司, respectively, as from January 2020; and has ceased to be general manager of the international operations of Shenzhen Aerospace Industrial Technology Research Institute Limited as from June 2020 and has been appointed as director and general manager of Shenzhen Aerospace Guangyu Industrial Company Limited since June 2020.

Note 6: Ms. Zhang Sufang has been appointed as representative of the executive partner of Hefei Zhongxing Hechuang Semiconductor Venture Investment Fund (Limited Partnership) since April 2020 and has ceased to be supervisor of Shenzhen Xinyu Tengyue Electronics Co., Ltd as from May 2020.

Note 7: Mr. Wang Xiyu has ceased to be chairman of Wuhan Zhongxing Software Company Limited as from June 2020.

Note 8: Mr. Xie Junshi has ceased to be chairman of Shenzhen Zhongrui Detection Technology Co., Ltd. as from May 2020. As at the end of the reporting period, Mr. Xie Junshi did not hold any position with other entities.

(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 made to the Board of Directors of the Remuneration and Evaluation Committee of the Board of Directors with reference to the duties of Directors at the Company and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the Board of 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 their annual performance appraisals conducted by the Remuneration and Evaluation Committee and determined upon consideration by the Board of Directors.

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

Directors, Supervisors and Senior Management

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

On 10 April 2020, Independent Non-executive Director Mr. Yuming Bao tendered his resignation to the Company to resign as Independent Non-executive Director, as well as the member of each of the specialist committees of the Board of Directors of the Company due to personal reasons. Following his resignation, Mr. Bao did no longer hold any positions with the Company. For details, please refer to the “Announcement on Resignation of Independent Non-executive Director” published by the Company on 13 April 2020.

At the 2019 Annual General Meeting of the Company held on 19 June 2020, Mr. Zhuang Jiansheng was elected as Independent Non-executive Director of the Eighth Session of the Board of Directors of the Company for a term commencing on the date on which his appointment was considered and approved at the said general meeting and ending concurrently with the conclusion of the Eighth Session of the Board of Directors of the Company (namely, 29 March 2022). For details, please refer to the “Announcement on Resolutions of the 2019 Annual General Meeting” published by the Company on 19 June 2020.

Details of positions at corporate shareholders and major positions at other entities held by Directors, Supervisors and senior management of the Company are set out in sections (II) and (III) in this chapter.

(VI) 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 2020 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 2020, 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 2020, 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 2020 (unaudited) | 31 December 2019 (audited) |
|------------------------------------|--------|--------------------------------|----------------------------------|
| Current assets | | | |
| Cash | 1 | 45,867,997 | 33,309,347 |
| Trading financial assets | 2 | 1,066,532 | 560,662 |
| Derivative financial assets | 3 | 31,147 | 106,065 |
| Trade receivables | 4A | 16,898,230 | 19,778,280 |
| Receivable financing | 4B | 3,987,386 | 2,430,389 |
| Factored trade receivables | 4A | 252,220 | 308,710 |
| Prepayments | 5 | 445,058 | 402,525 |
| Other receivables | 6 | 891,418 | 1,023,271 |
| Inventories | 7 | 37,179,092 | 27,688,508 |
| Contract assets | 8 | 10,203,533 | 9,537,850 |
| Other current assets | 20 | 8,430,637 | 7,421,567 |
| Total current assets | | 125,253,250 | 102,567,174 |
| Non-current assets | | | |
| Long-term receivables | 9 | 3,110,970 | 2,819,606 |
| Factored long-term receivables | 9 | 310,393 | 200,671 |
| Long-term equity investments | 10 | 2,292,452 | 2,327,288 |
| Other non-current financial assets | 11 | 1,530,232 | 1,594,254 |
| Investment properties | 12 | 1,960,864 | 1,957,242 |
| Fixed assets | 13 | 10,314,505 | 9,383,488 |
| Construction in progress | 14 | 845,174 | 1,171,716 |
| Right-of-use assets | 15 | 986,362 | 1,063,781 |
| Intangible assets | 16 | 8,257,755 | 7,718,820 |
| Development costs | 17 | 1,829,046 | 1,876,409 |
| Goodwill | 18 | 186,206 | 186,206 |
| Deferred tax assets | 19 | 2,472,641 | 2,511,372 |
| Other non-current assets | 20 | 6,082,514 | 5,824,108 |
| Total non-current assets | | 40,179,114 | 38,634,961 |
| TOTAL ASSETS | | 165,432,364 | 141,202,135 |

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 2020 (unaudited) | 31 December 2019 (audited) |
|---|--------|--------------------------------|----------------------------------|
| Current liabilities | | | |
| Short-term loans | 21 | 16,619,177 | 26,645,966 |
| Bank advances on factored trade receivables | 4A | 254,444 | 310,024 |
| Derivative financial liabilities | 22 | 131,527 | 126,223 |
| Bills payable | 23A | 8,659,782 | 9,372,940 |
| Trade payables | 23B | 26,907,622 | 18,355,610 |
| Short-term bonds payable | 24 | 8,000,000 | — |
| Contract liabilities | 25 | 14,562,034 | 14,517,057 |
| Salary and welfare payables | 26 | 8,169,854 | 8,954,005 |
| Taxes payable | 27 | 851,788 | 888,848 |
| Other payables | 28 | 5,101,267 | 4,621,118 |
| Provisions | 29 | 2,008,730 | 1,966,464 |
| Non-current liabilities due within one year | 30 | 718,638 | 612,261 |
| Total current liabilities | | 91,984,863 | 86,370,516 |
| Non-current liabilities | | | |
| Long-term loans | 31 | 21,835,076 | 10,045,093 |
| Bank advances on factored long-term trade receivables | 9 | 310,727 | 200,858 |
| Lease liabilities | 32 | 660,325 | 645,294 |
| Provision for retirement benefits | | 142,296 | 144,505 |
| Deferred income | | 3,107,353 | 2,656,024 |
| Deferred tax liabilities | 19 | 139,938 | 172,060 |
| Other non-current liabilities | 33 | 2,974,991 | 3,013,487 |
| Total non-current liabilities | | 29,170,706 | 16,877,321 |
| Total liabilities | | 121,155,569 | 103,247,837 |

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 2020 (unaudited) | 31 December 2019 (audited) |
|---|--------|--------------------------------|----------------------------------|
| Shareholder's equity | | | |
| Share capital | 34 | 4,613,435 | 4,227,530 |
| Capital reserves | 35 | 23,272,245 | 12,144,432 |
| Other comprehensive income | 36 | (2,120,052) | (2,000,980) |
| Surplus reserve | 37 | 2,775,521 | 2,775,521 |
| Retained profits | 38 | 12,614,967 | 11,680,365 |
| Total equity attributable to holders of ordinary shares of the parent | | 41,156,116 | 28,826,868 |
| Other equity instruments | | | |
| Including: perpetual capital instruments | 39 | — | 6,252,364 |
| Non-controlling interests | | 3,120,679 | 2,875,066 |
| Total shareholders' equity | | 44,276,795 | 37,954,298 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 165,432,364 | 141,202,135 |

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

Legal Representative:
Li Zixue

Chief Financial Officer:
Li Ying

Head of Finance Division:
Xu Jianrui

Consolidated Income Statement

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

| | Note V | Six months ended 30 June 2020 (unaudited) | Six months ended 30 June 2019 (unaudited) |
|---|--------|---|---|
| Operating revenue | 40 | 47,199,373 | 44,609,219 |
| Less: Operating costs | 40 | 31,418,303 | 27,119,296 |
| Taxes and surcharges | 41 | 311,846 | 595,289 |
| Selling and distribution costs | 42 | 3,940,595 | 4,025,746 |
| Administrative expenses | 43 | 2,265,126 | 2,538,508 |
| Research and development costs | 44 | 6,637,376 | 6,471,866 |
| Finance costs | 45 | 632,833 | 662,809 |
| Including: Interest expense | | 847,922 | 823,053 |
| Interest income | | 581,860 | 322,233 |
| Add: Other income | 46 | 860,171 | 860,800 |
| Investment income | 47 | 30,257 | 315,397 |
| Including: Share of losses of associates and joint ventures | | (63,816) | (158,146) |
| Losses from derecognition of financial assets at amortised cost | | (69,797) | (84,063) |
| Gains/(losses) from changes in fair values | 48 | 377,724 | (142,604) |
| Credit impairment losses | 49 | (279,143) | (1,416,091) |
| Impairment losses | 50 | (141,703) | (469,998) |
| Operating profit | | 2,840,600 | 2,343,209 |
| Add: Non-operating income | 51 | 55,659 | 74,308 |
| Less: Non-operating expenses | 51 | 55,288 | 180,040 |
| Total profit | | 2,840,971 | 2,237,477 |
| Less: Income tax | 53 | 517,590 | 412,914 |
| Net profit | | 2,323,381 | 1,824,563 |
| Analysed by continuity of operations | | | |
| Net profit from continuing operations | | 2,323,381 | 1,824,563 |
| Analysed by ownership | | | |
| Holders of ordinary shares of the parent | | 1,857,289 | 1,470,699 |
| Holders of perpetual capital instruments | | 16,236 | 172,867 |
| Non-controlling interests | | 449,856 | 180,997 |
| Other comprehensive income, net of tax | | (115,505) | 51,077 |
| Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax | 36 | (119,072) | 51,829 |
| 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 | | (119,072) | 51,829 |
| Other comprehensive income attributable to non-controlling interests, net of tax | | 3,567 | (752) |
| Total comprehensive income | | 2,207,876 | 1,875,640 |
| Attributable to: | | | |
| Holders of ordinary shares of the parent | | 1,738,217 | 1,522,528 |
| Holders of perpetual capital instruments | | 16,236 | 172,867 |
| Non-controlling interests | | 453,423 | 180,245 |
| Earnings per share (RMB/share) | | | |
| Basic | 54 | RMB0.40 | RMB0.35 |
| Diluted | 54 | RMB0.40 | RMB0.35 |

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

| | 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: | | Total shareholders' equity |
| | | | | | | | Perpetual capital instruments | Non-controlling interests | |
| 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 |

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 2020 (unaudited) | Six months ended 30 June 2019 (unaudited) |
|---|--------|---|---|
| I. Cash flows from operating activities | | | |
| Cash received from sale of goods or rendering of services | | 51,930,178 | 43,797,682 |
| Refunds of taxes | | 1,970,019 | 2,853,112 |
| Cash received relating to other operating activities | | 2,686,249 | 2,912,413 |
| Sub-total of cash inflows | | 56,586,446 | 49,563,207 |
| Cash paid for goods and services | | 36,597,288 | 30,226,065 |
| Cash paid to and on behalf of employees | | 11,013,040 | 8,740,820 |
| Cash paid for various types of taxes | | 3,543,500 | 5,289,879 |
| Cash paid relating to other operating activities | | 3,391,848 | 4,039,826 |
| Sub-total of cash outflows | | 54,545,676 | 48,296,590 |
| Net cash flows from operating activities | 56 | 2,040,770 | 1,266,617 |
| II. Cash flows from investing activities | | | |
| Cash received from sale of investments | | 1,342,817 | 1,227,875 |
| Cash received from return on investment | | 214,682 | 101,557 |
| Net cash received from the disposal of fixed assets, intangible assets and other long-term assets | | 7,898 | 14,593 |
| Net cash received from the disposal of subsidiaries and other operating units | | 377 | 445,907 |
| Cash received relating to other investing activities | 55 | 245,000 | — |
| Sub-total of cash inflows | | 1,810,774 | 1,789,932 |
| Cash paid to acquisition of fixed asset, intangible assets and other long-term assets | | 2,722,869 | 4,263,060 |
| Cash paid for acquisition of investments | | 6,702,118 | 194,901 |
| Other cash paid in relation to investing activities | 55 | 33,709 | 2,200,000 |
| Sub-total of cash outflows | | 9,458,696 | 6,657,961 |
| Net cash flows from investing activities | | (7,647,922) | (4,868,029) |
| III. Cash flows from financing activities | | | |
| Cash received from capital injection | | 11,557,524 | 4,570 |
| Including: Capital injection into subsidiaries by minority shareholders | | 12,000 | 4,570 |
| Cash received from borrowings | | 35,976,266 | 23,776,919 |
| Other cash received in relation to financing activities | 55 | 3,000 | 26,280 |
| Sub-total of cash inflows | | 47,536,790 | 23,807,769 |
| Cash repayment of borrowings | | 26,178,820 | 12,468,044 |
| Cash payments for perpetual capital instruments | | 6,000,000 | — |
| Cash payments for distribution of dividends, profits and for interest expenses | | 1,157,063 | 1,661,520 |
| Including: Distribution of dividends, profits by subsidiaries to minority shareholders | | 141,424 | 273,581 |
| Other cash paid relating to financing activities | 55 | 270,570 | 652,159 |
| Sub-total of cash outflows | | 33,606,453 | 14,781,723 |
| Net cash flows from financing activities | | 13,930,337 | 9,026,046 |
| IV. Effect of changes in foreign exchange rate on cash and cash equivalents | | 146,027 | 77,915 |
| V. Net increase in cash and cash equivalents | | 8,469,212 | 5,502,549 |
| Add: cash and cash equivalents at beginning of period | | 28,505,800 | 21,134,111 |
| VI. Net balance of cash and cash equivalents at the end of period | 56 | 36,975,012 | 26,636,660 |

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 XIV | 30 June 2020 (unaudited) | 31 December 2019 (audited) |
|--------------------------------------|----------|--------------------------------|----------------------------------|
| Current assets | | | |
| Cash | | 28,823,194 | 13,001,412 |
| Derivative financial assets | | 27,151 | 103,889 |
| Trade receivables | 1 | 20,417,335 | 24,893,537 |
| Receivable financing | | 3,690,373 | 1,980,798 |
| Factored trade receivables | 1 | 229,167 | 230,035 |
| Prepayments | | 17,095 | 7,559 |
| Other receivables | 2 | 30,506,245 | 32,126,268 |
| Inventories | | 24,867,246 | 19,692,914 |
| Contract assets | | 5,098,868 | 4,460,977 |
| Other current assets | | 4,172,733 | 3,516,370 |
| Total current assets | | 117,849,407 | 100,013,759 |
| Non-current assets | | | |
| Long-term trade receivables | 3 | 8,174,674 | 7,736,877 |
| Factored long-term trade receivables | 3 | 252,084 | 200,671 |
| Long-term equity investments | 4 | 12,216,466 | 12,270,582 |
| Other non-current financial assets | | 725,501 | 725,125 |
| Investment properties | | 1,565,182 | 1,562,380 |
| Fixed assets | | 6,090,347 | 5,717,601 |
| Construction in progress | | 243,835 | 154,636 |
| Right-of-use assets | | 516,598 | 534,988 |
| Intangible assets | | 3,079,006 | 3,064,383 |
| Development costs | | 479,319 | 479,320 |
| Deferred tax assets | | 1,018,329 | 1,063,838 |
| Other non-current assets | | 4,959,003 | 4,749,554 |
| Total non-current assets | | 39,320,344 | 38,259,955 |
| TOTAL ASSETS | | 157,169,751 | 138,273,714 |

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 XIV | 30 June 2020 (unaudited) | 31 December 2019 (audited) |
|---|----------|---|----------------------------------|
| Current liabilities | | | |
| Short-term loans | | 9,426,546 | 11,729,902 |
| Bank advances on factored trade receivables | | 229,438 | 230,323 |
| Derivative financial liabilities | | 123,319 | 115,811 |
| Bills payable | | 12,773,708 | 19,363,815 |
| Trade payables | | 38,226,034 | 29,734,983 |
| Short-term bonds payable | | 8,000,000 | — |
| Contract liabilities | | 8,808,085 | 9,347,162 |
| Salary and welfare payables | | 4,189,957 | 5,223,312 |
| Taxes payable | | 219,484 | 97,735 |
| Other payables | | 20,542,385 | 21,362,474 |
| Provisions | | 1,790,902 | 1,786,167 |
| Non-current liabilities due within one year | | 199,692 | 309,489 |
| Total current liabilities | | 104,529,550 | 99,301,173 |
| Non-current liabilities | | | |
| Long-term loans | | 16,449,709 | 7,550,990 |
| Bank advances on factored long-term trade receivables | | 252,418 | 200,858 |
| Lease liabilities | | 356,393 | 337,764 |
| Provision for retirement benefits | | 142,296 | 144,505 |
| Deferred income | | 706,980 | 849,320 |
| Other non-current liabilities | | 2,376,825 | 2,393,468 |
| Total non-current liabilities | | 20,284,621 | 11,476,905 |
| Total liabilities | | 124,814,171 | 110,778,078 |
| Shareholders' equity | | | |
| Share capital | | 4,613,435 | 4,227,530 |
| Capital reserves | | 21,125,836 | 9,996,674 |
| Other comprehensive income | | 696,439 | 696,467 |
| Surplus reserve | | 2,113,765 | 2,113,765 |
| Retained profits | | 3,806,105 | 4,208,836 |
| Shareholders' equity attributable to holders of ordinary shares | | 32,355,580 | 21,243,272 |
| Other equity instruments | | | |
| Including: perpetual capital instruments | | — | 6,252,364 |
| Total shareholders' equity | | 32,355,580 | 27,495,636 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 157,169,751 | 138,273,714 |

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 XIV | Six months ended 30 June 2020 (unaudited) | Six months ended 30 June 2019 (unaudited) |
|--|----------|--|--|
| Operating revenue | 5 | 43,309,434 | 39,475,276 |
| Less: Operating costs | 5 | 37,477,589 | 32,290,242 |
| Taxes and surcharges | | 95,051 | 344,033 |
| Selling and distribution costs | | 2,256,304 | 2,138,680 |
| Administrative expenses | | 1,884,914 | 2,071,946 |
| Research and development costs | | 553,072 | 1,935,014 |
| Finance costs | | 389,750 | 542,245 |
| Including: Interest expense | | 601,126 | 475,331 |
| Interest income | | 261,988 | 108,109 |
| Add: Other income | | 218,101 | 27,253 |
| Investment income | 6 | 80,218 | 113,190 |
| Including: Share of losses of associates and joint ventures | 6 | (56,186) | (98,657) |
| Losses from derecognition of financial assets at amortised cost | 6 | (7,504) | (21,067) |
| Losses from changes in fair values | | (85,498) | (82,272) |
| Credit impairment losses | | (117,831) | (1,330,901) |
| Impairment losses | | (116,972) | (392,017) |
| Operating profit/(loss) | | 630,772 | (1,511,631) |
| Add: Non-operating income | | 35,546 | 38,226 |
| Less: Non-operating expenses | | 20,785 | 106,330 |
| Total profit/(loss) | | 645,533 | (1,579,735) |
| Less: Income tax | | 109,341 | (58,586) |
| Net profit/(loss) | | 536,192 | (1,521,149) |
| Including: net profit/(loss) from continuing operations | | 536,192 | (1,521,149) |
| Analysed by ownership | | | |
| Attributable to holders of ordinary shares | | 519,956 | (1,694,016) |
| Attributable to holders of perpetual capital instruments | | 16,236 | 172,867 |
| Other comprehensive income, net of tax | | (28) | (1,067) |
| Other comprehensive income that cannot be reclassified to profit and loss | | | |
| Change in net assets arising from the re-measurement of defined benefit plans | | — | — |
| Other comprehensive income that will be reclassified to profit and loss | | | |
| Exchange differences on translation of foreign operations | | (28) | (1,067) |
| Total comprehensive profit/(loss) | | 536,164 | (1,522,216) |
| Attributable to: | | | |
| Holders of ordinary shares | | 519,928 | (1,695,083) |
| Holders of perpetual capital instruments | | 16,236 | 172,867 |

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

| | Six months ended 30 June 2019 (unaudited) | | | | | | | |
|--|---|------------------|----------------------------|------------------|--------------------|--|--|----------------------------|
| | Share capital | Capital reserves | Other comprehensive income | Surplus reserve | Retained profits | Total equity of holders of ordinary shares | Other equity instruments – 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 |

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 2020 (unaudited) | Six months ended 30 June 2019 (unaudited) |
|---|--|--|
| I. Cash flows from operating activities | | |
| Cash received from sale of goods or rendering of services | 46,987,381 | 44,767,563 |
| Refunds of taxes | 1,449,017 | 2,072,501 |
| Cash received relating to other operating activities | 807,272 | 973,060 |
| Sub-total of cash inflows | 49,243,670 | 47,813,124 |
| Cash paid for goods and services | 45,214,325 | 34,880,732 |
| Cash paid to and on behalf of employees | 3,479,049 | 2,659,160 |
| Cash paid for various types of taxes | 924,655 | 2,366,021 |
| Cash paid relating to other operating activities | 2,235,172 | 2,588,942 |
| Sub-total of cash outflows | 51,853,201 | 42,494,855 |
| Net cash flows from operating activities | (2,609,531) | 5,318,269 |
| II. Cash flows from investing activities | | |
| Cash received from sale of investments | 861,230 | 611,851 |
| Cash received from return on investments | 3,792,067 | 240,311 |
| Net cash received from the disposal of fixed assets, intangible assets and other long-term assets | 5,586 | 10,258 |
| Cash received relating to other investing activities | 3,125,000 | — |
| Sub-total of cash inflows | 7,783,883 | 862,420 |
| Cash paid to acquisition of fixed asset, intangible assets and other long-term assets | 1,039,365 | 3,065,420 |
| Cash paid for acquisition of investments | 4,040,600 | 70,735 |
| Other cash paid in relation to investing activities | 6,050,000 | 2,200,000 |
| Sub-total of cash outflows | 11,129,965 | 5,336,155 |
| Net cash flows from investing activities | (3,346,082) | (4,473,735) |
| III. Cash flows from financing activities | | |
| Cash received from capital injection | 11,545,524 | — |
| Cash received from borrowings | 27,079,645 | 12,387,166 |
| Sub-total of cash inflows | 38,625,169 | 12,387,166 |
| Cash repayment of borrowings | 12,664,267 | 9,468,566 |
| Cash payment for perpetual capital instruments | 6,000,000 | — |
| Cash payments for distribution of dividends and profits or for interest expenses | 856,609 | 818,775 |
| Other cash paid in relation to financing activities | 71,492 | 61,378 |
| Sub-total of cash outflows | 19,592,368 | 10,348,719 |
| Net cash flows from financing activities | 19,032,801 | 2,038,447 |
| IV. Effect of changes in foreign exchange rate on cash and cash equivalents | 85,535 | (18,497) |
| V. Net increase in cash and cash equivalents | 13,162,723 | 2,864,484 |
| Add: cash and cash equivalents at the beginning of the period | 10,032,692 | 10,147,946 |
| VI. Net balance of cash and cash equivalents at the end of the period | 23,195,415 | 13,012,430 |

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 communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and deployment of labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolised merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialised subcontracting of telecommunications projects (subject to obtaining relevant certificate of qualification); lease of owned properties.

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 28 August 2020.

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.

Notes to Financial Statements

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

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.

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 2020 and the results of their operations and their cash flows for the six months ended 30 June 2020.

2. Financial year

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

3. Reporting currency

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

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

Notes to Financial Statements

(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

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

Business combinations involving entities under common control

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

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

Business combinations not involving entities under common control

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

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

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

Notes to Financial Statements

(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)

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.

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.

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)

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.

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.

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)

Recognition and derecognition of financial instruments (continued)

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.

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)

Financial assets at fair value through current profit or loss (continued)

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.

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.

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)

Impairment of financial instruments (continued)

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

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

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

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

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

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

Financial guarantee contracts

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

Notes to Financial Statements

(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)

Derivative financial instruments

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

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

Transfer of financial assets

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

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

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

10. Inventories

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

12. Investment properties

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

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

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

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

13. Fixed Assets

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Fixed Assets (continued)

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

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

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

14. Construction in progress

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

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

15. Borrowing costs

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

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

Capitalisation of borrowing costs begins where:

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs (continued)

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

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

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

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

16. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Intangible assets (continued)

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

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

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

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

17. Provisions

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Share-based payments

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

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

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

19. Other equity instrument

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue

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

Contract for the sales of products

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

Contract for the rendering of services

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

Telecommunication system construction contract

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Contract assets and contract liabilities (continued)

Contract liabilities

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

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

22. Assets relating to contract cost

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Government grants

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

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

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

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

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Income tax (continued)

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

- (1) where the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- (2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. If one party to the contract conveys a right to control the use of one or more identified assets for a period of time in exchange for consideration, such contract is, or contains, a lease. To determine whether a contract has conveyed the right to control the use of an identified asset for a period of time, the Group assesses whether the customer to the contract has both the right to obtain substantially all economic benefits from the use of the identified asset and the right to direct the use of the identified asset during the period of use.

As a lessee

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

Initial measurement

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

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee (continued)

Subsequent measurement (continued)

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

Modification of leases

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

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee (continued)

Short-term lease and low-value asset lease

A lease with a term of not more than 12 months at the inception of the lease term and without any call option is recognised as a short-term lease; lease comprising an individual lease asset worth not more than 30,000 in brand new conditions is recognised as a low-value asset lease. If the Group sub-leases or expects to sub-lease such lease assets, the original lease shall not be recognised as a low-value asset lease. For short-term leases and low-value asset leases, the Group elects not to recognise right-of-use assets and lease liabilities, which are instead charged to relevant asset cost or current profit or loss over the respective periods during the lease term on a straight-line basis, while contingent rental is charged to current profit or loss as and when incurred.

Rental concessions in light of COVID-19

Rental concessions such as rental reduction or exemption and deferred payments agreed between the Group and lessors in respect of existing lease contracts as a direct result of the COVID-19 epidemic shall be accounted for under property lease using the simplified approach, provided that all of the following conditions are met:

- (1) The lease consideration after the concession is less than or largely unchanged from that before the concession;
- (2) The concession relates only to lease amount payable prior to 30 June 2021;
- (3) There shall be no substantial change to other terms and conditions of the lease taking into consideration both qualitative and quantitative factors.

The Group shall not assess whether a modification to the lease has taken place, but shall continue to calculate interest expenses on lease liabilities based on the same discount rate adopted prior to the concession and recognise such interest expense in current profit or loss. The Group shall also continue to adopt the same method for depreciation charge against right-of-use assets as adopted prior to the concession. In respect of rental concession incurred, rental concessions shall be treated as realisable lease payments, whereby a discounted amount based on the pre-concession discount rate shall be set off against relevant asset cost or expenses upon the release of the previous obligation for rental payment when the concession agreement is reached, and the lease liability shall be adjusted accordingly. Deferrals in rental payments incurred shall be set off against lease liabilities recognised for the previous period when the actual payment is made by the Group.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessor (continued)

As the lessor under a finance lease

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

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

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

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessor (continued)

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.

26. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Impairment (continued)

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.

27. Employee remuneration

Employee remuneration includes all kinds of rewards or compensation (other than share-based payments) incurred by the Group in exchange for service rendered by employees or in the termination of employment. Employee remuneration includes short-term remuneration, retirement benefits, termination benefits and other long-term employees' benefits. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

Short-term remuneration

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

Retirement benefit (defined deposit scheme)

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Employee remuneration (continued)

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.

28. Fair value measurement

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Fair value measurement (continued)

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

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

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

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

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

29. Profit distribution

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

30. Significant accounting judgements and estimates

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

Judgement

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

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)

30. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty

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

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

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

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

Impairment of financial instruments

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

Depreciation and amortisation

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

Development costs

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

Deferred tax assets

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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.

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 2020 was RMB1,960,864,000 (31 December 2019: RMB1,957,242,000).

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value of non-listed equity investment

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

Provision for expected credit losses on trade receivables and contract assets

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Lease period – lease contracts comprising the optional for renewal

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

IV. TAXATION

1. Principal tax items and tax rates

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

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IV. TAXATION (CONTINUED)

2. Tax concession

The Company is subject to an enterprise income tax rate of 15% for the years from 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen. The Company was subject to an enterprise income tax rate of 15% from January to June 2020 on an interim basis. The registration of the preferential tax rate for 2020 will be completed before year 2020's tax filing. 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 2020 as a national-grade key software enterprise.

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

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2020 as a national-grade key software enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2020 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2020 as a national-grade key software enterprise.

Xi'an ZTE Terminal Technology Limited is subject to an enterprise income tax rate of 15% for 2020 as an approved enterprise engaged in nationally encouraged industries under the West China preferential policy.

Nanjing Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2020 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.

Xi'an Cris Semiconductor Technology Company Limited is subject to an enterprise income tax rate of 12.5% for 2020 in the fifth year of its entitlement to the preferential treatment of exemption for two years and 50% reduction for three years as a legally incorporated and qualified Integrated Circuit Design Enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise and an enterprise income tax rate of 15% from January to June 2020 on an interim basis. The registration of the preferential tax rate for 2020 will be completed before year 2020's tax filing.

Wuhan Zhongxing Software Company Limited is subject to an enterprise income tax rate of 12.5% for 2020 in the fourth year of its entitlement to the preferential treatment for software companies of exemption for two years and 50% reduction for three years.

Beijing Zhongxing Gaoda Communication Technology Limited is subject to an enterprise income tax rate of 15% from 2019 to 2021 as a national-grade hi-tech enterprise.

Chongqing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2020 as a national-grade key software enterprise.

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IV. TAXATION (CONTINUED)

2. Tax concession (continued)

Shanghai Zhongxing Yilian Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% for the years of 2017 to 2019 as a national-grade hi-tech enterprise and an enterprise income tax rate of 15% from January to June 2020 on an interim basis. The registration of the preferential tax rate for 2020 will be completed before year 2020's tax filing.

Nanjing Yilian Technology and Software Company Limited was subject to an enterprise income tax rate of 15% for the years of 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen and an enterprise income tax rate of 15% from January to June 2020 on an interim basis. The registration of the preferential tax rate for 2020 will be completed before year 2020's tax filing.

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 and an enterprise income tax rate of 15% from January to June 2020 on an interim basis. The registration of the preferential tax rate for 2020 will be completed before year 2020's tax filing.

Guangdong ZTE Newstart Technology Co., Ltd. was subject to an enterprise income tax rate of 15% for the years of 2017 to 2019 as a national-grade hi-tech enterprise and an enterprise income tax rate of 15% from January to June 2020 on an interim basis. The registration of the preferential tax rate for 2020 will be completed before year 2020's tax filing.

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

1. Cash and Bank Balance

| | 30 June 2020 | 31 December 2019 |
|--------------|-------------------|---------------------|
| Cash | 2,584 | 2,269 |
| Bank Deposit | 43,748,636 | 29,963,567 |
| Other cash | 2,116,777 | 3,343,511 |
| | 45,867,997 | 33,309,347 |

As at 30 June 2020, the Group's overseas currency deposits amounted to RMB3,657,931,000 (31 December 2019: RMB3,902,219,000). Funds placed overseas and subject to remittance restrictions amounted to RMB62,910,000 (31 December 2019: RMB20,962,000).

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 RMB6,776,208,000 (31 December 2019: RMB1,460,036,000) were not included in cash and cash equivalents.

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

2. Trading financial assets

| | 30 June 2020 | 31 December 2019 |
|--|------------------|---------------------|
| Financial assets at fair value through current profit and loss | | |
| Investment in equity instrument | 996,395 | 523,227 |
| Other investment | 70,137 | 37,435 |
| | 1,066,532 | 560,662 |

3. Derivative financial assets

| | 30 June 2020 | 31 December 2019 |
|--|-----------------|---------------------|
| Derivative financial assets at fair value through current profit or loss | 31,147 | 106,065 |

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 RMB80,671,000 (Six months ended 30 June 2019: loss of RMB23,278,000) was dealt with in current profit or loss.

4A. Trade receivables

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

Aging analysis of trade receivables was as follows:

| | 30 June 2020 | 31 December 2019 |
|--|-------------------|---------------------|
| Within 1 year | 17,143,821 | 20,889,919 |
| 1 to 2 years | 2,170,856 | 4,353,567 |
| 2 to 3 years | 3,113,691 | 1,956,298 |
| Over 3 years | 4,722,489 | 5,678,746 |
| | 27,150,857 | 32,878,530 |
| Less: bad debt provision for trade receivables | 10,252,627 | 13,100,250 |
| | 16,898,230 | 19,778,280 |

Notes to Financial Statements

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

4A. Trade receivables (continued)

| | 30 June 2020 | | | | | 31 December 2019 | | | | |
|--|--------------|----------------|--------------------|----------------|------------|------------------|----------------|--------------------|----------------|------------|
| | Book balance | | Bad debt provision | | Book value | Book balance | | Bad debt provision | | Book value |
| | Amount | Percentage (%) | Amount | Percentage (%) | | Amount | Percentage (%) | Amount | Percentage (%) | |
| Standalone bad debt provision | 4,240,417 | 16 | 4,240,417 | 100 | – | 7,001,590 | 21 | 7,001,590 | 100 | – |
| For which provision for bad debt is recognised by group with credit risk characteristics | 22,910,440 | 84 | 6,012,210 | 26 | 16,898,230 | 25,876,940 | 79 | 6,098,660 | 24 | 19,778,280 |
| | 27,150,857 | 100 | 10,252,627 | 38 | 16,898,230 | 32,878,530 | 100 | 13,100,250 | 40 | 19,778,280 |

As at 30 June 2020, bad debt provisions for trade receivables which were individually made were as follows:

| | Book balance | Bad debt provision | Expected credit loss rate |
|-------------------------------------|--------------|--------------------|---------------------------|
| Overseas carriers 1* | 433,534 | 433,534 | 100% |
| Overseas carriers 2* | 316,785 | 316,785 | 100% |
| Overseas carriers 3* | 298,557 | 298,557 | 100% |
| Overseas carriers 4* | 231,529 | 231,529 | 100% |
| Overseas carriers 5* | 136,975 | 136,975 | 100% |
| Others (Customer 6 to Customer 40)* | 2,823,037 | 2,823,037 | 100% |
| | 4,240,417 | 4,240,417 | 100% |

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

As at 31 December 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* | 597,986 | 597,986 | 100% |
| Overseas carriers 2* | 578,775 | 578,775 | 100% |
| Overseas carriers 3* | 563,352 | 563,352 | 100% |
| Overseas carriers 4* | 428,987 | 428,987 | 100% |
| Overseas carriers 5* | 426,086 | 426,086 | 100% |
| Overseas carriers 6* | 299,436 | 299,436 | 100% |
| Overseas carriers 7* | 285,746 | 285,746 | 100% |
| Overseas carriers 8* | 280,176 | 280,176 | 100% |
| Overseas carriers 9* | 226,802 | 226,802 | 100% |
| Overseas carriers 10* | 155,666 | 155,666 | 100% |
| Overseas carriers 11* | 140,761 | 140,761 | 100% |
| Overseas carriers 12* | 121,161 | 121,161 | 100% |
| Others (Customer 13 to Customer 48)* | 2,896,656 | 2,896,656 | 100% |
| | 7,001,590 | 7,001,590 | 100% |

* The provision was made 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)

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

| | 30 June 2020 | | | 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 | 14,179,056 | 3 | 425,680 | 16,601,910 | 4 | 582,539 |
| 6-12 months | 1,916,211 | 9 | 173,539 | 2,581,096 | 10 | 249,165 |
| 1-2 years | 1,809,948 | 36 | 652,064 | 1,637,217 | 36 | 581,713 |
| 2-3 years | 1,156,939 | 79 | 912,641 | 1,653,697 | 78 | 1,282,223 |
| Over 3 years | 3,848,286 | 100 | 3,848,286 | 3,403,020 | 100 | 3,403,020 |
| | 22,910,440 | | 6,012,210 | 25,876,940 | | 6,098,660 |

During the period, 2020, RMB47,654,000 (Six months ended 30 June 2019: RMB67,171,000) was reversed and RMB2,979,036,000 (Six months ended 30 June 2019: RMB1,084,580,000) was written off in respect of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately.

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

| | Opening balance | Charged/reversed during the period | Write off during the period | Effect of exchange rate | Closing balance |
|--------------------------------------|-----------------|------------------------------------|-----------------------------|-------------------------|-----------------|
| 30 June 2020 | | | | | |
| Bad debt provision | 13,100,725 | 205,845 | (3,174,252) | 120,914 | 10,253,232 |
| Including: Trade receivables | 13,100,250 | 205,715 | (3,174,252) | 120,914 | 10,252,627 |
| Factored trade receivables | 288 | (17) | — | — | 271 |
| Long-term factored trade receivables | 187 | 147 | — | — | 334 |
| 31 December 2019 | | | | | |
| Bad debt provision | 12,386,932 | 1,775,689 | (1,359,859) | 297,963 | 13,100,725 |
| Including: Trade receivables | 12,381,983 | 1,780,163 | (1,359,859) | 297,963 | 13,100,250 |
| Factored trade receivables | 2,853 | (2,565) | — | — | 288 |
| Long-term factored trade receivables | 2,096 | (1,909) | — | — | 187 |

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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 30 June 2020 were as follows:

| Customer | Amount | As a percentage of total trade receivables | Closing balance of bad debt provision |
|------------|------------------|--|---------------------------------------|
| Customer 1 | 2,176,563 | 8.02% | 34,873 |
| Customer 2 | 1,678,015 | 6.18% | 31,467 |
| Customer 3 | 1,570,930 | 5.79% | 509,242 |
| Customer 4 | 860,227 | 3.17% | 19,610 |
| Customer 5 | 533,440 | 1.96% | 533,440 |
| | 6,819,175 | 25.12% | 1,128,632 |

Top 5 accounts of trade receivables as at 31 December 2019 were as follows:

| Customer | Amount | As a percentage of total trade receivables | Closing balance of bad debt provision |
|------------|------------------|--|---------------------------------------|
| Customer 1 | 2,690,494 | 8.18% | 45,795 |
| Customer 2 | 2,128,766 | 6.47% | 37,671 |
| Customer 3 | 1,885,589 | 5.74% | 497,930 |
| Customer 4 | 1,158,592 | 3.52% | 28,178 |
| Customer 5 | 727,206 | 2.21% | 29,397 |
| | 8,590,647 | 26.12% | 638,971 |

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 RMB6,266,043,000 (31 December 2019: RMB7,501,234,000) and loss of RMB69,797,000 (Six months ended 30 June 2019: Loss of RMB84,063,000) 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.

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

4B. Receivable financing

| | 30 June 2020 | 31 December 2019 |
|-----------------------------|------------------|---------------------|
| Commercial acceptance bills | 3,225,433 | 1,749,294 |
| Bank acceptance bills | 761,953 | 681,095 |
| | 3,987,386 | 2,430,389 |

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 2020 | | 31 December 2019 | |
|-----------------------------|------------------|---------------------|------------------|---------------------|
| | Derecognised | Not derecognised | Derecognised | Not derecognised |
| Commercial acceptance bills | 1,837,326 | — | 1,125,088 | 16,986 |
| Bank acceptance bills | 1,429,924 | — | 884,550 | 62,830 |
| | 3,267,250 | — | 2,009,638 | 79,816 |

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

| | Opening balance | Provisions for the period | Reversal for the period | Closing balance |
|---------------------|--------------------|---------------------------------|-------------------------------|--------------------|
| 30 June 2020 | 1,936 | 1,013 | — | 2,949 |
| 31 December 2019 | 2,455 | — | (519) | 1,936 |

5. Prepayments

Aging analysis of prepayments was as follows:

| | 30 June 2020 | | 31 December 2019 | |
|---------------|--------------|------------|------------------|------------|
| | Book balance | Percentage | Book balance | Percentage |
| Within 1 year | 445,058 | 100% | 402,525 | 100% |

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

5. Prepayments (continued)

Top 5 accounts of prepayments as at 30 June 2020 were as follows:

| Supplier | Amount | As a percentage of total amounts of prepayments |
|------------|---------------|---|
| Supplier 1 | 17,105 | 3.84% |
| Supplier 2 | 13,080 | 2.94% |
| Supplier 3 | 11,478 | 2.58% |
| Supplier 4 | 11,101 | 2.49% |
| Supplier 5 | 9,992 | 2.25% |
| | 62,756 | 14.10% |

Top 5 accounts of prepayments as at 31 December 2019 were as follows:

| Supplier | Amount | As a percentage of total amounts of prepayments |
|------------|---------------|---|
| Supplier 1 | 25,526 | 6.34% |
| Supplier 2 | 23,147 | 5.75% |
| Supplier 3 | 13,966 | 3.47% |
| Supplier 4 | 13,439 | 3.34% |
| Supplier 5 | 12,433 | 3.09% |
| | 88,511 | 21.99% |

6. Other receivables

| | 30 June 2020 | 31 December 2019 |
|-----------------------|----------------|------------------|
| Interests receivables | 28,188 | 890 |
| Dividends receivables | 4,014 | 3,081 |
| Other receivables | 859,216 | 1,019,300 |
| | 891,418 | 1,023,271 |

Interest receivables

| | 30 June 2020 | 31 December 2019 |
|---------------|--------------|------------------|
| Time deposits | 28,188 | 890 |

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

6. Other receivables (continued)

Dividends receivables

| | 30 June 2020 | 31 December 2019 |
|--------------|-----------------|---------------------|
| 前海融資租賃股份有限公司 | 4,014 | 3,081 |

Other receivables

Aging analysis of other receivables was as follows:

| | 30 June 2020 | 31 December 2019 |
|--------------------|------------------|---------------------|
| Within 1 year | 533,839 | 664,605 |
| 1 year to 2 years | 362,746 | 417,771 |
| 2 years to 3 years | 39,534 | 72,726 |
| Over 3 years | 83,217 | 104,335 |
| | 1,019,336 | 1,259,437 |
| Bad debt provision | (160,120) | (240,137) |
| | 859,216 | 1,019,300 |

Other receivables analysed by nature were as follows:

| | 30 June 2020 | 31 December 2019 |
|---------------------------------|-----------------|---------------------|
| Staff loans | 273,339 | 192,992 |
| Transactions with third parties | 585,877 | 826,308 |
| | 859,216 | 1,019,300 |

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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 2020 were as follows:

| Due from | Closing balance | As a percentage of the total amount of other receivables | Bad debt provision | Expected credit loss rate | Nature |
|----------------------|------------------------|---|---------------------------|----------------------------------|---------------------------------|
| Third-party entity 1 | 56,646 | 5.56% | (56,646) | 100% | Release of loans and advances |
| Third-party entity 2 | 46,209 | 4.53% | (46,209) | 100% | Transactions with third parties |
| Third-party entity 3 | 36,217 | 3.55% | — | — | Transactions with third parties |
| Third-party entity 4 | 22,751 | 2.23% | — | — | Transactions with third parties |
| Third-party entity 5 | 20,591 | 2.02% | — | — | Transactions with third parties |
| Total | 182,414 | 17.89% | (102,855) | | |

Top 5 accounts of other receivables as at 31 December 2019 were as follows:

| Due from | Closing balance | As a percentage of the total amount of other receivables | Bad debt provision | Expected credit loss rate | Nature |
|----------------------|------------------------|---|---------------------------|----------------------------------|---------------------------------|
| Third-party entity 1 | 110,910 | 8.81% | (110,910) | 100% | Transactions with third parties |
| Third-party entity 2 | 56,834 | 4.51% | (56,834) | 100% | Loans and advances |
| Third-party entity 3 | 45,638 | 3.62% | (45,638) | 100% | Transactions with third parties |
| Third-party entity 4 | 33,715 | 2.68% | — | — | Transactions with third parties |
| Third-party entity 5 | 25,768 | 2.05% | — | — | Transactions with third parties |
| Total | 272,865 | 21.67% | (213,382) | | |

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

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(All amounts in RMB'000 unless otherwise stated)
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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 RMB745,997,000. 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 | 827 | — | 239,310 | 240,137 |
| Provisions for the period | — | — | 63,595 | 63,595 |
| Reversed for the period | (241) | — | (189) | (430) |
| Write-back for the period | — | — | (143,182) | (143,182) |
| Balance at 30 June 2020 | 586 | — | 159,534 | 160,120 |

7. Inventories

| | 30 June 2020 Provision | | | 31 December 2019 Provision | | |
|--|---------------------------|-------------------|-------------------|-------------------------------|-------------------|-------------------|
| | Book balance | for impairment | Carrying value | Book balance | for impairment | Carrying value |
| Raw materials | 10,628,136 | 772,222 | 9,855,914 | 6,092,323 | 805,258 | 5,287,065 |
| Materials under subcontract processing | 7,822 | 132 | 7,690 | 13,479 | 131 | 13,348 |
| Work in progress | 2,290,329 | 32,503 | 2,257,826 | 1,201,247 | 13,012 | 1,188,235 |
| Finished goods | 3,497,417 | 478,159 | 3,019,258 | 3,101,870 | 529,099 | 2,572,771 |
| Dispatch of goods and others | 14,643,371 | 1,965,808 | 12,677,563 | 12,600,255 | 1,878,026 | 10,722,229 |
| Contract costs | 10,417,413 | 1,056,572 | 9,360,841 | 8,943,882 | 1,039,022 | 7,904,860 |
| | 41,484,488 | 4,305,396 | 37,179,092 | 31,953,056 | 4,264,548 | 27,688,508 |

Notes to Financial Statements

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Inventories (continued)

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

Six months ended 30 June 2020

| | Opening balance | Charge for the period | Decrease for the period Reversal/ write-back for the period | Others | Closing balance |
|--------------------------------|-----------------|-----------------------|--|----------|-----------------|
| Inventory impairment provision | 4,264,548 | 290,376 | (225,817) | (23,711) | 4,305,396 |

2019

| | Opening balance | Charge for the year | Decrease for the year Reversal/ write-back for the year | Others | Closing balance |
|--------------------------------|-----------------|---------------------|--|----------|-----------------|
| Inventory impairment provision | 3,199,272 | 1,476,827 | (373,364) | (38,187) | 4,264,548 |

8. Contract assets

| | 30 June 2020 Provision | | | 31 December 2019 Provision | | |
|-----------------|---------------------------|----------------|----------------|-------------------------------|----------------|----------------|
| | Book balance | for impairment | Carrying value | Book balance | for impairment | Carrying value |
| Contract assets | 10,653,477 | (449,944) | 10,203,533 | 9,987,937 | (450,087) | 9,537,850 |

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

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

| | Opening balance | Provisions for the period | Write-back for the period | Exchange rate changes | Closing balance |
|-------------------------------|-----------------|---------------------------|---------------------------|-----------------------|-----------------|
| Six months ended 30 June 2020 | 450,087 | 4,382 | (90) | (4,435) | 449,944 |

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(Prepared under PRC ASBEs)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Contract assets (continued)

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 2020 | | |
|--|--|---------------------------|--|
| | Carrying amount estimated to be in default | Expected credit loss rate | Expected credit loss during the entire subsistence |
| Standalone bad debt provision | 224,848 | 100% | 224,848 |
| For which provision for bad debt is recognised by group with credit risk characteristics | 10,428,629 | 2.16% | 225,096 |
| | 10,653,477 | 4.22% | 449,944 |

| | 31 December 2019 | | |
|--|--|---------------------------|--|
| | Carrying amount estimated to be in default | Expected credit loss rate | Expected credit loss during the entire subsistence |
| Standalone bad debt provision | 320,832 | 100% | 320,832 |
| For which provision for bad debt is recognised by group with credit risk characteristics | 9,667,105 | 1.34% | 129,255 |
| | 9,987,937 | 4.51% | 450,087 |

9. Long-term receivables

| | 30 June 2020 | 31 December 2019 |
|--|------------------|------------------|
| Installment payments for the provision of telecommunication system construction projects | 3,182,099 | 2,887,559 |
| Less: Bad debt provision for long-term receivables | 71,129 | 67,953 |
| | 3,110,970 | 2,819,606 |

Notes to Financial Statements

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

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

9. Long-term receivables (continued)

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

| | Opening balance | Charge for the year | Exchange rate effect | Closing balance |
|------------------|-----------------|---------------------|----------------------|-----------------|
| 30 June 2020 | 67,953 | 4,738 | (1,562) | 71,129 |
| 31 December 2019 | 30,297 | 37,466 | 190 | 67,953 |

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

Long-term trade receivables was provided based on expected credit loss during the entire life. All long-term trade receivables had not expired during the year. The rate of expected credit loss was 4.54%.

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

10. Long-term equity investments

| | | 30 June 2020 | 31 December 2019 |
|--|-----|--------------|------------------|
| Equity method | | | |
| Joint ventures | (1) | 108,309 | 122,904 |
| Associates | (2) | 3,211,897 | 3,231,288 |
| Less: provision for impairment of long-term equity investments | | 1,027,754 | 1,026,904 |
| | | 2,292,452 | 2,327,288 |

30 June 2020

(1) Joint Ventures

| | Shareholding percentage | Movement during the period | | | | | | | Closing book balance | Impairment provision as at the end of the period |
|---|-------------------------|----------------------------|------------------------|------------------------|---|----------------------------|-----------------------|--|----------------------|--|
| | | Opening book balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other comprehensive income | Other equity movement | Allowance for cash dividend impairment provision | | |
| Bestel Communications Ltd. | 50% | — | — | — | — | — | — | — | — | (2,255) |
| Puxing Mobile Tech Company Limited | 50% | 45,706 | — | — | (5,567) | — | — | — | 40,139 | — |
| PengzhongXingsheng | 50% | — | — | (6,134) | — | — | — | 6,134 | — | — |
| 德特賽維技術有限公司 | 49% | 21,809 | — | — | (2,894) | — | — | — | 18,915 | — |
| 重慶百德行置業有限公司 | 10% | 7,000 | — | — | — | — | — | — | 7,000 | — |
| Shaanxi Zhongxing Innovative Investment Fund Partnership Enterprise (Limited Partnership) | 40% | 40,000 | — | — | — | — | — | — | 40,000 | — |
| | | 114,515 | — | (6,134) | (8,461) | — | — | 6,134 | 106,054 | (2,255) |

Notes to Financial Statements

(Prepared under PRC ASBES)
(All amounts in RMB'000 unless otherwise stated)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Long-term equity investments (continued)

30 June 2020 (continued)

(2) Associates

| | Shareholding percentage | Movement during the period | | | | | | | Closing book balance | Impairment provision as at the end of the period | |
|---|-------------------------|----------------------------|------------------------|------------------------|---|----------------------------|-----------------------|---|----------------------|--|-------------|
| | | Opening book balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other comprehensive income | Other equity movement | Allowance for cash impairment provision | | | |
| KAZNURTEL Limited Liability Company | 49% | — | — | — | — | — | — | — | (2,477) | | |
| ZTE Energy Limited | 23.26% | 426,769 | — | — | 11,954 | — | — | — | 438,723 | | |
| ZTE Software Technology (Nanchang) Company Limited | 30% | 3,764 | — | — | (3,764) | — | — | — | — | | |
| Telecom Innovations | 32.73% | — | — | — | — | — | — | — | (11,216) | | |
| Shenzhen Zhongxing Hetai Hotel Company Limited | 18% | 1,324 | — | — | (1,324) | — | — | — | — | | |
| 北京億科三友科技發展有限公司 | 33% | — | — | — | — | — | — | — | (4,764) | | |
| 上海中興思裕通訊有限公司 | 30% | 2,181 | — | — | (1,053) | — | — | — | 1,128 | | |
| 中興耀維科技江蘇有限公司 | 23% | 2,862 | — | — | (384) | — | — | — | 2,478 | | |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | 49% | — | — | — | — | — | — | — | (7,117) | | |
| 廈門智慧小區網絡科技有限公司 | 35% | 1,097 | — | (1,278) | — | — | — | 181 | — | | |
| 中山優順置業有限公司 | 20% | 2,000 | — | — | — | — | — | — | 2,000 | | |
| 鐵建聯和(北京)科技有限公司 | 30% | 742 | — | — | (114) | — | — | — | 628 | | |
| 廣東福能大數據產業園建設有限公司 | 30% | 12,192 | — | — | (3,796) | — | — | — | 8,396 | | |
| 廣東中興城智信息技術有限公司 | 39% | 4,862 | — | — | (175) | — | — | — | 4,687 | | |
| 上海博色信息科技有限公司 | 29% | 26,782 | — | — | (72) | — | — | — | 26,710 | | |
| New Idea Investment Pte. Ltd | 20% | 7,163 | — | — | — | 2 | — | (7,165) | (14,551) | | |
| Zhongxing Smart Tech Industry Company Limited | 19% | — | — | — | — | — | — | — | (37,248) | | |
| 南京寧網科技有限公司 | 21.26% | 2,860 | — | — | 230 | — | — | — | 3,090 | | |
| Hengyang ICT Real Estate Co., Ltd. | 30% | 52,446 | — | — | — | — | — | — | 52,446 | | |
| 貴州中安雲網科技有限公司 | 9.31% | 5,024 | — | — | (200) | — | — | — | 4,824 | | |
| 陝西高能裝備與智能製造產業研究院有限公司 | 12.5% | 2,054 | — | — | 98 | — | — | — | 2,152 | | |
| Laxense, Inc. | 18.7% | 16,300 | — | — | (180) | 415 | — | — | 16,535 | | |
| 中教雲通(北京)科技有限公司 | 28% | 1,935 | — | — | (103) | — | — | — | 1,832 | | |
| Kron Telekomunikasyon Hizmetleri A.S. | 10% | 10,560 | — | — | — | 130 | (581) | — | 10,109 | | |
| 山東興濟置業有限公司 | 10% | 1,069 | — | — | — | — | — | — | 1,069 | | |
| ZTE 9 (Wuxi) Co., Ltd. | 26.21% | — | — | — | — | — | — | — | (13,428) | | |
| Nubia Technology Limited | 49.9% | 644,000 | — | — | (46,799) | — | — | — | 597,201 | | |
| Huanggang Education Valley Investment Holdings Co., Ltd | 25% | 5,399 | — | — | 358 | — | — | — | 5,757 | | |
| Whale Cloud Technology Co., Ltd. | 29.91% | 901,674 | — | — | 1,486 | — | — | — | 903,160 | | |
| Shijiazhuang Smart Industries Company Limited | 12% | 32,080 | — | — | (7,122) | — | — | — | 24,958 | | |
| Zhongxing Feiliu Information Technology Company Limited | 40% | 45,634 | — | — | (4,665) | — | — | — | 40,969 | | |
| 江西國投信息科技有限公司 | 15% | — | 1,500 | — | (102) | — | — | — | 1,398 | | |
| 安徽奇英智能科技有限公司 | 35% | — | 1,400 | — | — | — | — | — | 1,400 | | |
| Shenzhen Zhongxin New Energy Technology Company Limited | 45.9% | — | 34,748 | — | — | — | — | — | 34,748 | | |
| | | 2,212,773 | 37,648 | (1,278) | (55,727) | 547 | — | (581) | (6,984) | 2,186,398 | (1,025,499) |

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

10. Long-term equity investments (continued)

2019

(1) Joint Ventures

| | Movement during the year | | | | | | | | Impairment provision as at the end of the year | |
|---|--------------------------|------------------------|------------------------|---|----------------------------|-----------------------|---------------|------------------------------------|--|----------------------|
| | Opening book balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other comprehensive income | Other equity movement | Cash dividend | Allowance for impairment provision | | Closing book balance |
| Bestel Communications Ltd. | - | - | - | - | - | - | - | - | - | (2,255) |
| Puxing Mobile Tech Company Limited | 57,234 | - | - | (11,528) | - | - | - | - | 45,706 | - |
| PengzhongXingsheng | 6,138 | - | - | (4) | - | - | - | (6,134) | - | (6,134) |
| 德特賽維技術有限公司 | 27,278 | - | - | (5,469) | - | - | - | - | 21,809 | - |
| 重慶百德行置業有限公司 | 7,000 | - | - | - | - | - | - | - | 7,000 | - |
| Shaanxi Zhongxing Innovative Investment Fund Partnership Enterprise (Limited Partnership) | - | 40,000 | - | - | - | - | - | - | 40,000 | - |
| | 97,650 | 40,000 | - | (17,001) | - | - | - | (6,134) | 114,515 | (8,389) |

(2) Associates

| | Movement during the year | | | | | | | | Carrying value as at the end of the year | Impairment provision as at the end of the year |
|---|--------------------------|------------------------|------------------------|---|----------------------------|-----------------------|---------------|------------------------------------|--|--|
| | Opening balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other comprehensive income | Other equity movement | Cash dividend | Allowance for impairment provision | | |
| KAZNURTEL Limited Liability Company | - | - | - | - | - | - | - | - | - | (2,477) |
| ZTE Energy Limited | 426,995 | - | - | (226) | - | - | - | - | 426,769 | - |
| ZTE Software Technology (Nanchang) Company Limited | 3,947 | - | - | (183) | - | - | - | - | 3,764 | - |
| Telecom Innovations | - | - | - | - | - | - | - | - | - | (11,216) |
| Shenzhen Zhongxing Hetai Hotel Company Limited | 1,790 | - | - | (466) | - | - | - | - | 1,324 | - |
| 北京億科三友科技發展有限公司 | - | - | - | - | - | - | - | - | - | (4,764) |
| 上海中興思格通訊有限公司 | 4,360 | - | - | (2,179) | - | - | - | - | 2,181 | - |
| 中興羅維科技江蘇有限公司 | 2,927 | - | - | (65) | - | - | - | - | 2,862 | - |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | - | - | - | - | - | - | - | - | - | (7,117) |
| 廈門智慧小區網絡科技有限公司 | 3,856 | - | - | (2,578) | - | - | - | (181) | 1,097 | (181) |
| 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 | - | - | (572) | - | - | - | - | 742 | - |
| 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 | - | - | (1,710) | - | - | - | - | 12,192 | - |
| 廣東中興城智信息技術有限公司 | 4,634 | - | - | 228 | - | - | - | - | 4,862 | - |
| 前海融資租賃股份有限公司** | 73,579 | - | (66,054) | (7,907) | 382 | - | - | - | - | - |
| 上海博色信息技術有限公司 | 26,134 | - | - | 648 | - | - | - | - | 26,782 | - |
| New Idea Investment Pte. Ltd | 6,930 | - | - | (53) | 748 | - | - | (462) | 7,163 | (7,386) |
| Zhongxing Smart Tech Industry Company Limited | - | - | - | - | - | - | - | - | - | (37,248) |
| 南京華網科技有限公司 | 3,876 | - | - | (1,016) | - | - | - | - | 2,860 | - |
| Hengyang ICT Real Estate Co., Ltd. | 52,446 | - | - | - | - | - | - | - | 52,446 | - |
| 貴州中安雲網科技有限公司 | 4,133 | 1,198 | - | (307) | - | - | - | - | 5,024 | - |
| 陝西高能裝備與智能製造產業研究院有限公司 | 2,010 | - | - | 44 | - | - | - | - | 2,054 | - |
| Laxense, Inc. | 16,280 | - | - | (276) | 296 | - | - | - | 16,300 | - |
| 中教雲通(北京)科技有限公司 | 2,261 | - | - | (326) | - | - | - | - | 1,935 | - |
| Kron Telekomunikasyon Hizmetleri A.S. | 9,485 | - | (376) | 1,227 | 224 | - | - | - | 10,560 | - |
| 山東興濟置業有限公司 | 1,069 | - | - | - | - | - | - | - | 1,069 | - |
| ZTE 9 (Wuxi) Co., Ltd.*** | 14,697 | - | - | (1,269) | - | - | - | (13,428) | - | (13,428) |
| Nubia Technology Limited | 1,281,524 | - | - | (637,524) | - | - | - | - | 644,000 | (934,698) |
| Huanggang Education Valley Investment Holdings Co., Ltd | 8,587 | - | - | (3,188) | - | - | - | - | 5,399 | - |
| Whale Cloud Technology Co., Ltd. | 893,341 | - | - | 9,744 | - | (1,411) | - | - | 901,674 | - |
| Shijiazhuang Smart Industries Company Limited | 48,278 | - | - | (16,198) | - | - | - | - | 32,080 | - |
| Zhongxing Feiliu Information Technology Company Limited | - | 45,634 | - | - | - | - | - | - | 45,634 | - |
| | 2,917,645 | 46,832 | (73,720) | (664,152) | 1,650 | (1,411) | - | (14,071) | 2,212,773 | (1,018,515) |

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

10. Long-term equity investments (continued)

Impairment provision for long-term equity investment:

30 June 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|------------------|----------------------------|----------------------------|------------------|
| Bestel Communications Ltd. | 2,255 | — | — | 2,255 |
| PengzhongXingsheng | 6,134 | — | (6,134) | — |
| KAZNURTEL Limited Liability Company | 2,477 | — | — | 2,477 |
| Telecom Innovations | 11,216 | — | — | 11,216 |
| 北京億科三友科技發展有限公司 | 4,764 | — | — | 4,764 |
| INTLIVE ECHNOLOGIES (PRIVATE) LIMITED | 7,117 | — | — | 7,117 |
| 廈門智慧小區網絡科技有限公司 | 181 | — | (181) | — |
| New Idea Investment Pte. Ltd | 7,386 | 7,165 | — | 14,551 |
| Zhongxing Smart Tech Industry Company Limited | 37,248 | — | — | 37,248 |
| ZTE 9 (Wuxi) Co., Ltd. | 13,428 | — | — | 13,428 |
| Nubia Technology Limited | 934,698 | — | — | 934,698 |
| | 1,026,904 | 7,165 | (6,315) | 1,027,754 |

31 December 2019

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|---|------------------|--------------------------|--------------------------|------------------|
| Bestel Communications Ltd. | 2,255 | — | — | 2,255 |
| PengzhongXingsheng | — | 6,134 | — | 6,134 |
| KAZNURTEL Limited Liability Company | 2,477 | — | — | 2,477 |
| Telecom Innovations | 11,216 | — | — | 11,216 |
| 北京億科三友科技發展有限公司 | 4,764 | — | — | 4,764 |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | 7,117 | — | — | 7,117 |
| 廈門智慧小區網絡科技有限公司 | — | 181 | — | 181 |
| New Idea Investment Pte. Ltd | 6,924 | 462 | — | 7,386 |
| Zhongxing Smart Tech Industry Company Limited | 37,248 | — | — | 37,248 |
| ZTE 9 (Wuxi) Co., Ltd. | — | 13,428 | — | 13,428 |
| Nubia Technology Limited | 934,698 | — | — | 934,698 |
| | 1,006,699 | 20,205 | — | 1,026,904 |

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

11. Other non-current financial assets

| | 30 June 2020 | 31 December 2019 |
|--|-----------------|---------------------|
| Financial assets at fair value through current profit and loss | 1,530,232 | 1,594,254 |

12. Investment properties

Fair value measurement:

30 June 2020

| | Buildings |
|-------------------------------|-----------|
| Opening balance | 1,957,242 |
| Fair value change (Note V.48) | 3,622 |
| Closing balance | 1,960,864 |

31 December 2019

| | Buildings |
|-------------------------------|-----------|
| Opening balance | 2,011,999 |
| Other outgoing transfers | (62,000) |
| Fair value change (Note V.48) | 7,243 |
| Closing balance | 1,957,242 |

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 2020, investment properties with a carrying value of RMB1,720,745,000 (31 December 2019: RMB1,717,567,000) had yet to obtain title registration certificates.

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

13. Fixed Assets

30 June 2020

| | Buildings | Freehold land | Electronic equipment | Machinery equipment | Vehicles | Other equipment | Total |
|--|-----------|---------------|----------------------|---------------------|----------|-----------------|------------|
| Cost | | | | | | | |
| Opening balance | 7,376,296 | 40,441 | 5,533,723 | 3,164,125 | 281,759 | 362,772 | 16,759,116 |
| Acquisitions | 19,121 | — | 712,755 | 400,595 | 15,198 | 14,796 | 1,162,465 |
| Transfer from construction in progress | 525,819 | — | 30,607 | 217 | 174 | 13 | 556,830 |
| Disposal or retirement | (10,946) | — | (482,398) | (193,201) | (16,044) | (29,836) | (732,425) |
| Exchange rate adjustments | (15,227) | (10,302) | (1,833) | 502 | (3,027) | (2,396) | (32,283) |
| Closing balance | 7,895,063 | 30,139 | 5,792,854 | 3,372,238 | 278,060 | 345,349 | 17,713,703 |
| Accumulated depreciation | | | | | | | |
| Opening balance | 1,853,492 | — | 3,313,005 | 1,775,221 | 169,974 | 222,677 | 7,334,369 |
| Provision | 137,804 | — | 347,510 | 125,007 | 11,818 | 26,817 | 648,956 |
| Disposal or retirement | (1,697) | — | (416,765) | (157,224) | (13,713) | (19,473) | (608,872) |
| Exchange rate adjustments | (5,644) | — | (956) | 707 | (1,478) | (2,425) | (9,796) |
| Closing balance | 1,983,955 | — | 3,242,794 | 1,743,711 | 166,601 | 227,596 | 7,364,657 |
| Provision for impairment | | | | | | | |
| Opening balance | 21,270 | — | 1,886 | 16,926 | 1,096 | 81 | 41,259 |
| Disposal or retirement | — | — | (638) | (5,094) | (1,096) | — | (6,828) |
| Exchange rate adjustments | — | — | 109 | — | — | 1 | 110 |
| Closing balance | 21,270 | — | 1,357 | 11,832 | — | 82 | 34,541 |
| Net book value | | | | | | | |
| As at the end of the period | 5,889,838 | 30,139 | 2,548,703 | 1,616,695 | 111,459 | 117,671 | 10,314,505 |
| As at the beginning of the period | 5,501,534 | 40,441 | 2,218,832 | 1,371,978 | 110,689 | 140,014 | 9,383,488 |

31 December 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 | 148,248 | — | 1,266,629 | 133,465 | 21,868 | 26,751 | 1,596,961 |
| Transfer from construction in progress | 191,860 | — | 33,583 | 256,909 | 8 | 1,226 | 483,586 |
| Disposal or retirement | (259,479) | — | (661,791) | (222,717) | (27,809) | (26,689) | (1,198,485) |
| Exchange rate adjustments | 1,671 | (898) | (204) | 4,226 | 20 | 4,985 | 9,800 |
| Closing balance | 7,376,296 | 40,441 | 5,533,723 | 3,164,125 | 281,759 | 362,772 | 16,759,116 |
| Accumulated depreciation | | | | | | | |
| Opening balance | 1,686,740 | — | 3,120,285 | 1,744,448 | 166,323 | 210,037 | 6,927,833 |
| Provision | 307,307 | — | 673,970 | 235,886 | 25,143 | 25,111 | 1,267,417 |
| Disposal or retirement | (142,527) | — | (481,091) | (208,930) | (21,512) | (14,012) | (868,072) |
| Exchange rate adjustments | 1,972 | — | (159) | 3,817 | 20 | 1,541 | 7,191 |
| Closing balance | 1,853,492 | — | 3,313,005 | 1,775,221 | 169,974 | 222,677 | 7,334,369 |
| Provision for impairment | | | | | | | |
| Opening balance | 21,270 | — | 1,947 | 16,959 | 1,096 | 81 | 41,353 |
| Disposal or retirement | — | — | (41) | (33) | — | — | (74) |
| Exchange rate adjustments | — | — | (20) | — | — | — | (20) |
| Closing balance | 21,270 | — | 1,886 | 16,926 | 1,096 | 81 | 41,259 |
| Net book value | | | | | | | |
| As at the end of the year | 5,501,534 | 40,441 | 2,218,832 | 1,371,978 | 110,689 | 140,014 | 9,383,488 |
| As at the beginning of the year | 5,585,986 | 41,339 | 1,773,274 | 1,230,835 | 120,253 | 146,381 | 8,898,068 |

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

13. Fixed Assets (continued)

As at 30 June 2020, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing and Heyuan in China with a net book value of approximately RMB2,081,791,000 (31 December 2019: RMB2,929,703,000).

14. Construction in progress

Changes in major construction in progress as at 30 June 2020 were as follows:

| | Budget | Opening balance | Increase during the period | Transfer to fixed assets during the period | Other reduction | Closing balance | Source of funds | Construction contribution as a percentage of budget (%) | Work progress |
|---|---------|-----------------|----------------------------|--|-----------------|-----------------|-----------------|---|--------------------|
| Nanjing Project | 978,070 | 261,568 | 61,607 | — | — | 323,175 | Internal funds | 33.04% | Under construction |
| New energy commercial vehicle production base | 578,333 | 526,795 | 10,122 | 525,757 | — | 11,160 | Internal funds | 92.84% | Under construction |
| Shanghai R&D Centre Phase III | 478,000 | 75,810 | 39,627 | — | — | 115,437 | Internal funds | 35.55% | Under construction |
| ZTE high energy lithium battery project Phase I | 265,012 | 3,957 | 353 | 217 | — | 4,093 | Internal funds | 99.26% | Under construction |
| ZTE headquarters | 699,640 | 50,712 | 16,904 | — | — | 67,616 | Internal funds | 9.66% | Under construction |
| Xi'an Project | 774,200 | 129,471 | 17,150 | — | — | 146,621 | Internal funds | 18.94% | Under construction |
| Others | | 123,403 | 84,525 | 30,856 | — | 177,072 | Internal funds | | Under construction |
| | | 1,171,716 | 230,288 | 556,830 | — | 845,174 | | | |

Changes in major construction in progress as at 31 December 2019 were as follows:

| | Budget | Opening balance | Increase during the year | Transfer to fixed assets during the year | Other reduction | Closing balance | Source of funds | Construction contribution as a percentage of budget (%) | Work progress |
|---|-----------|-----------------|--------------------------|--|-----------------|-----------------|-----------------|---|--------------------|
| Staff quarters | 1,017,932 | 11,357 | 19,915 | 31,272 | — | — | Internal funds | 100.00% | Completed |
| Sanya R&D Base Project | 119,100 | 108,248 | 31,350 | 139,598 | — | — | Internal funds | 100.00% | Completed |
| Nanjing Project | 978,070 | 224,488 | 37,080 | — | — | 261,568 | Internal funds | 26.74% | Under construction |
| Changsha production R&D Base Phase I | 236,020 | 4,492 | — | 4,492 | — | — | Internal funds | 100.00% | Completed |
| New energy commercial vehicle production base | 892,530 | 391,436 | 135,359 | — | — | 526,795 | Internal funds | 59.02% | Under construction |
| Shanghai R&D Centre Phase III | 478,000 | 31,357 | 44,453 | — | — | 75,810 | Internal funds | 27.26% | Under construction |
| ZTE high energy lithium battery project Phase I | 518,460 | 220,896 | 41,793 | 258,732 | — | 3,957 | Internal funds | 89.19% | Under construction |
| ZTE headquarters | 699,640 | 59,240 | 33,808 | — | 42,336 | 50,712 | Internal funds | 7.25% | Under construction |
| Xi'an Project | 774,200 | 91,398 | 38,073 | — | — | 129,471 | Internal funds | 16.72% | Under construction |
| Others | | 153,132 | 80,527 | 49,492 | 60,764 | 123,403 | Internal funds | | Under construction |
| | | 1,296,044 | 462,358 | 483,586 | 103,100 | 1,171,716 | | | |

As at 30 June 2020, there was no capitalised interest in the balance of the construction in progress (31 December 2019: Nil).

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

15. Rights-of-use assets

30 June 2020

| | Buildings and structures | Vehicles | Other equipment | Total |
|---------------------------------|--------------------------|----------|-----------------|-----------|
| Cost | | | | |
| Opening balance | 1,395,884 | 110,319 | 123,555 | 1,629,758 |
| Increase | 139,319 | 2,852 | 7,890 | 150,061 |
| Transfer out on expiry of lease | (97,138) | (20,335) | (52,257) | (169,730) |
| Exchange rate adjustment | 59,697 | 41,483 | — | 101,180 |
| Closing balance | 1,497,762 | 134,319 | 79,188 | 1,711,269 |
| Cumulative depreciation | | | | |
| Opening balance | 437,127 | 32,804 | 96,046 | 565,977 |
| Charge | 219,185 | 44,325 | 12,656 | 276,166 |
| Transfer out on expiry of lease | (97,138) | (20,335) | (52,257) | (169,730) |
| Exchange rate adjustment | 23,374 | 29,120 | — | 52,494 |
| Closing balance | 582,548 | 85,914 | 56,445 | 724,907 |
| Book value | | | | |
| Closing balance | 915,214 | 48,405 | 22,743 | 986,362 |
| Opening balance | 958,757 | 77,515 | 27,509 | 1,063,781 |

31 December 2019

| | Buildings and structures | Vehicles | Other equipment | Total |
|--------------------------------|--------------------------|----------|-----------------|-----------|
| Cost | | | | |
| Opening balance | 902,642 | 40,736 | 8,886 | 952,264 |
| Increase | 427,607 | 80,424 | 114,356 | 622,387 |
| Exchange rate adjustment | 65,635 | (10,841) | 313 | 55,107 |
| Closing balance | 1,395,884 | 110,319 | 123,555 | 1,629,758 |
| Cumulative depreciation | | | | |
| Charge | 385,208 | 43,621 | 96,039 | 524,868 |
| Exchange rate adjustment | 51,919 | (10,817) | 7 | 41,109 |
| Closing balance | 437,127 | 32,804 | 96,046 | 565,977 |
| Book value | | | | |
| Closing balance | 958,757 | 77,515 | 27,509 | 1,063,781 |
| Opening balance | 902,642 | 40,736 | 8,886 | 952,264 |

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

16. Intangible assets

30 June 2020

| | Software | Technology know-how | Land use right | Franchise | Deferred development costs | Total |
|-----------------------------------|----------|---------------------|----------------|-----------|----------------------------|------------|
| Cost | | | | | | |
| Opening balance | 707,951 | 157,517 | 2,733,148 | 1,152,934 | 12,145,786 | 16,897,336 |
| Acquisition | 150,157 | 5,721 | 194,939 | 107,609 | — | 458,426 |
| In-house R&D | — | — | — | — | 1,160,056 | 1,160,056 |
| Disposal or retirement | (55,567) | (5,943) | — | (65) | — | (61,575) |
| Exchange rate adjustments | 4,271 | — | — | 6,441 | — | 10,712 |
| Closing balance | 806,812 | 157,295 | 2,928,087 | 1,266,919 | 13,305,842 | 18,464,955 |
| Accumulated amortisation | | | | | | |
| Opening balance | 206,494 | 149,587 | 321,658 | 746,349 | 7,676,568 | 9,100,656 |
| Provision | 117,119 | 5,486 | 34,575 | 124,325 | 791,274 | 1,072,779 |
| Disposal or retirement | (46,698) | (3,113) | — | — | — | (49,811) |
| Exchange rate adjustments | 2,857 | — | — | 1,725 | — | 4,582 |
| Closing balance | 279,772 | 151,960 | 356,233 | 872,399 | 8,467,842 | 10,128,206 |
| Provision for impairment | | | | | | |
| Opening balance | 14,300 | — | 6,322 | 57,238 | — | 77,860 |
| Exchange rate adjustments | 206 | — | — | 928 | — | 1,134 |
| Closing balance | 14,506 | — | 6,322 | 58,166 | — | 78,994 |
| Book value | | | | | | |
| As at the end of the period | 512,534 | 5,335 | 2,565,532 | 336,354 | 4,838,000 | 8,257,755 |
| As at the beginning of the period | 487,157 | 7,930 | 2,405,168 | 349,347 | 4,469,218 | 7,718,820 |

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

16. Intangible assets (continued)

31 December 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 | 232,207 | 12,142 | 67,466 | 183,743 | — | 495,558 |
| In-house R&D | — | — | — | — | 3,128,526 | 3,128,526 |
| Disposal or retirement | (157,219) | (42,105) | (2,642,292) | (56,310) | (9,216) | (2,907,142) |
| Exchange rate adjustments | 2,722 | — | — | (1,194) | — | 1,528 |
| Closing balance | 707,951 | 157,517 | 2,733,148 | 1,152,934 | 12,145,786 | 16,897,336 |
| Accumulated amortisation | | | | | | |
| Opening balance | 206,007 | 116,867 | 281,096 | 597,531 | 6,340,979 | 7,542,480 |
| Provision | 144,556 | 48,905 | 93,333 | 204,191 | 1,337,372 | 1,828,357 |
| Disposal or retirement | (145,782) | (16,185) | (52,771) | (56,283) | (1,783) | (272,804) |
| Exchange rate adjustments | 1,713 | — | — | 910 | — | 2,623 |
| Closing balance | 206,494 | 149,587 | 321,658 | 746,349 | 7,676,568 | 9,100,656 |
| Provision for impairment | | | | | | |
| Opening balance | 14,338 | — | 6,322 | 57,238 | — | 77,898 |
| Exchange rate adjustments | (38) | — | — | — | — | (38) |
| Closing balance | 14,300 | — | 6,322 | 57,238 | — | 77,860 |
| Book value | | | | | | |
| As at the end of the year | 487,157 | 7,930 | 2,405,168 | 349,347 | 4,469,218 | 7,718,820 |
| As at the beginning of the year | 409,896 | 70,613 | 5,020,556 | 371,926 | 2,685,497 | 8,558,488 |

As at 30 June 2020, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a carrying value of approximately RMB1,057,726,000 (31 December 2019: RMB1,107,753,000).

As at 30 June 2020, intangible assets formed through internal research and development accounted for 59% of the book value of intangible assets as at the end of the period (31 December 2019: 58%).

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

17. Deferred development costs

30 June 2020

| | Opening balance | Increase during the period | Decrease during the period | | Closing balance |
|-----------------|-----------------|----------------------------|------------------------------|-----------------------------------|-----------------|
| | | Internal development | Intangible assets recognised | Charged to current profit or loss | |
| Handsets System | 32,057 | 28,731 | (39,361) | (1,626) | 19,801 |
| products | 1,844,352 | 1,107,329 | (1,120,695) | (21,741) | 1,809,245 |
| | 1,876,409 | 1,136,060 | (1,160,056) | (23,367) | 1,829,046 |

31 December 2019

| | Opening balance | Increase during the year | Decrease during the year | | Closing balance |
|-----------------|-----------------|--------------------------|------------------------------|-----------------------------------|-----------------|
| | | Internal development | Intangible assets recognised | Charged to current profit or loss | |
| Handsets System | 29,448 | 72,388 | (61,582) | (8,197) | 32,057 |
| products | 2,702,908 | 2,252,070 | (3,066,944) | (43,682) | 1,844,352 |
| | 2,732,356 | 2,324,458 | (3,128,526) | (51,879) | 1,876,409 |

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.

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

18. Goodwill

Movements in the original value of goodwill are as follows:

30 June 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|-------------------------------------|-----------------|----------------------------|----------------------------|-----------------|
| | | Exchange rate change | Disposal | |
| Zhuhai Guangtong Bus Co., Ltd. | 186,206 | — | — | 186,206 |
| Suzhou Laxense Technology Co., Ltd. | 33,500 | — | — | 33,500 |
| NETAS TELEKOMUNIKASYON A.S. | 89,763 | — | — | 89,763 |
| | 309,469 | — | — | 309,469 |

31 December 2019

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|-------------------------------------|-----------------|---|--------------------------|-----------------|
| | | Business combination not under common control | Disposal | |
| Zhuhai Guangtong Bus Co., Ltd. | 186,206 | — | — | 186,206 |
| Suzhou Laxense Technology Co., Ltd. | 33,500 | — | — | 33,500 |
| NETAS TELEKOMUNIKASYON A.S. | 89,763 | — | — | 89,763 |
| | 309,469 | — | — | 309,469 |

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

18. Goodwill (continued)

Change in goodwill impairment provision was as follows:

30 June 2020

| | 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 | — | — | 89,763 |
| Total | 123,263 | — | — | 123,263 |

31 December 2019

| | Opening balance | Increase during the year | Decrease during the year | 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 |

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

In 2019, Zhuhai Guangtong Bus Co., Ltd. transferred significant assets to Zhongxing Smart Auto Company Limited, its parent company. The management is of the view that Zhuhai Guangtong Bus Co., Ltd and Zhongxing Smart Auto Company Limited should be treated as one single asset group.

- Zhongxing Smart Auto Company Limited asset group

Zhongxing Smart Auto Company Limited asset group

In 2019, Zhuhai Guangtong Bus Co., Ltd. and Zhongxing Smart Auto Company Limited were combined as one single asset group, resulting in modification of the asset group ascertained on the date of purchase.

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

19. Deferred tax assets/liabilities

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

| | 30 June 2020 | | 31 December 2019 | |
|---|----------------------------------|---------------------|----------------------------------|---------------------|
| | Deductible temporary differences | Deferred tax assets | Deductible temporary differences | Deferred tax assets |
| Deferred tax assets | | | | |
| Unrealised profits arising on consolidation | 2,084,530 | 487,464 | 1,932,855 | 423,705 |
| Provision for impairment in inventory | 1,210,312 | 245,433 | 1,177,002 | 241,636 |
| Foreseeable construction contract losses | 1,598,814 | 239,766 | 1,598,838 | 239,826 |
| Amortisation of deferred development costs | 2,604,313 | 287,271 | 2,532,673 | 284,946 |
| Provision for warranties and returned goods | 246,427 | 39,465 | 276,374 | 43,957 |
| Provision for retirement benefits | 203,300 | 32,304 | 205,509 | 32,635 |
| Deductible tax losses | 4,822,457 | 729,561 | 4,884,984 | 738,940 |
| Accruals | 3,413,908 | 452,040 | 3,475,772 | 464,503 |
| Overseas taxes pending deduction | 906,869 | 136,030 | 864,384 | 129,658 |
| Share option scheme expenses | 312,958 | 46,944 | 320,130 | 48,019 |
| Lease liabilities | 1,111,273 | 164,642 | 1,107,399 | 166,110 |
| | 18,515,161 | 2,860,920 | 18,375,920 | 2,813,935 |

| | 30 June 2020 | | 31 December 2019 | |
|---|----------------------------------|--------------------------|----------------------------------|--------------------------|
| | Deductible temporary differences | Deferred tax liabilities | Deductible temporary differences | Deferred tax liabilities |
| Deferred tax liabilities | | | | |
| Revaluation gain of investment properties | 1,090,898 | 163,635 | 1,087,549 | 163,132 |
| Other non-current financial assets | 523,171 | 118,293 | 308,760 | 63,757 |
| Adjustments to fair value of business combination not under common control subsidiaries | 241,716 | 36,257 | 268,223 | 40,233 |
| Rights-of-use assets | 1,026,047 | 153,907 | 1,042,607 | 156,391 |
| Others | 374,165 | 56,125 | 340,726 | 51,110 |
| | 3,255,997 | 528,217 | 3,047,865 | 474,623 |

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

19. Deferred tax assets/liabilities (continued)

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

| | 30 June 2020 | | 31 December 2019 | |
|--------------------------|-------------------|----------------------|-------------------|----------------------|
| | Amount of set-off | Amount after set-off | Amount of set-off | Amount after set-off |
| Deferred tax assets | 388,279 | 2,472,641 | 302,563 | 2,511,372 |
| Deferred tax liabilities | 388,279 | 139,938 | 302,563 | 172,060 |

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

| | 30 June 2020 | 31 December 2019 |
|---------------------------------|------------------|------------------|
| Deductible tax losses | 4,138,252 | 4,286,930 |
| Deductible temporary difference | 18,323 | 10,189 |
| | 4,156,575 | 4,297,119 |

Deductible tax losses of unrecognised deferred tax assets expiring in:

| | 30 June 2020 | 31 December 2019 |
|-------------|------------------|------------------|
| 2020 | 140,462 | 171,744 |
| 2021 | 371,478 | 373,813 |
| 2022 | 350,575 | 352,484 |
| 2023 | 279,993 | 285,530 |
| 2024 | 252,771 | 257,618 |
| Beyond 2025 | 2,742,973 | 2,845,741 |
| | 4,138,252 | 4,286,930 |

The Group recognises deferred tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible tax loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible tax loss and tax allowance.

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

20. Other current assets/other non-current assets

Other current assets

| | 30 June 2020 | 31 December 2019 |
|---|------------------|---------------------|
| Advanced payment of output tax and credit tax available for set off | 8,362,610 | 7,359,670 |
| Others | 68,027 | 61,897 |
| | 8,430,637 | 7,421,567 |

Other non-current assets

| | 30 June 2020 | 31 December 2019 |
|---|------------------|---------------------|
| Prepayments for project, equipment and land | 713,499 | 714,225 |
| Risk compensation fund | 189,095 | 59,285 |
| Guarantee deposit | 359,281 | 359,281 |
| Restricted cash (Note 1) | 2,919,207 | 2,869,525 |
| Prepaid income tax | 241,137 | 173,269 |
| Others | 1,660,295 | 1,648,523 |
| | 6,082,514 | 5,824,108 |

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

21. Short-term loans

| | | 30 June 2020 | | 31 December 2019 | |
|-------------------------|------------|----------------------|-------------------|----------------------|-------------------|
| | | Original currency | RMB equivalent | Original currency | RMB equivalent |
| Credit loans | RMB | 6,371,990 | 6,371,990 | 10,928,990 | 10,928,990 |
| | USD | 740,702 | 5,236,983 | 740,240 | 5,169,096 |
| | EUR | 122,744 | 976,305 | 128,000 | 1,001,869 |
| | TRY | 269,000 | 277,968 | 354,915 | 417,220 |
| Bills discounting loans | RMB | 1,155,932 | 1,155,931 | 4,195,791 | 4,195,791 |
| Letter of credit loans | RMB | 2,500,000 | 2,500,000 | 4,783,000 | 4,783,000 |
| Pledged loans | RMB | — | — | 75,000 | 75,000 |
| Guarantee loans | Note 1 RMB | 20,000 | 20,000 | 10,000 | 10,000 |
| Secured loans | Note 2 RMB | 80,000 | 80,000 | 65,000 | 65,000 |
| | | 16,619,177 | | 26,645,966 | |

As at 30 June 2020, the annual interest rate of the above loans ranged from 0.80%–10.50% (except for TRY loans which were subject to an annual interest rate of 8.50%–10.50%) (31 December 2019: 1.10%–27.66%, including TRY loans which were subject to an annual interest rate of 9.75%–27.66%).

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

21. Short-term loans (continued)

Note 1: The guaranteed loan comprised mainly a RMB10,000,000 loan extended to ZTE ICT (Guangxi) Company Limited and guaranteed by ZTE ICT Company Limited and a RMB10,000,000 (31 December 2019: RMB10,000,000) loan extended to ZTE ICT (Guangxi) Company Limited and guaranteed by Guangxi SME Finance and Security Company Limited.

Note 2: The secured loans comprised mainly an RMB50,000,000 loan extended to ZTE ICT (Hunan) Company Limited secured by buildings with a book value of RMB48,463,000 and land use rights with a book value of RMB24,699,000 and an RMB30,000,000 loan extended to ZTE ICT (Hebei) Company Limited secured by buildings with a book value of RMB48,793,000 and land use rights with a book value of RMB15,305,000 (31 December 2018: RMB65,000,000).

22. Derivative financial liabilities

| | 30 June 2020 | 31 December 2019 |
|---|-----------------|---------------------|
| Financial liabilities at fair value through current profit and loss | 131,527 | 126,223 |

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

23A. Bills payable

| | 30 June 2020 | 31 December 2019 |
|-----------------------------|------------------|---------------------|
| Bank acceptance bills | 4,142,230 | 4,763,510 |
| Commercial acceptance bills | 4,517,552 | 4,609,430 |
| | 8,659,782 | 9,372,940 |

23B. Trade payables

Trade payables

An aging analysis of the trade payables are as follows:

| | 30 June 2020 | 31 December 2019 |
|--------------------|-------------------|---------------------|
| 0 to 6 months | 25,800,502 | 17,555,506 |
| 6 to 12 months | 499,655 | 398,107 |
| 1 year to 2 years | 303,096 | 194,548 |
| 2 years to 3 years | 232,982 | 166,176 |
| Over 3 years | 71,387 | 41,273 |
| | 26,907,622 | 18,355,610 |

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

As at 30 June 2020, there were no material trade payables aged over 1 year (31 December 2019: Nil).

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

24. Short-term bonds payable

| | 30 June 2020 | 31 December 2019 |
|------|-----------------|---------------------|
| SCPs | 8,000,000 | — |
| | 8,000,000 | — |

The balance of short-term bonds payable as at 30 June 2020 is set out as follows:

| Face value | Issue date | Term | Issue amount | Opening balance | Issued during the period | Annual interest rate | Interest provision for the period | Amortisation of discount/premium | Repayment during the period | Closing balance |
|------------|------------|----------|--------------|-----------------|--------------------------|----------------------|-----------------------------------|----------------------------------|-----------------------------|-----------------|
| 2,000,000 | 2020/3/26 | 270 days | 2,000,000 | — | 2,000,000 | 2.4% | 12,625 | — | — | 2,000,000 |
| 1,000,000 | 2020/4/22 | 240 days | 1,000,000 | — | 1,000,000 | 1.9% | 3,592 | — | — | 1,000,000 |
| 1,000,000 | 2020/4/21 | 240 days | 1,000,000 | — | 1,000,000 | 1.8% | 3,452 | — | — | 1,000,000 |
| 1,000,000 | 2020/5/25 | 90 days | 1,000,000 | — | 1,000,000 | 1.35% | 1,332 | — | — | 1,000,000 |
| 1,000,000 | 2020/5/26 | 90 days | 1,000,000 | — | 1,000,000 | 1.35% | 1,295 | — | — | 1,000,000 |
| 1,000,000 | 2020/6/11 | 180 days | 1,000,000 | — | 1,000,000 | 1.63% | 848 | — | — | 1,000,000 |
| 1,000,000 | 2020/6/24 | 177 days | 1,000,000 | — | 1,000,000 | 1.65% | 271 | — | — | 1,000,000 |

25. Contract liabilities

| | 30 June 2020 | 31 December 2019 |
|-----------------------------------|-----------------|---------------------|
| Contracted consideration received | 14,562,034 | 14,517,057 |

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 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|-----------------|----------------------------|----------------------------|-----------------|
| Short-term remuneration | 8,800,736 | 10,862,803 | (11,644,874) | 8,018,665 |
| Retirement benefits (Defined contribution scheme) | 143,866 | 309,405 | (313,958) | 139,313 |
| Termination benefits | 9,403 | 72,310 | (69,837) | 11,876 |
| | 8,954,005 | 11,244,518 | (12,028,669) | 8,169,854 |

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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 2019

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|-----------------|----------------------------|----------------------------|-----------------|
| Short-term remuneration | 6,100,580 | 19,223,455 | (16,523,299) | 8,800,736 |
| Retirement benefits (Defined contribution scheme) | 155,195 | 1,236,623 | (1,247,952) | 143,866 |
| Termination benefits | 3,864 | 215,810 | (210,271) | 9,403 |
| | 6,259,639 | 20,675,888 | (17,981,522) | 8,954,005 |

Short-term remuneration analysed as follows:

30 June 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|-----------------|----------------------------|----------------------------|-----------------|
| Salary, bonus and allowance | 7,322,241 | 9,880,636 | (10,748,493) | 6,454,384 |
| Staff welfare | 16,880 | 8,575 | (14,656) | 10,799 |
| Social Insurance | 62,202 | 286,883 | (306,953) | 42,132 |
| Including: Medical | 55,308 | 268,111 | (285,930) | 37,489 |
| Work injuries | 2,913 | 2,462 | (4,108) | 1,267 |
| Maternity | 3,981 | 16,310 | (16,915) | 3,376 |
| Housing funds | 22,725 | 324,420 | (295,944) | 51,201 |
| Labour union fund and employee education fund | 1,376,688 | 362,289 | (278,828) | 1,460,149 |
| | 8,800,736 | 10,862,803 | (11,644,874) | 8,018,665 |

31 December 2019

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|-----------------|----------------------------|----------------------------|-----------------|
| Salary, bonus and allowance | 4,823,725 | 17,413,442 | (14,914,926) | 7,322,241 |
| Staff welfare | 19,233 | 34,168 | (36,521) | 16,880 |
| Social Insurance | 67,792 | 715,507 | (721,097) | 62,202 |
| Including: Medical | 60,291 | 653,638 | (658,621) | 55,308 |
| Work injuries | 3,044 | 14,407 | (14,538) | 2,913 |
| Maternity | 4,457 | 47,462 | (47,938) | 3,981 |
| Housing funds | 20,032 | 559,663 | (556,970) | 22,725 |
| Labour union fund and employee education fund | 1,169,798 | 500,675 | (293,785) | 1,376,688 |
| | 6,100,580 | 19,223,455 | (16,523,299) | 8,800,736 |

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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 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|------------------------|-----------------|----------------------------|----------------------------|-----------------|
| Pension insurance | 136,591 | 304,766 | (304,354) | 137,003 |
| Unemployment insurance | 7,275 | 4,639 | (9,604) | 2,310 |
| | 143,866 | 309,405 | (313,958) | 139,313 |

31 December 2019

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|------------------------|-----------------|----------------------------|----------------------------|-----------------|
| Pension insurance | 147,602 | 1,203,191 | (1,214,202) | 136,591 |
| Unemployment insurance | 7,593 | 33,432 | (33,750) | 7,275 |
| | 155,195 | 1,236,623 | (1,247,952) | 143,866 |

27. Tax payable

| | 30 June 2020 | 31 December 2019 |
|---------------------------------------|--------------|------------------|
| Value-added tax | 140,567 | 142,296 |
| Enterprise income tax | 423,464 | 399,124 |
| Including: PRC tax | 267,403 | 289,990 |
| Overseas tax | 156,061 | 109,134 |
| Personal income tax | 233,546 | 240,328 |
| City maintenance and construction tax | 25,400 | 35,078 |
| Education surcharge | 25,774 | 36,013 |
| Other taxes | 3,037 | 36,009 |
| | 851,788 | 888,848 |

28. Other payables

| | 30 June 2020 | 31 December 2019 |
|-------------------|--------------|------------------|
| Interest payables | 66,173 | 54,296 |
| Dividend payables | 924,012 | 5,222 |
| Other payables | 4,111,082 | 4,561,600 |
| | 5,101,267 | 4,621,118 |

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

28. Other payables (continued)

Dividend payables

| | 30 June 2020 | 31 December 2019 |
|--|-----------------|---------------------|
| Dividend on ordinary shares | 922,912 | 225 |
| Dividend payables to minority shareholders | 1,100 | 4,997 |
| | 924,012 | 5,222 |

Other payables

| | 30 June 2020 | 31 December 2019 |
|--|------------------|---------------------|
| Accruals | 1,184,348 | 1,003,146 |
| Deferred income from staff housing due in 1 year | 49,236 | 51,066 |
| Payables to external parties | 2,762,610 | 3,125,921 |
| Deposits | 8,377 | 8,299 |
| Others | 106,511 | 373,168 |
| | 4,111,082 | 4,561,600 |

29. Provisions

30 June 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---------------------------------|--------------------|----------------------------------|----------------------------------|--------------------|
| Expected contract loss (Note 1) | 1,619,216 | 1,712,320 | (1,590,206) | 1,741,330 |
| Outstanding litigation (Note 2) | 166,491 | 2,504 | (45,091) | 123,904 |
| Provision for warranties | 180,757 | 66,456 | (103,717) | 143,496 |
| | 1,966,464 | 1,781,280 | (1,739,014) | 2,008,730 |

31 December 2019

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---------------------------------|--------------------|----------------------------------|----------------------------------|--------------------|
| Expected contract loss (Note 1) | 1,494,051 | 1,730,893 | (1,605,728) | 1,619,216 |
| Outstanding litigation (Note 2) | 366,195 | 16,586 | (216,290) | 166,491 |
| Provision for warranties | 307,368 | 148,207 | (274,818) | 180,757 |
| | 2,167,614 | 1,895,686 | (2,096,836) | 1,966,464 |

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 2020 | 31 December 2019 |
|-------------------------------------|-----------------|---------------------|
| Long-term loans due within one year | 286,000 | 92,053 |
| Lease liabilities | 432,638 | 520,208 |
| | 718,638 | 612,261 |

31. Long-term loans

| | | 30 June 2020 | | 31 December 2019 | |
|------------------|------------|----------------------|-------------------|----------------------|-------------------|
| | | Original currency | RMB equivalent | Original currency | RMB equivalent |
| Credit loans | RMB | 15,602,489 | 15,602,489 | 5,999,823 | 5,999,823 |
| | USD | 530,000 | 3,747,259 | 530,000 | 3,700,990 |
| | EUR | 363 | 2,885 | 363 | 2,839 |
| | TRY | 205,000 | 211,834 | 195,000 | 229,232 |
| Guaranteed loans | Note 1 USD | 300,000 | 2,121,090 | — | — |
| Secured loans | Note 2 RMB | 44,834 | 44,834 | 20,159 | 20,159 |
| Pledged loans | Note 3 RMB | 104,685 | 104,685 | 92,050 | 92,050 |
| | | 21,835,076 | | 10,045,093 | |

Note 1: The loan comprised mainly bank loans extended to ZTE (H.K.) Limited and guaranteed by ZTE Corporation (31 December 2019: Nil).

Note 2: The secured loans comprised mainly an RMB5,000,000 loan extended to 安徽皖興通信息技術有限公司 secured by land use rights with a book value of RMB14,868,000 and an RMB39,834,000 loan extended to Zhongxing Smart Auto Company Limited secured by land use rights with a book value of RMB229,955,000, work under construction with a book value of RMB11,160,000 and buildings with a book value of RMB520,207,000 (31 December 2018: RMB20,159,000).

Note 3: The loan comprised mainly an RMB88,018,000 loan pledged by trade receivables with a book value of RMB5,732,000 and contract assets with a book value of RMB185,377,000 of the "Smart Longhua" Project and an RMB16,667,000 loan (31 December 2019: RMB92,050,000) loan pledged by contract assets of "Guangming Huanshui" with a book value of RMB10,973,000 extended to ZTE ICT Company Limited.

As at 30 June 2020, the annual interest rate for the aforesaid loans was 0.75%–12.56%, among which the loan interest rate for the TRY contract was 9.00%–12.56% (31 December 2019: 0.75%–12.56%, among which the loan interest rate for the TRY contract was 10.00%–12.56%).

32. Lease liabilities

| | 30 June 2020 | 31 December 2019 |
|-------------------|-----------------|---------------------|
| Lease liabilities | 660,325 | 645,294 |

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

33. Other non-current liabilities

| | 30 June 2020 | 31 December 2019 |
|---|------------------|---------------------|
| Deferred income relating to staff housing | 809,111 | 857,398 |
| Long-term payable | 2,142,205 | 2,117,396 |
| Amounts payable to third parties | 23,675 | 38,693 |
| | 2,974,991 | 3,013,487 |

34. Share capital

30 June 2020

| | Opening balance | Increase/decrease during the period | | | | Closing balance |
|--|--------------------|-------------------------------------|---------------------------|--------|-----------|--------------------|
| | | Issue of new share | Transfer from reserves | Others | Sub-total | |
| Restricted shares | | | | | | |
| State-owned legal person shares | — | 43,032 | — | — | 43,032 | 43,032 |
| Other domestic shareholdings | — | 338,067 | — | — | 338,067 | 338,067 |
| Senior management shares | 494 | 86 | — | — | 86 | 580 |
| Total number of restricted shares | 494 | 381,185 | — | — | 381,185 | 381,679 |
| Unrestricted shares | | | | | | |
| RMB Ordinary shares | 3,471,534 | 4,720 | — | — | 4,720 | 3,476,254 |
| Overseas listed foreign shares | 755,502 | — | — | — | — | 755,502 |
| Total number of unrestricted shares | 4,227,036 | 4,720 | — | — | 4,720 | 4,231,756 |
| Total number of shares | 4,227,530 | 385,905 | — | — | 385,905 | 4,613,435 |

31 December 2019

| | Opening balance | Increase/decrease during the year | | | | Closing balance |
|--|--------------------|-----------------------------------|---------------------------|---------|-----------|--------------------|
| | | Issue of new share | Transfer from reserves | Others | Sub-total | |
| Restricted shares | | | | | | |
| Senior management shares | 3,601 | 82 | — | (3,189) | (3,107) | 494 |
| Total number of restricted shares | 3,601 | 82 | — | (3,189) | (3,107) | 494 |
| Unrestricted shares | | | | | | |
| RMB Ordinary shares | 3,433,569 | 34,776 | — | 3,189 | 37,965 | 3,471,534 |
| Overseas listed foreign shares | 755,502 | — | — | — | — | 755,502 |
| Total number of unrestricted shares | 4,189,071 | 34,776 | — | 3,189 | 37,965 | 4,227,036 |
| Total number of shares | 4,192,672 | 34,858 | — | — | 34,858 | 4,227,530 |

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

34. Share capital (continued)

The increase in share capital during the period represented the addition of 381,098,968 new shares following the Company's non-public issue of A shares (as verified by Ernst & Young Hua Ming LLP with the capital verification report Ernst & Young Hua Ming (2020) Yan Zi No. 60438556_H02) and the exercise of 4,805,995 A share options by participants under the 2017 Share Option Incentive Scheme.

35. Capital reserves

30 June 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|----------------------------------|-----------------|----------------------------|----------------------------|-----------------|
| Share premium (Note 1) | 11,774,076 | 11,203,957 | (81,396) | 22,896,637 |
| Share-based payment (Note 2) | 290,356 | 52,162 | (46,910) | 295,608 |
| Capital investment by government | 80,000 | — | — | 80,000 |
| | 12,144,432 | 11,256,119 | (128,306) | 23,272,245 |

31 December 2019

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|----------------------------------|-----------------|--------------------------|--------------------------|-----------------|
| Share premium | 10,925,665 | 943,559 | (95,148) | 11,774,076 |
| Share-based payment | 438,791 | 191,790 | (340,225) | 290,356 |
| Capital investment by government | 80,000 | — | — | 80,000 |
| | 11,444,456 | 1,135,349 | (435,373) | 12,144,432 |

Note 1: The Company issued 381,098,968 shares under its non-public issue of RMB ordinary A shares at an issue price of RMB30.21/share during the period, raising total proceeds of RMB11,513,000,000. As at 14 January 2020, the Company had received proceeds of RMB11,463,000,000, being the balance of the total proceeds after deduction of underwriting fees and sponsor's fees amount to RMB50,000,000 (before tax). After further deduction of other issue expenses amounting to RMB3,581,000 (before tax) from the aforesaid proceeds received, net proceeds for the Company's non-public issue amounted to RMB11,459,419,000. In addition, an amount of RMB3,032,000 in VAT credit tax was set off in respect of the issue expenses of the non-public issue, resulting in an amount of RMB11,462,451,000 when aggregated with the aforesaid amount of net proceeds, out of which RMB381,099,000 was credited to the share capital, while RMB11,081,352,000 was credited to the capital reserve. The shareholders' premium of the capital reserve was increased by RMB122,558,000 as a result of the exercise of share options during the first exercise period under the share option incentive scheme. Additional capital contribution by minority interests resulted in the dilution of equity interests and the increase in the shareholders' premium of the capital reserve by RMB47,000. The shareholders' premium of the capital reserve was reduced by RMB80,000,000 following the Company's redemption of the perpetual notes. The acquisition of minority interests in subsidiaries resulted in the reduction of the shareholders' premium of the capital reserve by RMB1,298,000. The transfer of minority interests in subsidiaries resulted in the reduction of the shareholders' premium of the capital reserve by RMB98,000.

Note 2: The Company issued share options in July 2017 which were exercisable in three periods. Share option expenses of RMB52,162,000 were recognised during the period in respect of share options in the first and third periods. The exercise of share options in the first period resulted in the reduction of capital reserve by RMB46,910,000. For details please refer to Note XI.

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

36. Other comprehensive income

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

| | 1 January 2019 | Increase/ decrease | 31 December 2019 | Increase/ decrease | 30 June 2020 |
|--|-------------------|-----------------------|---------------------|-----------------------|-----------------|
| Changes in net liabilities arising from the re-measurement of defined benefit plans | (65,678) | (7,599) | (73,277) | — | (73,277) |
| Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss | 44,350 | — | 44,350 | — | 44,350 |
| Effective portion of hedging instruments | (67,982) | — | (67,982) | — | (67,982) |
| Differences arising from foreign currency translation | (2,751,020) | 54,180 | (2,696,840) | (119,072) | (2,815,912) |
| Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value | 792,769 | — | 792,769 | — | 792,769 |
| | (2,047,561) | 46,581 | (2,000,980) | (119,072) | (2,120,052) |

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

Six months ended 30 June 2020

| | Amount before taxation | Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period | Less: income tax | Attributable to the parent company | Attributable to non-controlling interests |
|---|------------------------------|--|---------------------|--|---|
| Differences arising from foreign currency translation | (115,505) | — | — | (119,072) | 3,567 |

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) |

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

37. Surplus reserves

30 June 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|----------------------------|-----------------|----------------------------|----------------------------|-----------------|
| Statutory surplus reserves | 2,775,521 | — | — | 2,775,521 |

31 December 2019

| | Opening balance | Opening adjustment | Increase during the year | Decrease during the year | Closing balance |
|----------------------------|-----------------|--------------------|--------------------------|--------------------------|-----------------|
| Statutory surplus reserves | 2,324,748 | (1,441) | 452,214 | — | 2,775,521 |

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 2020 | 31 December 2019 |
|---|--------------|------------------|
| Retained profits at the beginning of the period | 11,680,365 | 6,983,261 |
| Opening adjustments | — | 1,441 |
| Opening balance as adjusted | 11,680,365 | 6,984,702 |
| Net profit attributable to shareholders of the parent | 1,857,289 | 5,147,877 |
| Surplus reserve | — | (452,214) |
| Cash dividend payable on ordinary shares | (922,687) | — |
| Retained profits at the end of the period | 12,614,967 | 11,680,365 |

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.

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

39. Other equity instruments

(1) General information of Medium Term Notes outstanding as at the end of the period

As at 30 June 2020, the Group had no outstanding perpetual capital instruments in issue.

As at 31 December 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 | 6,252,364 | 2020.1.27 |

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. The Company exercised redemption on 27 January 2020, the maturity date (the due payment date coincided with statutory holidays and was rescheduled to 31 January 2020), in accordance with the terms of issue.

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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 2020

| | 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 2019

| | 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 |

40. Operating revenue and costs

| | Six months ended 30 June 2020 | | Six months ended 30 June 2019 | |
|--------------------|-------------------------------|------------|-------------------------------|------------|
| | Revenue | Cost | Revenue | Cost |
| Principal business | 46,122,101 | 30,644,231 | 43,753,051 | 26,502,934 |
| Other business | 1,077,272 | 774,072 | 856,168 | 616,362 |
| | 47,199,373 | 31,418,303 | 44,609,219 | 27,119,296 |

Operating revenue is analysed as follows:

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|----------------------------------|-------------------------------|-------------------------------|
| Revenue from customer contract | 47,130,591 | 44,458,450 |
| Rental income — operating leases | 68,782 | 150,769 |
| | 47,199,373 | 44,609,219 |

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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 2020

| Reportable segment | Carriers' networks | Consumer business | Government and corporate business | Total |
|--|--------------------|-------------------|-----------------------------------|------------|
| Major operating area | | | | |
| PRC | 26,428,281 | 2,877,740 | 2,376,361 | 31,682,382 |
| Asia (excluding PRC) | 5,078,163 | 1,140,121 | 704,818 | 6,923,102 |
| Africa | 1,767,785 | 296,463 | 458,502 | 2,522,750 |
| Europe, America and Oceania | 1,695,360 | 3,098,862 | 1,208,135 | 6,002,357 |
| | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |
| Types of key products/ performance of obligations | | | | |
| Sale of products | 2,977,565 | 7,278,988 | 2,284,177 | 12,540,730 |
| Rendering of services | 5,625,640 | 134,198 | 517,812 | 6,277,650 |
| Network construction | 26,366,384 | — | 1,945,827 | 28,312,211 |
| | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |
| Timing of revenue recognition | | | | |
| Recognition of revenue at a point in time | 29,343,949 | 7,278,988 | 4,230,004 | 40,852,941 |
| Recognition of revenue over a period of time | 5,625,640 | 134,198 | 517,812 | 6,277,650 |
| | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |

Breakdown of revenue from customer contracts for the six months ended 30 June 2019

| Reporting 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, Americas 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 |
| Major product types | | | | |
| Sales 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 | | | | |
| At a point of time | 26,015,071 | 7,351,694 | 3,694,971 | 37,061,736 |
| 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 |

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

40. Operating revenue and costs (continued)

Revenue included in the opening book value of contract liabilities and recognized for the period is as follows:

| | Six months ended 30 June 2020 |
|--|-------------------------------------|
| Revenue included in the opening book value of contract liabilities and recognized for the period | 6,643,607 |

41. Taxes and surcharges

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| City maintenance and construction tax | 119,525 | 266,721 |
| Education surcharge | 91,981 | 202,287 |
| Property tax | 20,338 | 25,126 |
| Land use tax | 6,205 | 7,014 |
| Vehicle and vessel tax | 50 | 20 |
| Stamp duty | 32,425 | 29,263 |
| Others | 41,322 | 64,858 |
| | 311,846 | 595,289 |

42. Selling and distribution costs

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Wages, welfare and bonuses | 2,496,826 | 2,389,893 |
| Services charges | 452,148 | 330,795 |
| Travelling expenses | 223,271 | 304,035 |
| Service fees | 117,210 | 102,357 |
| Office expense | 112,859 | 118,096 |
| Advertising and promotion expenses | 337,090 | 381,285 |
| Communication expenses | 46,595 | 36,783 |
| Others | 154,596 | 362,502 |
| | 3,940,595 | 4,025,746 |

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

43. Administrative expenses

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Wages, welfare and bonuses | 983,163 | 1,076,703 |
| Office expenses | 37,331 | 46,357 |
| Amortisation and depreciation charges | 232,439 | 250,200 |
| Travelling expenses | 27,617 | 47,649 |
| Legal fees | 863,329 | 946,831 |
| Others | 121,247 | 170,768 |
| | 2,265,126 | 2,538,508 |

44. Research and development costs

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Wages, welfare and bonuses | 4,560,698 | 4,424,193 |
| Direct material costs | 232,602 | 186,369 |
| Amortisation and depreciation charges | 955,618 | 833,663 |
| Office expenses | 123,215 | 108,909 |
| Technical cooperation fee | 500,842 | 574,527 |
| Others | 264,401 | 344,205 |
| | 6,637,376 | 6,471,866 |

45. Finance costs

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|-------------------------------------|-------------------------------------|
| Interest expenses | 847,922 | 823,053 |
| Including: Interest expenses on lease liabilities | 44,961 | 32,669 |
| Interest expense on long-term payables | 31,643 | — |
| Interest expense on SCPs | 23,414 | — |
| Less: Interest income | 581,860 | 322,233 |
| Loss on foreign currency exchange | 257,510 | 59,823 |
| Bank charges | 109,261 | 102,166 |
| | 632,833 | 662,809 |

For the six months ended 30 June 2020, interest income from ZTE Group Finance Company Limited amounted to RMB188,060,000 (six months ended 30 June 2019: RMB163,525,000).

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

45. Finance costs (continued)

Details of interest income are as follows:

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Interest income from cash | 448,939 | 295,065 |
| Interest income from finance contract | 100,024 | 27,168 |
| Interest income from finance lease | 32,897 | — |
| | 581,860 | 322,233 |

46. Other income

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Relating to asset/income |
|---|-------------------------------------|-------------------------------------|-----------------------------|
| Refund of VAT on software products (Note 1) | 513,313 | 729,764 | Relating to income |
| Refund of handling charges for personal tax | 12,856 | 614 | Relating to income |
| Others | 334,002 | 130,422 | Relating to income |
| | 860,171 | 860,800 | |

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

47. Investment income

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|--|-------------------------------------|-------------------------------------|
| Investment loss from long-term equity investment under equity method | (63,816) | (158,146) |
| Investment income earned from held-for-trading financial assets during the period of holding | 4,480 | 9,266 |
| Investment income from other non-current financial assets during the period of holding | 1,289 | 1,176 |
| Investment income arising from the disposal of derivative financial assets | 70,475 | 49,382 |
| Investment income arising from the disposal of financial assets at fair value through profit or loss | 100,596 | 407,010 |
| Investment (loss)/income from the disposal of long-term equity interests | (12,970) | 90,772 |
| Loss upon derecognition of financial assets at amortised cost | (69,797) | (84,063) |
| | 30,257 | 315,397 |

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

48. Gain/loss from changes in fair values

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|-------------------------------------|-------------------------------------|
| Trading financial assets Including: financial assets at fair value through current profit or loss | 479,288 | (153,313) |
| Other non-current financial assets Including: financial assets at fair value through profit or loss | (24,515) | 30,667 |
| Derivative financial assets | (80,671) | (23,278) |
| Investment properties at fair value | 3,622 | 3,320 |
| | 377,724 | (142,604) |

49. Credit impairment losses

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|--|-------------------------------------|-------------------------------------|
| Impairment loss of trade receivables | 205,715 | 1,074,003 |
| Impairment losses on receivable financing | 1,013 | 204 |
| Impairment loss of other receivables | 63,165 | 2,974 |
| Loss/(reversal) of impairment of long-term receivables | 4,738 | (1,172) |
| Reversal of impairment of factored trade receivables | (17) | (778) |
| Loss/(reversal) of impairment of long-term factored receivables | 147 | (198) |
| Impairment loss of contract assets | 4,382 | 341,058 |
| | 279,143 | 1,416,091 |

50. Assets impairment losses

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|-------------------------------------|-------------------------------------|
| Inventories provisions | 134,538 | 469,998 |
| Long-term equity investment impairment loss | 7,165 | — |
| | 141,703 | 469,998 |

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

51. Non-operating income/non-operating expenses

Non-operating income

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Amount of extraordinary gain/loss recognized for the six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|--|
| Income from contract penalty and reward | 11,316 | 22,530 | 11,316 |
| Others | 44,343 | 51,778 | 44,343 |
| | 55,659 | 74,308 | 55,659 |

Non-operating expenses

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Amount of extraordinary gain/loss recognized for the six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|--|
| Compensation | 6,602 | 115,749 | 6,602 |
| Loss arising from the disposal of non-current assets | 26,618 | 16,975 | 26,618 |
| Others | 22,068 | 47,316 | 22,068 |
| | 55,288 | 180,040 | 55,288 |

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 2020 | Six months ended 30 June 2019 |
|--|-------------------------------------|-------------------------------------|
| Cost of goods and services | 28,596,539 | 24,638,913 |
| Staff remuneration (including share-based payment) | 10,143,690 | 10,108,509 |
| Depreciation and amortisation | 1,980,997 | 1,555,434 |
| Others | 3,540,174 | 3,852,560 |
| | 44,261,400 | 40,155,416 |

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

53. Income tax

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---------------------|-------------------------------------|-------------------------------------|
| Current income tax | 510,981 | 529,134 |
| Deferred income tax | 6,609 | (116,220) |
| | 517,590 | 412,914 |

Reconciliation between income tax and total profit was as follows:

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|--|-------------------------------------|-------------------------------------|
| Total profit | 2,840,971 | 2,237,477 |
| Tax at statutory tax rate (Note 1) | 710,243 | 585,802 |
| Effect of different tax rates applicable to certain subsidiaries | (392,114) | (357,861) |
| Adjustment to current tax in previous periods | 27,241 | 26,889 |
| Profits and losses attributable to jointly-controlled entities and associates | 9,720 | 28,286 |
| Income not subject to tax | (44,620) | (2,276) |
| Additional deduction for R&D expenses, interest on perpetual instruments and non-deductible tax expenses | (81,776) | 125,317 |
| Unrecognised deductible temporary differences | 4,031 | 28,301 |
| Utilisation of tax losses from previous years | (5,951) | (130,174) |
| Unrecognised tax losses | 290,816 | 108,630 |
| Tax charge at the Group's effective rate | 517,590 | 412,914 |

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits and applicable tax rates arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

54. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to holder of ordinary shares of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period, 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.

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

54. Earnings per share (continued)

Calculations of basic and diluted earnings per shares were as follows:

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|-------------------------------------|-------------------------------------|
| Earnings | | |
| Net profit attributable to ordinary shareholders of the Company for the year | 1,857,289 | 1,470,699 |
| Shares | | |
| Weighted average number of ordinary shares of the Company ('000 shares) | 4,612,335 | 4,192,672 |
| Diluting effect — weighted average number of ordinary shares ('000 shares) Note 1 | | |
| Stock option | 22,143 | 30,440 |
| Adjusted weighted average number of ordinary shares of the Company ('000 shares) | 4,634,478 | 4,223,112 |

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.

55. Notes to major items in cash flow statement

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|-------------------------------------|-------------------------------------|
| Cash received in connection with other operating activities: | | |
| Interest income | 581,860 | 322,233 |
| Cash paid in connection with other operating activities: | | |
| Selling and distribution costs | 1,504,756 | 1,681,692 |
| Administrative expenses and research and development costs | 1,472,518 | 1,239,840 |
| Payment of default penalty to Shenzhen Investment Holdings Co., Ltd. | — | 89,298 |
| Bank charges | 109,261 | 102,166 |
| Cash received in connection with other investing activities: | | |
| Receipt of transfer amounts for equity interests in Guoxin Electronics | 245,000 | — |
| Cash paid in connection with other investing activities: | | |
| Refund of amounts in connection with business cooperation with Shenzhen Investment Holdings Co., Ltd. | — | 2,200,000 |
| Net cash outflow in connection with disposal of Zhongxin New Energy | 33,709 | — |
| Cash received in connection with other financing activities: | | |
| Disposal of minority interests in subsidiaries | 3,000 | 26,280 |
| Cash paid in connection with other financing activities: | | |
| Refund of investment by non-controlling interests | 42,315 | 569,400 |
| Principal and interest payment for lease liabilities | 228,255 | 82,759 |

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

56. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|-------------------------------------|-------------------------------------|
| Net profit | 2,323,381 | 1,824,563 |
| Add: Credit impairment losses | 279,143 | 1,416,091 |
| Assets impairment losses | 141,703 | 469,998 |
| Depreciation of fixed assets | 648,956 | 602,416 |
| Depreciation of rights-of-use assets | 276,166 | 210,910 |
| Amortisation of intangible assets | 1,055,875 | 742,108 |
| Loss on disposal of fixed assets, intangible assets and other long-term assets | 26,618 | 16,975 |
| (Gain)/loss from changes in fair value | (377,724) | 142,604 |
| Finance costs | 755,103 | 749,057 |
| Investment income | (30,257) | (315,397) |
| Decrease/(increase) in deferred tax assets | 38,731 | (141,356) |
| (Decrease)/increase in deferred tax liabilities | (32,122) | 25,137 |
| Increase in inventories | (9,865,735) | (2,715,920) |
| Decrease/(increase) in operating receivables | 926,489 | (52,537) |
| Increase/(decrease) in operating payables | 10,091,211 | (2,088,462) |
| Cost of share-based payment | 52,162 | 150,266 |
| (Increase)/decrease in cash not immediately available for payments | (4,268,930) | 230,164 |
| Net cash flow from operating activities | 2,040,770 | 1,266,617 |

(2) Change in cash and cash equivalents:

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|--|-------------------------------------|-------------------------------------|
| Cash | | |
| Including: Cash on hand | 2,584 | 731 |
| Bank deposit readily available | 36,972,428 | 26,635,929 |
| Cash and cash equivalents at end of period | 36,975,012 | 26,636,660 |

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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

| | 30 June 2020 | 31 December 2019 | |
|--|------------------|---------------------|--------|
| Cash | 2,116,777 | 3,343,511 | Note 1 |
| Trade receivables and contract assets | 202,082 | 222,860 | Note 2 |
| Fixed assets | 617,463 | 49,772 | Note 3 |
| Work in progress | 11,160 | 344,472 | Note 4 |
| Intangible assets | 284,827 | 312,418 | Note 5 |
| Other non-current assets — restricted cash | 3,473,147 | 3,288,091 | Note 6 |
| | 6,705,456 | 7,561,124 | |

Note 1: As at 30 June 2020, the Group's cash subject to ownership restriction amounted to RMB2,116,777,000 (31 December 2019: RMB3,343,511,000), including acceptance bill deposits of RMB21,174,000 (31 December 2019: RMB556,146,000), letter of credit deposits of RMB483,721,000 (31 December 2019: RMB434,039,000), designated funds from private new issue amounting to RMB92,749,000 (31 December 2019: nil), deposit for guarantee letter of RMB196,727,000 (31 December 2019: RMB368,311,000), dues from the People's Bank of China of RMB371,605,000 (31 December 2019: RMB887,492,000), technology grants of RMB882,063,000 (31 December 2019: RMB957,924,000) and risk compensation fund to be released within one year of RMB68,738,000 (31 December 2019: RMB139,599,000).

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 2020, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB257,833,000 (31 December 2019: RMB198,884,000). Risk compensation fund to be released within one year amounting to RMB68,738,000 (31 December 2019: RMB139,599,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB189,095,000 (31 December 2019: RMB59,285,000) was accounted for as other non-current assets.

Note 2: As at 30 June 2020, trade receivables and contract assets with a carrying value of RMB202,082,000 (31 December 2019: RMB222,860,000) were pledged to secure bank borrowing.

Note 3: As at 30 June 2020, fixed assets with a carrying value of RMB617,463,000 (31 December 2019: RMB49,772,000) were pledged to secure bank borrowing; no fixed assets were pledged in connection with asset acquisitions (31 December 2019: Nil).

Note 4: As at 30 June 2020, construction in progress with a carrying value of RMB11,160,000 (31 December 2019: RMB344,472,000) were pledged to secure bank borrowing.

Note 5: As at 30 June 2020, intangible assets with a carrying value of RMB284,827,000 (31 December 2019: RMB312,418,000) were pledged to secure bank borrowings. No intangible assets were pledged as security for asset acquisition (31 December 2019: Nil).

Note 6: As at 30 June 2020, restricted funds represented a RMB2,924,771,000 (31 December 2019: RMB2,869,525,000) 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; a RMB359,281,000 performance bond with a term of over 1 year provided for ZTE in favour of a project partner (31 December 2019: RMB359,281,000); and risk compensation fund to be released after one year amounting to RMB189,095,000 (31 December 2019: RMB59,285,000).

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

58. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

| | | 30 June 2020 | | | 31 December 2019 | | |
|-------------------|---------|-------------------|---------------|----------------|-------------------|---------------|----------------|
| | | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rate | RMB equivalent |
| Cash | USD | 175 | 7.0703 | 1,237 | 174 | 6.9830 | 1,217 |
| | DZD | 730 | 0.0548 | 40 | 2,305 | 0.0586 | 135 |
| | EGP | 52 | 0.4381 | 23 | 55 | 0.4352 | 24 |
| Bank deposit | USD | 660,293 | 7.0703 | 4,668,470 | 635,033 | 6.9830 | 4,434,438 |
| | EUR | 220,813 | 7.9540 | 1,756,347 | 167,128 | 7.8271 | 1,308,125 |
| | IDR | 372,550,280 | 0.0005 | 186,275 | 128,779,835 | 0.0005 | 64,691 |
| | PKR | 4,236,885 | 0.0421 | 178,373 | 2,713,750 | 0.0450 | 122,180 |
| | JPY | 2,259,846 | 0.0657 | 148,472 | 1,612,927 | 0.0642 | 103,558 |
| | GBP | 7,355 | 8.7031 | 64,011 | 1,698 | 9.1651 | 15,559 |
| | ETB | 252,868 | 0.2032 | 51,383 | 244,354 | 0.2196 | 53,651 |
| | MYR | 28,270 | 1.6519 | 46,699 | 18,701 | 1.6976 | 31,747 |
| | RUB | 417,909 | 0.1011 | 42,251 | 995,793 | 0.1128 | 112,326 |
| | EGP | 58,987 | 0.4381 | 25,842 | 110,864 | 0.4352 | 48,253 |
| | DZD | 465,922 | 0.0548 | 25,533 | 577,232 | 0.0586 | 33,809 |
| | HKD | 17,683 | 0.9124 | 16,134 | 20,127 | 0.8968 | 18,050 |
| | CAD | 2,848 | 5.1881 | 14,776 | 6,632 | 5.3473 | 35,464 |
| | THB | 79,800 | 0.2289 | 18,266 | 158,926 | 0.2318 | 36,844 |
| | COP | 6,539,801 | 0.0019 | 12,426 | 3,696,697 | 0.0021 | 7,877 |
| | BRL | 6,226 | 1.2912 | 8,039 | 15,514 | 1.7326 | 26,880 |
| | NPR | 77,453 | 0.0585 | 4,531 | 307,507 | 0.0612 | 18,818 |
| CLP | 526,974 | 0.0087 | 4,585 | 431,037 | 0.0093 | 4,020 | |
| Other cash | USD | 11,747 | 7.0703 | 83,055 | 21,773 | 6.9830 | 152,038 |
| Trade receivables | USD | 725,589 | 7.0703 | 5,130,132 | 1,744,816 | 6.983 | 12,184,049 |
| | INR | 13,516,987 | 0.0936 | 1,265,190 | 21,544,873 | 0.0979 | 2,109,243 |
| | EUR | 126,032 | 7.9540 | 1,002,459 | 306,027 | 7.8271 | 2,395,300 |
| | THB | 267,519 | 0.2289 | 61,235 | 466,332 | 0.2318 | 108,096 |
| | BRL | 34,146 | 1.2912 | 44,089 | 52,442 | 1.7326 | 90,861 |
| Other receivables | USD | 16,825 | 7.0703 | 118,958 | 8,542 | 6.983 | 59,649 |
| | EUR | 10,645 | 7.9540 | 84,670 | 19,781 | 7.8271 | 154,828 |
| | IDR | 87,517,744 | 0.0005 | 43,759 | 65,510,282 | 0.0005 | 32,908 |
| | INR | 232,522 | 0.0936 | 21,764 | 243,921 | 0.0979 | 23,874 |
| | PKR | 358,316 | 0.0421 | 15,085 | 458,385 | 0.0450 | 20,638 |
| Trade payables | USD | 1,390,833 | 7.0703 | 9,833,607 | 328,890 | 6.9830 | 2,296,636 |
| | IDR | 3,133,152,044 | 0.0005 | 1,566,576 | 2,744,341,671 | 0.0005 | 1,378,587 |
| | EUR | 66,479 | 7.9540 | 528,774 | 95,342 | 7.8271 | 746,250 |
| | INR | 2,515,602 | 0.0936 | 235,460 | 3,231,874 | 0.0979 | 316,325 |
| | MXN | 316,428 | 0.3062 | 96,890 | 369,485 | 0.3702 | 136,773 |
| Other payables | USD | 109,500 | 7.0703 | 774,198 | 166,679 | 6.9830 | 1,163,916 |
| | EUR | 83,487 | 7.9540 | 664,056 | 124,316 | 7.8271 | 973,031 |
| | SAR | 10,114 | 1.8854 | 19,069 | 408 | 1.8621 | 759 |
| | GBP | 1,266 | 8.7031 | 11,018 | 1,290 | 9.1651 | 11,823 |
| | TRY | 6,854 | 1.0333 | 7,082 | 6,368 | 1.1755 | 7,486 |
| Short-term loans | USD | 740,702 | 7.0703 | 5,236,983 | 740,240 | 6.9830 | 5,169,096 |
| | EUR | 122,744 | 7.9540 | 976,305 | 128,000 | 7.8271 | 1,001,869 |
| | TRY | 269,000 | 1.0333 | 277,968 | 354,915 | 1.1755 | 417,220 |
| Long-term loans | USD | 830,000 | 7.0703 | 5,868,349 | 530,000 | 6.98300 | 3,700,990 |
| | TRY | 205,000 | 1.0333 | 211,834 | 195,000 | 1.17555 | 229,232 |
| | EUR | 363 | 7.9540 | 2,885 | 363 | 7.82710 | 2,839 |

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

58. Monetary items in foreign currencies (continued)

The Group's principal places of business overseas include the United States, Indonesia and India. Its operating entities in these countries adopt their respective principal currency for conducting business as their book currencies.

VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Changes to the scope of consolidation for other reasons

ZTE Singapore Pte Ltd, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 6 January 2020 and had been excluded from the consolidated financial statements of the Group as from 6 January 2020. ZTE (Albania) Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 20 January 2020 and had been excluded from the consolidated financial statements of the Group as from 20 January 2020. ZICT (Nigeria) Limited, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 27 February 2020 and had been excluded from the consolidated financial statements of the Group as from 27 February 2020. Shenzhen Zhongxin New Energy Technology Company Limited, a tier-two subsidiary of the Company, completed its equity transfer on 4 March 2020. Shenzhen Zhongxin New Energy Technology Company Limited has been excluded from the consolidated financial statements of the Group as from 4 March 2020. ZTE (Lithuania) Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 10 March 2020 and had been excluded from the consolidated financial statements of the Group as from 10 March 2020. Shenzhen Zhongrui Detection Technology Co., Ltd, a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 9 May 2020 and had been excluded from the consolidated financial statements of the Group as from 9 May 2020. Foshan Zhongxing Gaojian New Energy Technology Limited, a tier-two subsidiary of the Company, completed deregistration with industrial and commercial administration authorities on 12 May 2020 and had been excluded from the consolidated financial statements of the Group as from 12 May 2020.

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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 | Information technology | RMB51.08 million | 100% | — |
| Xi'an ZTE Terminal Technology Company Limited | Xi'an | Manufacturing | RMB300 million | 100% | — |
| Xi'an Zhongxing New Software Company Limited | Xi'an | Information technology | RMB600 million | 100% | — |
| Shenzhen Zhongxing Telecom Technology & Service Company Limited | Shenzhen | Telecommunications services | RMB200 million | 90% | 10% |

2. Equity investments in joint ventures and associates

| | Place of registration/ principal place of business | Nature of business | Registered capital | Percentage of Shareholding% | | Accounting method |
|---|---|---|--------------------|-----------------------------|----------|-------------------|
| | | | | Direct | Indirect | |
| Joint Ventures | | | | | | |
| 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 |
| 德特賽維技術有限公司 | PRC | Software development, information technology consultant and information systems integration | RMB60,000,000 | 49% | — | Equity method |
| 重慶百德行置業有限公司* | PRC | Real estate | RMB70,000,000 | 10% | — | Equity method |
| Shaanxi Zhongxing Innovative Investment Fund Partnership Enterprise (Limited Partnership) | PRC | Venture investment, equity investment, investment management and investment consultation | RMB100,000,000 | 40% | — | Equity method |

* The Group had 10% shareholdings in 重慶百德行置業有限公司, which was accounted for as 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(集團)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.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

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.

| | 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 |
| 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 |
| 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 |
| 中興羅維科技江蘇有限公司 | PRC | Energy | RMB20,000,000 | 23% | — | Equity method |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | Zimbabwe | Colour ring and other telecommunications VAS | USD500 | 49% | — | Equity method |
| 中山優順置業有限公司 | PRC | Real estate | RMB10,000,000 | 20% | — | Equity method |
| 铁建聯合(北京)科技有限公司 | PRC | Technology promotion and application services | RMB20,000,000 | 30% | — | Equity method |
| 廣東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 | RMB17,379,000 | 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 |
| Zhongxing Smart Tech Industry Company Limited* | PRC | Manufacturing of computers and related equipment | RMB200,000,000 | 19% | — | Equity method |
| Hengyang ICT Real Estate Co., Ltd | PRC | Real estate | RMB20,000,000 | 30% | — | Equity method |
| 貴州中安雲網科技有限公司* | PRC | Technology and innovative IOT inter-network services | RMB30,000,000 | 9.31% | — | Equity method |
| 陝西高端裝備與智能製造產業研究院有限公司* | PRC | High-end equipment and smart manufacturing, product research, consultation service and technology development | RMB16,000,000 | 12.5% | — | Equity method |
| Laxense, Inc.* | USA | Manufacturing of communication and other electronic equipment | USD2,460,318 | 18.7% | — | Equity 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 |

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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 | |
| Shijiazhuang Smart Industry Company Limited* | PRC | Smart City construction and operation | RMB400,000,000 | 12% | — | Equity method |
| Whale Cloud Technology Co., Ltd. | PRC | Scientific research and technical service | RMB731,074,442 | 29.91% | — | Equity method |
| 江西國投信息科技有限公司 | PRC | Smart city operation | RMB100,000,000 | 15% | — | Equity method |
| 安徽奇英智能科技有限公司 | PRC | Intelligent technology, automobile and Information technology | RMB20,000,000 | 35% | — | Equity method |
| Shenzhen Zhongxin New Energy Technology Company Limited | PRC | Electronic products and new energy vehicles | RMB50,000,000 | 45.9% | — | 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 2020 | 31 December 2019 |
|---|-----------------|---------------------|
| Current assets | 1,850,240 | 2,222,720 |
| Non-current assets | 230,291 | 268,827 |
| Total assets | 2,080,531 | 2,491,547 |
| Current liabilities | 802,540 | 1,116,389 |
| Non-current liabilities | 91,729 | 86,102 |
| Total liabilities | 894,269 | 1,202,491 |
| Non-controlling interests | — | — |
| Equity attributable to shareholders of the parent company | 1,186,262 | 1,289,056 |
| Attributable net assets per shareholding percentage | 591,945 | 643,239 |
| Adjustments | 5,256 | 761 |
| Carrying value of the investment | 597,201 | 644,000 |

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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 2020 | 31 December 2019 |
|---|-----------------|---------------------|
| Joint ventures | | |
| Aggregate carrying value of investments | 106,054 | 114,515 |
| Associates | | |
| Aggregate carrying value of investments | 1,589,197 | 1,568,773 |
| Aggregate amounts of the following attributable to shareholdings: | | |
| Net loss | (8,461) | (3,363) |
| Other comprehensive income | — | — |
| Total comprehensive income | (8,461) | (3,363) |
| Aggregate amounts of the following attributable to shareholdings: | | |
| Net loss | (8,928) | (6,716) |
| Other comprehensive income | 547 | 478 |
| Total comprehensive income | (8,381) | (6,238) |

As at 30 June 2020, there were no contingent liabilities associated with the investments in joint ventures and associates (31 December 2019: 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 2020

Financial assets

| | Financial assets at fair value through current profit and loss | At amortised cost | Measured at fair value through other comprehensive income | Total |
|---|--|-------------------|---|-------------------|
| Cash | — | 45,867,997 | — | 45,867,997 |
| Derivative financial assets | 31,147 | — | — | 31,147 |
| Trading financial assets | 1,066,532 | — | — | 1,066,532 |
| Trade receivables | — | 16,898,230 | — | 16,898,230 |
| Long-term trade receivables | — | 3,110,970 | — | 3,110,970 |
| Factored trade receivables and factored long-term receivables | — | 562,613 | — | 562,613 |
| Financial assets in other receivable | — | 585,877 | — | 585,877 |
| Receivable financing | — | — | 3,987,386 | 3,987,386 |
| Financial assets in other non-current assets | — | 3,467,583 | — | 3,467,583 |
| Other non-current financial assets | 1,530,232 | — | — | 1,530,232 |
| | 2,627,911 | 70,493,270 | 3,987,386 | 77,108,567 |

Financial liabilities

| | Financial liabilities at fair value through current profit and loss | At amortised cost | Total |
|---|---|-------------------|-------------------|
| Derivative financial liabilities | 131,527 | — | 131,527 |
| Bank loans | — | 38,740,253 | 38,740,253 |
| Lease liabilities | — | 1,092,963 | 1,092,963 |
| Bills payable | — | 8,659,782 | 8,659,782 |
| Trade payables | — | 26,907,622 | 26,907,622 |
| Short-term bonds payable | — | 8,000,000 | 8,000,000 |
| Bank advances on factored trade receivables and long-term trade receivables | — | 565,171 | 565,171 |
| Other payables (excluding accruals and staff housing fund contributions) | — | 3,867,683 | 3,867,683 |
| Other non-current liabilities | — | 2,142,205 | 2,142,205 |
| | 131,527 | 89,975,679 | 90,107,206 |

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

31 December 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 | — | 33,309,347 | — | 33,309,347 |
| Derivative financial assets | 106,065 | — | — | 106,065 |
| Trading financial assets | 560,662 | — | — | 560,662 |
| Trade receivables | — | 19,778,280 | — | 19,778,280 |
| Long-term trade receivables | — | 2,819,606 | — | 2,819,606 |
| Factored trade receivables and factored long-term receivables | — | 509,381 | — | 509,381 |
| Financial assets in other receivable | — | 826,308 | — | 826,308 |
| Receivable financing | — | — | 2,430,389 | 2,430,389 |
| Financial assets in other non-current assets | — | 3,288,091 | — | 3,288,091 |
| Other non-current financial assets | 1,594,254 | — | — | 1,594,254 |
| | 2,260,981 | 60,531,013 | 2,430,389 | 65,222,383 |

Financial liabilities

| | Financial liabilities at fair value through current profit and loss | At amortised cost | Total |
|---|---|-------------------|------------|
| Derivative financial liabilities | 126,223 | — | 126,223 |
| Bank loans | — | 36,783,112 | 36,783,112 |
| Lease liabilities | — | 1,165,502 | 1,165,502 |
| Bills payable | — | 9,372,940 | 9,372,940 |
| Trade payables | — | 18,355,610 | 18,355,610 |
| Bank advances on factored trade receivables and long-term trade receivables | — | 510,882 | 510,882 |
| Other payables (excluding accruals and staff housing fund contributions) | — | 3,507,388 | 3,507,388 |
| Other non-current liabilities | — | 2,117,396 | 2,117,396 |
| | 126,223 | 71,812,830 | 71,939,053 |

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that there was nil bills receivable (31 December 2019: RMB79,816,000) which retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 30 June 2020, there were no trade receivables that have been transferred but not settled by the debtors (31 December 2019: RMB41,438,000).

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 2020 the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB16,566,188,000 (31 December 2019: RMB25,798,167,000). 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 2020 | 31 December 2019 |
| Carrying value of assets under continuous involvement | 562,613 | 467,943 |
| Carrying value of liabilities under continuous involvement | 565,171 | 469,406 |

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 2020, the amount of factored trade receivables was RMB562,613,000 (31 December 2019: RMB509,381,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2020, the amount of bank advances on factored trade receivables was RMB565,171,000 (31 December 2019: RMB510,882,000).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets (continued)

Transferred financial assets derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the period. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB3,267,250,000 (31 December 2019: RMB2,009,638,000) 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 RMB32,891,000 (31 December 2019: RMB27,630,000) in respect of the derecognised bills receivable as at the date of transfer.

3. Risks of financial instruments

The Group's daily activities expose it to the risk of a variety of financial instruments, mainly including credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's major financial instruments included cash and bank balances, equity investments, borrowings, notes receivable and trade receivables, notes payable and trade payables, etc. The risks related to these financial instruments and the risk management strategy adopted by the Group to reduce these risks are described as follows.

The Company management is responsible for planning and establishing the risk management framework of the Group, formulating risk management policies and related guidelines of the Group and supervising the implementation of risk management measures. The Group has already developed risk management policies to identify and analyse the risks faced by the Group, which have clearly identified specific risks, covering numerous aspects such as market risk, credit risk and liquidity risk management. The Group regularly assesses the market environment and changes in the Group's business activities to determine whether or not to update its risk management policies and systems. The risk management of the Group is conducted by the operations and management department according to the policy approved by the Company management. The operations and management department identifies, evaluates and avoids related risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports to the Audit Committee of the Group.

The Group spreads the risks of financial instruments by means of the appropriate diversification of its investment and business portfolios, and reduces the risks of concentration on any single industry, particular region or specific trading counterparty by formulating corresponding risk management policies.

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.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

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

Criteria for judging significant increases in credit risk The Company assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Company takes into account the reasonable and substantiated information that is accessible without exerting undue extra cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Company compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to determine changes in the risk of default during the expected lifetime of financial instruments.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met:

- Quantitative criteria are primarily represented by the increase in the probability of default for the remaining lifetime at the reporting date is considered significant comparing with the one at initial recognition.
- Qualitative criteria are primarily represented by the significant adverse change in the debtor's operational or financial status and the watch list for potential default, among others.

Definition of credit-impaired financial assets

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the principal factors considered are as follows:

- Significant financial difficulty of the issuer or debtor;
- Debtors' breach of contract, such as defaulting or becoming overdue on interest or principal payments;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Definition of credit-impaired financial assets (continued)

- 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;
- 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.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Forward-looking information (continued)

For trade receivables and contract assets for which impairment provision for expected credit loss for the entire period has been made, a risk matrix model may be provided in lieu of credit risk rating. The risk matrix may follow the example shown in Note V.4A and V.8.

Liquidity risk

The Group monitors its risk to the shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans.

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarised as follows:

30 June 2020

| | Current | Within 1 year | 1-2 years | 2-3 years | Over 3 years | Total |
|---|------------|---------------|-----------|------------|--------------|------------|
| Bank loans | — | 17,036,559 | 7,340,320 | 14,686,339 | 45,852 | 39,109,070 |
| Lease liabilities | — | 517,200 | 296,179 | 191,212 | 309,448 | 1,314,039 |
| Derivative financial liabilities | — | 131,527 | — | — | — | 131,527 |
| Bills payable | — | 8,659,782 | — | — | — | 8,659,782 |
| Trade payables | 26,907,622 | — | — | — | — | 26,907,622 |
| Short-term bonds payable | — | 8,083,679 | — | — | — | 8,083,679 |
| Bank advances on factored trade receivables and factored long-term trade receivable | — | 252,203 | 152,533 | 144,285 | 16,150 | 565,171 |
| Other payables (excluding accruals and staff housing fund contributions) | 3,867,683 | — | — | — | — | 3,867,683 |
| Other non-current liabilities | — | 86,266 | 13,550 | 7,047 | 2,038,373 | 2,145,236 |
| | 30,775,305 | 34,767,216 | 7,802,582 | 15,028,883 | 2,409,823 | 90,783,809 |

31 December 2019

| | Current | Within 1 year | 1-2 years | 2-3 years | Over 3 years | Total |
|---|------------|---------------|-----------|-----------|--------------|------------|
| Bank loans | — | 27,337,474 | 2,254,612 | 7,894,790 | 40,753 | 37,527,629 |
| Lease liabilities | — | 520,208 | 105,225 | 238,741 | 553,593 | 1,417,767 |
| Derivative financial liabilities | — | 126,223 | — | — | — | 126,223 |
| Bills payable | — | 9,372,940 | — | — | — | 9,372,940 |
| Trade payables | 18,355,610 | — | — | — | — | 18,355,610 |
| Bank advances on factored trade receivables and factored long-term trade receivable | — | 348,866 | 94,745 | 39,913 | 27,358 | 510,882 |
| Other payables (excluding accruals and staff housing fund contributions) | 3,507,388 | — | — | — | — | 3,507,388 |
| Other non-current liabilities | — | 86,266 | 13,238 | 13,871 | 2,340,987 | 2,454,362 |
| | 21,862,998 | 37,791,977 | 2,467,820 | 8,187,315 | 2,962,691 | 73,272,801 |

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 30 June 2020, 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 26.75%. In addition, the Group borrowed an approximately USD1,397 million loan at floating interest rates. As at 30 June 2020, there were no outstanding interest rate swaps (31 December 2019: Nil). Approximately 25% (31 December 2019: 67%) 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 2020 | 25 (25) | (50,897) 50,897 | — — | (50,897) 50,897 |
| Six months ended 30 June 2019 | 25 (25) | (12,932) 12,932 | — — | (12,932) 12,932 |

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.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk (continued)

| | 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 2020 | | | | |
| Weaker RMB against USD | 5% | (19,922) | — | (19,922) |
| Stronger RMB against USD | (5%) | 19,922 | — | 19,922 |
| Six months ended 30 June 2019 | | | | |
| Weaker RMB against USD | 5% | 514,280 | — | 514,280 |
| Stronger RMB against USD | (5%) | (514,280) | — | (514,280) |

| | 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 2020 | | | | |
| Weaker RMB against EUR | 5% | 72,910 | — | 72,910 |
| Stronger RMB against EUR | (5%) | (72,910) | — | (72,910) |
| Six months ended 30 June 2019 | | | | |
| Weaker RMB against EUR | 5% | 144,333 | — | 144,333 |
| Stronger RMB against EUR | (5%) | (144,333) | — | (144,333) |

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 2020.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

4. Capital management (continued)

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 2020 | 31 December 2019 |
|---|-----------------|---------------------|
| Interest-bearing bank borrowings | 38,740,253 | 36,783,112 |
| Lease liabilities | 1,092,963 | 1,165,502 |
| Short-term bonds payable | 8,000,000 | — |
| Bank advances on factored receivables and long-term trade receivables | 565,171 | 510,882 |
| Total interest-bearing liabilities | 48,398,387 | 38,459,496 |
| Owners' equity | 44,276,795 | 37,954,298 |
| Total equity and interest-bearing liabilities | 92,675,182 | 76,413,794 |
| Gearing ratio | 52.2% | 50.3% |

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

30 June 2020

| | Input applied in the measurement of fair value | | | Total |
|--------------------------------------|--|--|--|-----------|
| | Quoted prices in active markets Level 1 | Significant observable inputs Level 2 | Significant unobservable inputs Level 3 | |
| Continuous measurement of fair value | | | | |
| Derivative financial assets | — | 31,147 | — | 31,147 |
| Trading financial assets | 119,395 | 70,137 | 877,000 | 1,066,532 |
| Other non-current financial assets | — | — | 1,530,232 | 1,530,232 |
| Receivable financing | — | 3,988,399 | — | 3,988,399 |
| Investment properties | | | | |
| Leased buildings | — | — | 1,960,864 | 1,960,864 |
| | 119,395 | 4,089,683 | 4,368,096 | 8,577,174 |
| Derivative financial liabilities | — | (131,527) | — | (131,527) |
| | — | (131,527) | — | (131,527) |

Notes to Financial Statements

(Prepared under PRC ASBES)
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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

1. Assets and liabilities measured at fair value (continued)

31 December 2019

| | Input applied in the measurement of fair value | | | Total |
|--------------------------------------|--|--|--|-----------|
| | Quoted prices in active markets Level 1 | Significant observable inputs Level 2 | Significant unobservable inputs Level 3 | |
| Continuous measurement of fair value | | | | |
| Derivative financial assets | — | 106,065 | — | 106,065 |
| Trading financial assets | 116,220 | 37,435 | 407,007 | 560,662 |
| Other non-current financial assets | — | — | 1,594,254 | 1,594,254 |
| Receivable financing | — | 2,430,389 | — | 2,430,389 |
| Investment properties | | | | |
| Leased buildings | — | — | 1,957,242 | 1,957,242 |
| | 116,220 | 2,573,889 | 3,958,503 | 6,648,612 |
| Derivative financial liabilities | — | (126,223) | — | (126,223) |
| | — | (126,223) | — | (126,223) |

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 2020, 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 2020, 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 2020 was RMB1,960,864,000 (31 December 2019: RMB1,957,242,000).

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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 2020

| | Fair value at end of period | Valuation techniques | Unobservable inputs | Range (weighted average) |
|------------------------------|-----------------------------|-----------------------------|---|--|
| Commercial properties | RMB1,960,864,000 | Discounted cash flow method | Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate | RMB51–RMB513 2%–5% 0.5%–5.9% |
| Equity instrument investment | RMB2,407,232,000 | Market method | Discount rate Liquidity discount rate P/E EV/Revenue EV/EBIT | 7.50%–8.25% 4%–30% 13–67 2–6 11–14 |

31 December 2019

| | Fair value at end of period | Valuation techniques | Unobservable inputs | Range (weighted average) |
|------------------------------|-----------------------------|-----------------------------|---|--|
| Commercial properties | RMB1,957,242,000 | Discounted cash flow method | Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate | RMB51–RMB513 2%–5% 0.5%–5.9% |
| Equity instrument investment | RMB2,001,261,000 | Market method | Discount rate Liquidity discount rate P/E EV/Revenue EV/EBIT | 7.50%–8.25% 4%–30% 13–67 2–6 11–14 |

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorised within Level 3 of the fair value hierarchy:

30 June 2020

| | Opening balance | Transfer into Level 3 | Transfer out of Level 3 | Through profit or loss | Addition | Disposal | Closing balance | Change in unrealised profit or loss for the period of assets held at end of period included in profit and loss |
|------------------------------------|-----------------|-----------------------|-------------------------|------------------------|----------|----------|-----------------|--|
| Investment properties | 1,957,242 | — | — | 3,622 | — | — | 1,960,864 | 3,622 |
| Trading financial assets | 407,007 | — | (90,971) | 547,022 | 13,942 | — | 877,000 | 547,022 |
| Other non-current financial assets | 1,594,254 | — | — | 11,469 | 7,930 | (83,421) | 1,530,232 | (24,515) |
| Total | 3,958,503 | — | (90,971) | 562,113 | 21,872 | (83,421) | 4,368,096 | 526,129 |

31 December 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 loss for the period of assets held at end of period included in profit and loss |
|------------------------------------|-----------------|-----------------------|-------------------------|------------------------|----------|-----------|-----------------|--|
| Investment properties | 2,011,999 | — | (62,000) | 7,243 | — | — | 1,957,242 | 7,243 |
| Trading financial assets | 49,052 | 70,581 | (49,052) | 336,426 | — | — | 407,007 | 336,426 |
| Other non-current financial assets | 1,502,499 | 60,000 | (70,581) | 209,295 | 4,793 | (111,752) | 1,594,254 | 157,961 |
| Total | 3,563,550 | 130,581 | (181,633) | 552,964 | 4,793 | (111,752) | 3,958,503 | 501,630 |

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 2020 Relating to non-financial assets | Six months ended 30 June 2019 Relating to non-financial assets |
|--|---|---|
| Total profit or loss for the period included in profit and loss | 3,622 | 3,320 |
| Change in unrealised profit or loss for the period of assets held at the end of the period | 3,622 | 3,320 |

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.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

| Name of controlling shareholder | Place of registration | Nature of business | Registered capital | Percentage of shareholding | Percentage of voting rights |
|--------------------------------------|-----------------------|--------------------|--------------------|----------------------------|-----------------------------|
| Zhongxingxin Telecom Company Limited | Shenzhen, Guangdong | Manufacturing | RMB100 million | 23.40% | 23.40% |

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.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

| | Relationship |
|---|---|
| Sindi Technologies Co., Ltd. | Subsidiary of the Company's controlling shareholder |
| ZTE Quantum Co., Ltd. | Subsidiary of the Company's controlling shareholder |
| Shenzhen Zhongxingxin Cloud Service Company Limited | Subsidiary of the Company's controlling shareholder |
| 深圳市中興新力精密機電技術有限公司 | Subsidiary of the Company's controlling shareholder |
| Pylon Technologies Co., Ltd. | Subsidiary of the Company's controlling shareholder |
| Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited | Subsidiary of the Company's controlling shareholder |
| 深圳市星楷通訊設備有限公司 | Subsidiary of the Company's controlling shareholder |
| 安徽中興聚力精密機電技術有限公司 | Subsidiary of the Company's controlling shareholder |
| Shenzhen Xinyu Tengyue Electronics Co., Ltd | Investee company of Company's controlling shareholder and company for which a connected natural person of the Company acted as director |
| Zhongxing Development Company Limited | Company for which a connected natural person of the Company acted as director and executive vice president |
| Huatong Technology Co., Ltd. | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| Huatong Software Technology (Nanjing) Company Limited | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| ZTE Software Technology (Shenyang) Company Limited | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| 杭州中興中投物業管理有限公司 | 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 |
| 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 |

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

| | Relationship |
|--|--|
| 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 |
| Shenzhen ZTE International Investment Company Limited | Company for which a connected natural person of the Company acted as chairman |
| Tianjin ZTE International Investment Company Limited | Subsidiary of a company for which a connected natural person of the Company acted as chairman |
| Shenzhen Zhongxing WXT Equipment Company Limited | Company for which a connected natural person of the Company acted as director |
| 北京中興協力科技有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as director |
| Shenzhen Zhongxing Information Company Limited | Company for which a connected natural person of the Company acted as director |
| CASIC Shenzhen (Group) Company Limited | Company for which a connected natural person of the Company served as senior management |
| 航天歐華信息技術有限公司 | Subsidiary of a company for which a connected natural person of the Company served as senior management |
| 廣東歐科空調製冷有限公司 | A company for which a connected natural person of the Company acted as director |
| 深圳市中興宜和投資發展有限公司 | A company for which a connected natural person of the Company acted as director |
| Xi'an Microelectronics Technology Research Institute*1 | Entity at which a connected natural person of the Company had previously acted as head |
| Lishan Microelectronics Corporation | Company for which a connected natural person of the Company acted as executive director and general manager |
| 深圳中興新源環保股份有限公司 | Company for which a connected natural person of the Company acted as chairman |
| 上海中興科源實業有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as chairman |
| 鄭州中興綠色產業有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as chairman |
| 深圳中興節能環保股份有限公司 | Company for which a connected natural person of the Company acted as vice chairman |
| Whale Cloud Technology (Changsha) Co., Ltd. | Subsidiary of an associate of the Company |
| Zhongxing Energy (Shenzhen) Limited | Subsidiary of an associate of the Company |
| Nanjing Zhongxing Ruanchuang Software Technology Company Limited | Subsidiary of an associate of the Company |
| 重慶前沿城市大數據管理有限公司 | Subsidiary of an associate of the Company |
| 中興能源(天津)節能服務有限公司 | Subsidiary of an associate of the Company |
| 南京中興和泰酒店管理有限公司 | Subsidiary of an associate of the Company |
| 西安中興和泰酒店管理有限公司 | Subsidiary of an associate of the Company |
| 上海市和而泰酒店投資管理有限公司 | Subsidiary of an associate of the Company |
| 玄雀數據科技(南京)有限公司 | Subsidiary of an associate of the Company |

*1 The connected natural person of the Company has ceased to be the head of the institute as from 26 November 2019 and the institute will cease to be a connected party of the Company as from 26 November 2020.

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(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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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 2020 Amount | Six months ended 30 June 2019 Amount |
|---|---|---|
| Zhongxingxin Telecom Company Limited | 31 | 48 |
| Whale Cloud Technology Co., Ltd. | — | 1,123 |
| Puxing Mobile Tech Company Limited | 2,103 | 10,684 |
| Sindi Technologies Co., Ltd | 153 | 6,092 |
| 航天歐華信息技術有限公司 | 456,384 | 280,655 |
| Telecom Innovations | 285 | 645 |
| Shenzhen Zhongxingxin Cloud Service Company Limited | 231 | 415 |
| Shenzhen Zhongxing Information Company Limited | 3,648 | 1,305 |
| 上海中興思秸通訊有限公司 | 439 | 207 |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | 36 | 63 |
| 南京中興和泰酒店管理有限公司 | 9 | 128 |
| 西安中興和泰酒店管理有限公司 | 724 | 1,186 |
| Nubia Technology Limited | 298,016 | 150,450 |
| Zhongxing Development Company Limited | 29 | — |
| Whale Cloud Technology (Changsha) Co., Ltd | 3 | — |
| 江西國投信息科技有限公司 | 7,451 | — |
| 上海博色信息科技有限公司 | 1,046 | — |
| Shenzhen Zhongxin New Energy Technology Company Limited | 173 | — |
| 深圳市星楷通訊設備有限公司 | 5,744 | — |
| ZTE Energy (Shenzhen) Limited | 3 | — |
| 上海市和而泰酒店投資管理有限公司 | 650 | 962 |
| Huanggang Education Valley Investment Holdings Co., Ltd. | — | 26 |
| | 777,158 | 453,989 |

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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 2020 Amount | Six months ended 30 June 2019 Amount |
|---|---|---|
| Zhongxingxin Telecom Company Limited | — | 1,062 |
| Sindi Technologies Co., Ltd | 75,863 | 40,080 |
| Shenzhen Xinyu Tengyue Electronics Co., Ltd | 11,446 | 9,387 |
| ZTE Software Technology (Nanchang) Company Limited | 12,036 | 4,492 |
| 深圳市中興新力精密機電技術有限公司 | 71,218 | 92,596 |
| Huatong Technology Company Limited | 23,235 | 19,415 |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | 4,855 | 11,130 |
| 南京中興和泰酒店管理有限公司 | 2,197 | 2,132 |
| 上海市和而泰酒店投資管理有限公司 | 2,282 | 1,875 |
| 西安中興和泰酒店管理有限公司 | 1,266 | 2,132 |
| Pylon Technologies Co., Ltd | 22,845 | 66,012 |
| Nubia Technology Limited | 98,240 | 39,471 |
| ZTE Software Technology (Shenyang) Company Limited | 5,908 | 2,616 |
| 廣東歐科空調製冷有限公司 | 1,747 | — |
| Whale Cloud Technology Co., Ltd. | 179,717 | 2,927 |
| 安徽中興聚力精密機電技術有限公司 | 552 | — |
| | 513,407 | 295,327 |

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(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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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 2020 Lease income | Six months ended 30 June 2019 Lease income |
|--|---------------------------------------|--|--|
| Puxing Mobile Tech Company Limited | Office | — | 348 |
| Hengyang ICT Real Estate Co., Ltd. | Office | — | 6 |
| 上海中興思秸通訊有限公司 | Office | 192 | 180 |
| 上海中興科源實業有限公司 | Office | 208 | 208 |
| Huatong Software Technology (Nanjing) Company Limited | Office | 184 | 185 |
| Shenzhen Zhongxingxin Cloud Service Company Limited | Office | 397 | 560 |
| Zhongxing Feiliu Information Technology Company Limited | Office | 300 | — |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | Property and equipment and facilities | 8,957 | 8,738 |
| 南京中興和泰酒店管理有限公司 | Property and equipment and facilities | 4,203 | 9,773 |
| 上海市和而泰酒店投資管理有限公司 | Property and equipment and facilities | 10,003 | 4,139 |
| 西安中興和泰酒店管理有限公司 | Property and equipment and facilities | 13,533 | 13,364 |
| 深圳中興節能環保股份有限公司 | Office | 88 | 59 |
| 深圳市中興新力精密機電技術有限公司 | Office | 6 | 6 |
| | | 38,071 | 37,566 |

Notes to Financial Statements

(Prepared under PRC ASBEs)
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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

As lessee

| Property leased | | Six months ended 30 June 2020 Lease expenses | Six months ended 30 June 2019 Lease expenses |
|--|---------------------|--|--|
| Zhongxingxin Telecom Company Limited | Office | 5,112 | 4,697 |
| Zhongxing Development Company Limited | Office | 867 | 704 |
| Chongqing Zhongxing Development Company Limited | Office | 3,989 | 3,823 |
| 三河中興發展有限公司 | Office | 7,283 | 6,159 |
| 三河中興物業服務有限公司 | Office | 1,864 | 2,002 |
| Tianjin ZTE International Investment Company Limited | Office | 2,183 | 2,359 |
| Hangzhou Zhongxing Development Company Limited | Quarters and plants | — | 48 |
| | | 21,298 | 19,792 |

(3) Other major related transactions

| | Six months ended 30 June 2020 Amount | Six months ended 30 June 2019 Amount |
|--|--|--|
| Remuneration of key management personnel | 5,968 | 4,976 |

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 RMB38,071,000 (Six months ended 30 June 2019: RMB37,566,000) 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 RMB21,298,000 (Six months ended 30 June 2019: RMB19,792,000) was recognized in accordance with relevant lease contracts.

Notes to Financial Statements

(Prepared under PRC ASBES)
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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(3) Other major related transactions (continued)

Notes: (continued)

- (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 RMB5,968,000 (Six months ended 30 June 2019: RMB4,976,000). The corresponding cost for share-based payment was RMB842,000 (Six months ended 30 June 2019: RMB1,056,000). 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.

6. Balances of amounts due from/to related parties

| Item | Name of related parties | 30 June 2020 Amount | 31 December 2019 Amount |
|---------------------------------------|--|---------------------------|-------------------------------|
| Other current assets/bills receivable | 航天歐華信息技術有限公司 | 3,183 | 87,756 |
| | | 3,183 | 87,756 |
| Trade receivable | Puxing Mobile Tech Company Limited | 9,513 | 17,772 |
| | Zhongxingxin Telecom Company Limited | — | 33 |
| | Xi'an Microelectronics Technology Research Institute | 9 | 9 |
| | 航天歐華信息技術有限公司 | 6,738 | 9,515 |
| | ZTE Software Technology (Nanchang) Company Limited | 650 | 650 |
| | Huanggang Education Valley Investment Holdings Co., Ltd. | 902 | 902 |
| | Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | — | — |
| | Nubia Technology Limited | 95,346 | 157,533 |
| | Whale Cloud Technology Co., Ltd. | 178,043 | 180,125 |
| | Shenzhen Zhongxing Information Company Limited | 3,154 | 730 |
| | 上海中興思積通訊有限公司 | — | 64 |
| | Shenzhen Zhongxingxin Cloud Service Company Limited | 241 | 241 |
| | Whale Cloud Technology (Changsha) Co., Ltd | 1 | 1 |
| | Shenzhen Zhongxin New Energy Technology Company Limited | 193 | — |
| | | 294,790 | 367,575 |

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(Prepared under PRC ASBES)
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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 2020 Amount | 31 December 2019 Amount |
|-------------------|--|---------------------------|-------------------------------|
| Prepayments | Zhongxingxin Telecom Company Limited | — | 73 |
| | Whale Cloud Technology Co., Ltd. | 997 | — |
| | Laxense, Inc. | 2,926 | 3,842 |
| | Puxing Mobile Tech Company Limited | 231 | — |
| | Whale Cloud Technology (Changsha) Co., Ltd | 73,974 | — |
| | | 78,128 | 3,915 |
| Other receivables | 南京中興和泰酒店管理有限公司 | 4,169 | 4,172 |
| | ZTE 9 (Wuxi) Co., Ltd | 90 | 90 |
| | Shenzhen Zhongxing Information Company Limited | 14 | 14 |
| | Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | 4,444 | 7,124 |
| | Sindi Technologies Co., Ltd. | — | 445 |
| | 西安中興和泰酒店管理有限公司 | 10,809 | 7,276 |
| | 山東興濟置業有限公司 | 20,591 | 21,761 |
| | 上海市和而泰酒店投資管理有限公司 | 30,184 | 30,086 |
| | Whale Cloud Technology Co., Ltd | 640 | 640 |
| | Shenzhen Zhongxin New Energy Technology Company Limited | 1,255 | — |
| | 上海中興思積通訊有限公司 | 201 | — |
| | Zhongxing Feiliu Information Technology Company Limited | 51 | — |
| | | 72,448 | 71,608 |

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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 2020 Amount | 31 December 2019 Amount |
|------------------|---|---------------------------|-------------------------------|
| Bills payable | Shenzhen Xinyu Tengyue Electronics Co., Ltd | 80 | 43 |
| | Sindi Technologies Co., Ltd. | 884 | 39,408 |
| | | 964 | 39,451 |
| Trade payables | Zhongxingxin Telecom Company Limited | 2,199 | 6,494 |
| | Shenzhen Xinyu Tengyue Electronics Co., Ltd | 890 | 4,323 |
| | Sindi Technologies Co., Ltd. | 26,507 | 424 |
| | Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited | 183 | 183 |
| | Shenzhen Zhongxing WXT Equipment Company Limited | 327 | 327 |
| | Shenzhen Zhongxing Information Company Limited | 1,312 | 2,915 |
| | Puxing Mobile Tech Company Limited | — | 30 |
| | Xi'an Microelectronics Technology Research Institute | 192 | 192 |
| | ZTE 9 (Wuxi) Co., Ltd | 83 | 83 |
| | Nubia Technology Limited | 26,423 | 91,282 |
| | Kron Telekomunikasyon Hizmetleri A.S. | — | 617 |
| | 廣東歐科空調製冷有限公司 | 363 | 200 |
| | Pylon Technologies Co., Ltd. | 1,622 | 12,062 |
| | Whale Cloud Technology Co., Ltd. | 635,461 | 680,225 |
| | 深圳市中興新力精密機電技術有限公司 | 32,838 | 26,763 |
| 安徽中興聚力精密機電技術有限公司 | 195 | — | |
| | 728,595 | 826,120 | |

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(All amounts in RMB'000 unless otherwise stated)
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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 2020 Amount | 31 December 2019 Amount | |
|--|--|--|-------------------------------|-----|
| Contract liabilities | ZTE Software Technology (Nanchang) Company Limited | 5,327 | 5,327 | |
| | Puxing Mobile Tech Company Limited | 2,184 | 4,273 | |
| | Xi'an Microelectronics Technology Research Institute | 1,628 | 1,628 | |
| | 北京中興協力科技有限公司 | 155 | 155 | |
| | 航天歐華信息技術有限公 | 117,932 | 28,946 | |
| | ZTE Software Technology (Shenyang) Company Limited | 4 | 4 | |
| | ZTE Energy Limited | — | 6 | |
| | ZTE 9 (Wuxi) Co., Ltd | — | 1 | |
| | Whale Cloud Technology Co., Ltd. | 5,579 | 8,361 | |
| | Huanggang Education Valley Investment Holdings Co., Ltd. | — | 17 | |
| | 深圳市中興宜和投資發展有限公司 | 40 | 40 | |
| | Zhongxing Development Company Limited | — | 30 | |
| | ZTE Quantum Co., Ltd. | — | 38 | |
| | Shenzhen Zhongxing Information Company Limited | 2,025 | 1,570 | |
| | | 134,874 | 50,396 | |
| | Other payables | Shenzhen Zhongxing WXT Equipment Company Limited | 12 | 12 |
| | | Zhongxingxin Telecom Company Limited | 310 | 310 |
| 深圳中興新源環保股份有限公司 | | 4 | 4 | |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | | 5,394 | 5,261 | |
| 中山優順置業有限公司 | | 2,000 | 2,000 | |
| Huanggang Education Valley Investment Holdings Co., Ltd. | | 367 | 78 | |
| Hengyang ICT Real Estate Co., Ltd | | 198 | 198 | |
| 山東興濟置業有限公司 | | 272 | 272 | |
| ZTE Software Technology (Nanchang) Company Limited | | 352 | 50 | |
| Lishan Microelectronics Corporation | | 65 | 65 | |
| Nanjing Zhongxing Ruanchuang Software Technology Company Limited | | 47,883 | 47,883 | |
| 玄雀數據科技(南京)有限公司 | | 47,264 | 47,264 | |
| 深圳市中興宜和投資發展有限公司 | | 1,680 | — | |
| 南京中興和泰酒店管理有限公司 | | 2,062 | — | |
| Shenzhen Zhongxin New Energy Technology Company Limited | | 300 | — | |
| Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited | 17 | — | | |
| 深圳市星楷通訊設備有限公司 | 2,597 | 4,053 | | |
| | 110,777 | 107,450 | | |

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

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 2020 Amount | 31 December 2019 Amount |
|-------------------|---|---------------------------|-------------------------------|
| Lease liabilities | Zhongxingxin Telecom Company Limited | 9,316 | 14,141 |
| | Zhongxing Development Company Limited | 1,779 | 2,612 |
| | Chongqing Zhongxing Development Company Limited | 7,374 | 13,226 |
| | 三河中興發展有限公司 | 36,845 | 8,716 |
| | 三河中興物業服務有限公司 | 7,126 | 35 |
| | | 62,440 | 38,730 |

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 2020 Amount | 31 December 2019 Amount |
|-----------------|---------------------------|-------------------------------|
| 深圳市中興宜和投資發展有限公司 | 89 | 89 |
| | 89 | 89 |

(2) Interest expenses

| | For the six months ended 30 June 2020 Amount | For the six months ended 30 June 2019 Amount |
|---|--|--|
| Zhongxing Feiliu Information Technology Company Limited | 1 | — |
| Shenzhen Zhongxin New Energy Technology Company Limited | 54 | — |
| | 55 | — |

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XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|-------------------------------------|-------------------------------------|
| Accumulated balance of equity-settled share-based payments credited to capital reserves | 295,608 | 589,057 |
| Transfer of equity-settled share-based payment cost to capital reserve share capital premium on exercise of share options | (46,910) | — |
| Total costs of equity-settled share-based payments in the period | 52,162 | 150,266 |

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 | 2019.7.6–2020.7.5 | ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million |
| Second exercise period ("Second Period") | 1/3 | 2020.7.6–2021.7.5 | ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million |
| Third exercise period ("Third Period") | 1/3 | 2021.7.6–2022.7.5 | ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825 million |

The fair value of the share options granted amounted to RMB1,477,496,000. Due to the non-fulfillment of exercise conditions for the second vesting period, the Group recognised share option expenses of RMB52,162,000 for the first six months of 2020 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 2020 | | 31 December 2019 | |
|--------------------------------|---|------------------------------------|---|------------------------------------|
| | 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 | 44,532 | 17.06 | 81,864 |
| Exercised during the period | | (4,806) | | (34,858) |
| Lapsed | | — | | (2,474) |
| At the end of the period | 17.06 | 39,726 | 17.06 | 44,532 |

Notes to Financial Statements

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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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 2020

| Number of share options In '000 | Exercise price RMB/share | Valid exercise period |
|------------------------------------|-----------------------------|----------------------------|
| — | 17.06 | 6 July 2019 to 5 July 2020 |
| 39,726 | 17.06 | 6 July 2021 to 5 July 2022 |
| 39,726 | | |

31 December 2019

| Number of share options In '000 | Exercise price RMB/share | Valid exercise period |
|------------------------------------|-----------------------------|----------------------------|
| 4,806 | 17.06 | 6 July 2019 to 5 July 2020 |
| 39,726 | 17.06 | 6 July 2021 to 5 July 2022 |
| 44,532 | | |

During the six months ended 30 June 2020, the Company issued 4,805,995 ordinary shares following the exercise of 4,805,995 share options, resulting in additional share capital of RMB4,806,000 and a share capital premium of RMB122,558,000. Please refer to Note V.34 and 35.

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 | 5% | 5% | 5% |
| | Directors & senior management | | |
| | 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

| | 30 June 2020 | 31 December 2019 |
|--------------------------------|------------------|---------------------|
| Contracted but not provided of | | |
| Capital commitments | 3,196,257 | 3,097,021 |
| Investment commitments | 46,246 | 68,246 |
| | 3,242,503 | 3,165,267 |

2. Contingent events

2.1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB40,484,300). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB40,317,300), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB40,317,300) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB40,317,300) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

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

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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 (All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

- 2.2. On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) ("ZTE") from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644) on 23 April 2018.

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017. 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.2. (continued)

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and sophisticated export control compliance experts with global coverage and engaged a number of counsels and consultants; established and optimized the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System to automate export compliance management; carried out ECCN Publication Project, makes available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the Export Administration Regulations; continued to provide comprehensive online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring; and made continuous investment on the work on export control compliance.

In 2020, the Company will continually comply with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses.

Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as foundation to the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually build its value for its customers, shareholders, and employees, and build a compliant and healthy business environment with customers and partners through the dedication and vigilance to export compliance of every employee.

During the period from 1 January 2020 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent events will not have any material adverse impact on the current financial conditions and operating results of the Group.

- 2.3. 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.4. As at 30 June 2020, an amount of RMB12,969,004,000 (31 December 2019: RMB13,559,281,000) was outstanding under the bank guarantee letters issued by the Group.

XIII. 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 2020 | Six months ended 30 June 2019 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Interest expense on lease liabilities | 44,961 | 32,669 |
| Short-term lease expenses | 98,266 | 177,029 |

As lessor

Finance leasing:

Profit or loss relating to finance leases is set out as follows:

| | Six months ended 30 June 2020 |
|-------------------------------------|-------------------------------------|
| Interest income from finance leases | 32,897 |
| | 32,897 |

As at 30 June 2020, the balance of unrealised finance income amounting to RMB209,608,000 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 2020 |
|---|--------------|
| In the second to third years (including third year) | 1,824,100 |
| Less: unrealised finance income | 209,608 |
| Lease investment, net | 1,614,492 |

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XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

1. Leases (continued)

As lessor (continued)

Operating lease:

Profit or loss relating to operating leases is set out as follows:

| | Six months ended 30 June 2020 |
|--------------|-------------------------------------|
| Lease income | 68,782 |

Operating lease: according to the lease contract signed with lessee, minimum lease payments under non-cancellable operating leases falling due are as follows:

| | 30 June 2020 |
|----------------------------------|--------------|
| Within 1 year (including 1 year) | 135,704 |
| 1 to 2 years (including 2 years) | 94,154 |
| 2 to 3 years (including 3 years) | 54,695 |
| 3 to 4 years (including 4 years) | 50,227 |
| 4 to 5 years (including 5 years) | 52,302 |
| More than 5 years | 193,635 |
| | 580,717 |

The Group entered into operating property leasing contracts with terms ranging from 1 year to 15 years with certain lessees, as shown in Note V.12. The leased properties were accounted for as investment properties.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting

Operating segment

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

- (1) Carriers' networks is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, telecommunication software systems and services and other innovative technologies and product solutions;
- (2) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, 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, short-term bonds payable, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

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XIII. 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 2020 | | | | |
| Revenue from external transactions | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |
| Rental income | — | — | 68,782 | 68,782 |
| Sub-total | 34,969,589 | 7,413,186 | 4,816,598 | 47,199,373 |
| Segment results | 9,558,202 | 1,042,922 | 927,505 | 11,528,629 |
| Unallocated revenue | | | | 915,830 |
| Unallocated cost | | | | (9,284,563) |
| Finance costs | | | | (632,833) |
| Gain from changes in fair values | | | | 377,724 |
| Investment gain from associates and joint ventures | | | | (63,816) |
| Total profit | | | | 2,840,971 |
| Total assets | | | | |
| 30 June 2020 | | | | |
| Segment assets | 54,150,990 | 10,332,253 | 7,458,581 | 71,941,824 |
| Unallocated assets | | | | 93,490,540 |
| Sub-total | | | | 165,432,364 |
| Total liabilities | | | | |
| Segment liabilities | 11,768,197 | 1,738,095 | 1,620,913 | 15,127,205 |
| Unallocated liabilities | | | | 106,028,364 |
| Sub-total | | | | 121,155,569 |
| Supplemental information | | | | |
| Six months ended 30 June 2020 | | | | |
| Depreciation and amortization expenses | 1,263,094 | 267,763 | 450,140 | 1,980,997 |
| Capital expenditure | 2,213,218 | 469,179 | 454,903 | 3,137,300 |
| Asset impairment losses | (104,986) | (22,256) | (14,461) | (141,703) |
| Credit impairment loss | (206,815) | (43,843) | (28,485) | (279,143) |

Notes to Financial Statements

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

XIII. 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 | | | | |
| 31 December 2019 | | | | |
| Segment assets | 46,843,989 | 9,479,379 | 6,440,646 | 62,764,014 |
| Unallocated assets | | | | 78,438,121 |
| Sub-total | | | | 141,202,135 |
| Total liabilities | | | | |
| Segment liabilities | 11,511,610 | 1,933,582 | 1,582,747 | 15,027,939 |
| Unallocated liabilities | | | | 88,219,898 |
| Sub-total | | | | 103,247,837 |
| 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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XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group Information

Geographic information

Revenue from external customers

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|-----------------------------|--|-------------------------------------|
| PRC | 31,751,164 | 27,421,729 |
| Asia (excluding PRC) | 6,923,102 | 7,807,728 |
| Africa | 2,522,750 | 2,715,340 |
| Europe, America and Oceania | 6,002,357 | 6,664,422 |
| | 47,199,373 | 44,609,219 |

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

| | 30 June 2020 | 31 December 2019 |
|-----------------------------|-------------------------|---------------------|
| PRC | 20,819,298 | 19,844,745 |
| Asia (excluding PRC) | 1,705,524 | 1,651,432 |
| Africa | 539,127 | 562,167 |
| Europe, America and Oceania | 143,395 | 49,331 |
| | 23,207,344 | 22,107,675 |

Non-current assets, excluding long-term receivables, factored long-term receivables, long-term equity investments, other non-current financial assets, deferred tax assets, goodwill and other non-current assets, are analysed by geographic locations where the assets are located.

Information of major customers

Operating revenue of RMB14,884,180,000 was derived from carriers' networks and handset terminal revenue from one major customer (first half of 2019: RMB11,950,398,000 from one major customer).

Notes to Financial Statements

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

The aging analysis of trade receivables is set out as follows:

| | 30 June 2020 | 31 December 2019 |
|--|-------------------|---------------------|
| Within 1 year | 12,546,316 | 13,772,606 |
| 1-2 years | 2,370,309 | 7,173,545 |
| 2-3 years | 4,159,008 | 3,636,401 |
| Over 3 years | 10,139,467 | 11,285,660 |
| | 29,215,100 | 35,868,212 |
| Less: bad debt provision for trade receivables | 8,797,765 | 10,974,675 |
| | 20,417,335 | 24,893,537 |

| | 30 June 2020 | | | | 31 December 2019 | | | |
|--|-------------------|-------------------|--|-------------------|-------------------|-------------------|--|-------------------|
| | 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 | 4,019,259 | 14 | 4,019,259 | 100 | 6,237,644 | 17 | 6,237,644 | 100 |
| For which bad debt provision has been collectively made | | | | | | | | |
| 0-6 months | 8,329,970 | 28 | 214,875 | 3 | 9,542,656 | 27 | 218,276 | 2 |
| 6-12 months | 3,193,792 | 11 | 77,963 | 2 | 3,267,561 | 9 | 74,955 | 2 |
| 12-18 months | 1,195,518 | 4 | 154,909 | 13 | 2,824,007 | 8 | 155,611 | 6 |
| 18-24 months | 876,717 | 3 | 102,949 | 12 | 2,291,844 | 6 | 79,193 | 3 |
| 2-3 years | 2,303,090 | 8 | 615,929 | 27 | 3,366,571 | 10 | 989,417 | 29 |
| Over 3 years | 9,296,754 | 32 | 3,611,881 | 39 | 8,337,929 | 23 | 3,219,579 | 39 |
| | 25,195,841 | 86 | 4,778,506 | 18 | 29,630,568 | 83 | 4,737,031 | 16 |
| | 29,215,100 | 100 | 8,797,765 | | 35,868,212 | 100 | 10,974,675 | |

Movements in bad-debt provisions for trade receivables:

| | Opening balance | Provision/ reversal for the period | Write off for the period | Closing balance |
|------------------|--------------------|--|-----------------------------|--------------------|
| 30 June 2020 | 10,974,675 | 293,501 | (2,470,411) | 8,797,765 |
| 31 December 2019 | 9,557,940 | 2,638,857 | (1,222,122) | 10,974,675 |

As at 30 June 2020, RMB47,654,000 (2019: Nil).was reversed in respect of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately. There was a write-off in the amount of RMB2,470,411,000 (31 December 2019: RMB1,222,122,000) in respect of bad-debt provision for trade receivables.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

Notes to Financial Statements

(Prepared under PRC ASBEs)
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(English translation for reference only)

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

2. Other receivables

The aging analysis of other receivables:

| | 30 June 2020 | 31 December 2019 |
|--------------------|-------------------|---------------------|
| Within 1 year | 23,799,580 | 25,056,517 |
| 1-2 years | 3,333,770 | 3,374,021 |
| 2-3 years | 2,278,052 | 2,793,401 |
| Over 3 years | 1,104,732 | 1,023,092 |
| | 30,516,134 | 32,247,031 |
| Bad debt provision | (9,889) | (120,763) |
| Total | 30,506,245 | 32,126,268 |

Other receivables are analysed as follows:

| | 30 June 2020 | 31 December 2019 |
|---------------------------------|-------------------|---------------------|
| Dividend receivable | 270,849 | 3,912,671 |
| Staff loans | 202,920 | 145,462 |
| Transactions with third parties | 30,032,476 | 28,068,135 |
| Total | 30,506,245 | 32,126,268 |

3. Long-term trade receivables

| | 30 June 2020 | 31 December 2019 |
|--|------------------|---------------------|
| Loans granted to subsidiaries (Note 1) | 5,594,998 | 5,541,687 |
| Installment payments for the provision of telecommunication system construction projects | 2,617,266 | 2,224,784 |
| Less: Bad debt provision for long-term receivables | 37,590 | 29,594 |
| | 8,174,674 | 7,736,877 |

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.

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

3. Long-term trade receivables (continued)

Movements in bad debt provision for long-term receivables during the period are as follows:

| | Opening balance | Provision for the period | Closing balance |
|------------------|-----------------|--------------------------|-----------------|
| 30 June 2020 | 29,594 | 7,996 | 37,590 |
| 31 December 2019 | 2,571 | 27,023 | 29,594 |

The interest rate of long-term trade receivables ranged from 4.50%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as “Factored long-term trade receivables” and “Bank advances on factored long-term trade receivables”.

4. Long-term equity investments

| | | 30 June 2020 | 31 December 2019 |
|--|-----|--------------|------------------|
| Equity method | | | |
| Joint Ventures | (1) | 59,054 | 67,515 |
| Associates | (2) | 1,828,269 | 1,875,993 |
| Less: Provision for impairment in long-term equity Investments | | 7,241 | 7,241 |
| | | 1,880,082 | 1,936,267 |
| Cost method | | | |
| Subsidiaries | (3) | 10,762,051 | 10,759,982 |
| Less: Provision for impairment in long-term equity investments | (4) | 425,667 | 425,667 |
| | | 10,336,384 | 10,334,315 |
| | | 12,216,466 | 12,270,582 |

Notes to Financial Statements

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

4. Long-term equity investments (continued)

30 June 2020

(1) Joint Ventures

| | Movements during the period | | | | | | | | | |
|------------------------------------|-----------------------------|------------------------|------------------------|---|----------------------------|------------------------|------------------------|------------------------------------|----------------------|---|
| | 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 period |
| Puxing Mobile Tech Company Limited | 45,706 | — | — | (5,567) | — | — | — | — | 40,139 | — |
| 德特賽維技術有限公司 | 21,809 | — | — | (2,894) | — | — | — | — | 18,915 | — |
| | 67,515 | — | — | (8,461) | — | — | — | — | 59,054 | — |

(2) Associates

| | Movements during the period | | | | | | | | | | |
|--|-----------------------------|------------------------|------------------------|---|----------------------------|------------------------|------------------------|------------------------------------|-------|----------------------|---|
| | 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 | Other | Closing book balance | Impairment provision at the end of the period |
| KAZNURTEL Limited Liability Company | — | — | — | — | — | — | — | — | — | — | (2,477) |
| ZTE Software Technology (Nanchang) Company Limited | 3,763 | — | — | (3,763) | — | — | — | — | — | — | — |
| ZTE Energy Limited | 426,768 | — | — | 11,954 | — | — | — | — | — | 438,722 | — |
| Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited | 1,324 | — | — | (1,324) | — | — | — | — | — | — | — |
| 北京億科三友科技發展有限公司 | — | — | — | — | — | — | — | — | — | — | (4,764) |
| 上海中興思裕通訊有限公司 | 2,181 | — | — | (1,053) | — | — | — | — | — | 1,128 | — |
| 中興羅維科技江蘇有限公司 | 2,862 | — | — | (384) | — | — | — | — | — | 2,478 | — |
| 廣東中興城智信息技術有限公司 | 4,862 | — | — | (175) | — | — | — | — | — | 4,687 | — |
| 上海博色信息科技有限公司 | 26,782 | — | — | (72) | — | — | — | — | — | 26,710 | — |
| 南京華網科技有限公司 | 2,860 | — | — | 230 | — | — | — | — | — | 3,090 | — |
| Nubia Technology Limited | 665,048 | — | — | (46,428) | — | — | — | — | — | 618,620 | — |
| Whale Cloud Technology Co., Ltd. | 679,373 | — | — | 5,078 | — | — | — | — | — | 684,451 | — |
| Shijiazhuang Smart Industries Company Limited | 32,080 | — | — | (7,122) | — | — | — | — | — | 24,958 | — |
| Zhongxing Feiliu Information Technology Company Limited | 20,849 | — | — | (4,665) | — | — | — | — | — | 16,184 | — |
| | 1,868,752 | — | — | (47,724) | — | — | — | — | — | 1,821,028 | (7,241) |

Notes to Financial Statements

(Prepared under PRC ASBEs)
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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2020 (continued)

(3) Subsidiaries

| | Investment cost | Opening balance | Increase/ decrease during the period | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the period |
|--|---------------------|---------------------|--------------------------------------|---------------------|----------------------------|-----------------------------|------------------------------|
| Shenzhen Zhongxing Software Company Limited | 263,293 | 263,293 | — | 263,293 | 100.0% | 100.0% | — |
| 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 | 68.4% | 68.4% | — |
| Anhui Wantong Posts and Telecommunication Company Limited | 179,767 | 179,767 | — | 179,767 | 90.0% | 90.0% | 5,400 |
| ZTE Integration Telecom Limited | 41,250 | 41,250 | — | 41,250 | 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. 深圳市興意達通訊技術有限公司 | 13,110 5,000 | 13,110 5,000 | — — | 13,110 5,000 | 90.0% 100.0% | 90.0% 100.0% | — — |
| Xi'an Zhongxing New Software Company Limited | 600,000 | 600,000 | — | 600,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing ICT Company Limited 中興國通通訊裝備技術(北京)有限公司 | 157,019 29,700 | 157,019 22,160 | — — | 157,019 22,160 | 90.0% 100.0% | 90.0% 100.0% | — — |
| Shenzhen Guoxin Electronics Development Company Limited | 45,000 | 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% | 41,250 |
| ZTE (Heyuan) Company Limited | 500,000 | 500,000 | — | 500,000 | 100.0% | 100.0% | — |
| Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise | — | — | — | — | 30.0% | * | 19,200 |
| ZTE Group Finance Co., Ltd 深圳市百維技術有限公司 | 1,000,000 16,000 | 1,000,000 16,000 | — — | 1,000,000 16,000 | 100.0% 100.0% | 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% | — |
| 北京中興高遠通信技術有限公司 | 42,750 | 42,750 | — | 42,750 | 90.0% | 90.0% | — |
| Shenzhen Zhongxing Cloud Service Company Limited | 50,000 | 50,000 | — | 50,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing SI Technology Company Limited | 30,000 | 30,000 | (3,000) | 27,000 | 90.0% | 90.0% | — |
| 福建海絲路科技有限公司 | 47,500 | 47,500 | — | 47,500 | 95.0% | 95.0% | — |
| Zhongxing New Energy Automobile Company Limited | 232,360 | 232,360 | — | 232,360 | 100.0% | 100.0% | — |
| Xi'an ZTE Terminal Technology Company Limited | 300,000 | 300,000 | — | 300,000 | 100.0% | 100.0% | — |
| Zhongxing Health Technology Company Limited | 15,000 | 15,000 | — | 15,000 | 50.0% | 50.0% | — |
| Shenzhen Zhongxing Smart Valley Technology Company Limited | 15,000 | 15,000 | — | 15,000 | 100.0% | 100.0% | — |
| Jiaxing Xinghe Equity Investment Partnership | 56,800 | 56,800 | (11,800) | 45,000 | 28.9% | * | 18,400 |

Notes to Financial Statements

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

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

4. Long-term equity investments (continued)

30 June 2020 (continued)

(3) Subsidiaries (continued)

| | Investment cost | Opening balance | Increase/ decrease during the period | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the period |
|--|-----------------|-----------------|--------------------------------------|-----------------|----------------------------|-----------------------------|------------------------------|
| 中興捷維通訊技術有限責任公司 | 51,530 | 51,530 | — | 51,530 | 100.0% | 100.0% | — |
| 西安中興精誠科技有限公司 | 9,393 | 9,393 | — | 9,393 | 100.0% | 100.0% | — |
| Xinjiang ZTE Silk Road Network Technology Company Limited | 19,500 | 19,500 | — | 19,500 | 65.0% | 65.0% | — |
| Changsha Zhongxing Smart Technologies Company Limited | 350,000 | 350,000 | — | 350,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing Videocom Technologies Company Limited | 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% | 5,400 |
| Zhongxing (Shenyang) Financial Technology Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Shenzhen ZTE Jinkong Commercial Factoring Company Limited | 50,000 | 50,000 | — | 50,000 | 100.0% | 100.0% | — |
| Shenzhen Zhiheng Technology Company Limited | 2,000 | 2,000 | — | 2,000 | 100.0% | 100.0% | — |
| ZTE Gaoneng Technology Company Limited | 400,000 | 400,000 | — | 400,000 | 100.0% | 100.0% | — |
| ZTE Smart Auto Company Limited | 790,500 | 790,500 | — | 790,500 | 86.4% | 86.4% | — |
| Zhongxing Opto-electronic Technology Company Limited | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | — |
| Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) | 120,000 | 120,000 | — | 120,000 | 25.0% | * | — |
| Shenzhen Zhongrui Detection Technology Co., Ltd. | 10,000 | 10,000 | (10,000) | — | — | — | — |
| 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 | 16,269 | 52,269 | 100.0% | 100.0% | — |
| Xi'an Zhongxing Electronic Technology Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Wuhan ZTE Smart City Research Institute Co., Ltd. | 3,000 | 3,000 | — | 3,000 | 100.0% | 100.0% | — |
| ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd. | 10,000 | 10,000 | — | 10,000 | 100.0% | 100.0% | — |
| ZTE (Nanjing) Co., Ltd. | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | — |
| Shenzhen Yingbo Super Computer Technology Company Limited | 23,600 | 13,000 | 10,600 | 23,600 | 56.4% | 56.4% | — |
| | | 10,759,982 | 2,069 | 10,762,051 | | | 89,650 |

* 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

(Prepared under PRC ASBEs)
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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2020 (continued)

(4) Provision for long-term equity investments

| | Opening balance | Increase/decrease during the year | Closing balance |
|---|-----------------|-----------------------------------|-----------------|
| ZTE (USA) Inc. | 5,381 | — | 5,381 |
| Shenzhen Guoxin Electronics Development Company Limited | 23,767 | — | 23,767 |
| ZTE DoBrasil LT DA | 18,572 | — | 18,572 |
| ZTE Integration Telecom Limited | 4,591 | — | 4,591 |
| Wistron Telecom AB | 2,030 | — | 2,030 |
| ZTE Corporation Mexico S.DER.LDEC.V. | 41 | — | 41 |
| Zhongxing Telecom Pakistan (Private) Ltd. | 2,971 | — | 2,971 |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited | 9,656 | — | 9,656 |
| ZTE Holdings (Thailand) Co., Ltd | 10 | — | 10 |
| ZTE(Thailand) Co., Ltd. | 205 | — | 205 |
| ZTE Telecom India Private Ltd. | 335,759 | — | 335,759 |
| ZTE Romania S.R.L | 827 | — | 827 |
| PT ZTE Indonesia | 15,275 | — | 15,275 |
| ZTE-Communication Technologies, Ltd. | 6,582 | — | 6,582 |
| | 425,667 | — | 425,667 |

31 December 2019

(1) Joint Ventures

| | Movements during the year | | | | | | | | | |
|------------------------------------|---------------------------|------------------------|------------------------|---|----------------------------|------------------------|------------------------|------------------------------------|----------------------|---|
| | Opening balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other Comprehensive income | Other equity movements | Cash Dividend declared | Allowance for impairment provision | Closing book balance | Impairment provision at the end of the year |
| Puxing Mobile Tech Company Limited | 57,234 | — | — | (11,528) | — | — | — | — | 45,706 | — |
| 德特賽維技術有限公司 | 27,278 | — | — | (5,469) | — | — | — | — | 21,809 | — |
| | 84,512 | — | — | (16,997) | — | — | — | — | 67,515 | — |

Notes to Financial Statements

(Prepared under PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2019 (continued)

(2) Associates

| | Movements during the year | | | | | | | | Closing book balance | Impairment provision at the end of the year |
|--|---------------------------|------------------------|------------------------|---|----------------------------|------------------------|------------------------|------------------------------------|----------------------|---|
| | Opening balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other Comprehensive income | Other equity movements | Cash dividend declared | Allowance for impairment provision | | |
| KAZNURTEL Limited Liability Company | — | — | — | — | — | — | — | — | — | (2,477) |
| ZTE Software Technology (Nanchang) Company Limited | 3,947 | — | — | (184) | — | — | — | — | 3,763 | — |
| ZTE Energy Limited | 426,995 | — | — | (227) | — | — | — | — | 426,768 | — |
| 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) |
| 上海中興思絡通訊有限公司 | 4,360 | — | — | (2,179) | — | — | — | — | 2,181 | — |
| 中興江蘇羅維科技 | 2,927 | — | — | (65) | — | — | — | — | 2,862 | — |
| 廣東中興城智信息技術有限公司 | 4,634 | — | — | 228 | — | — | — | — | 4,862 | — |
| 上海博色信息技術有限公司 | 26,134 | — | — | 648 | — | — | — | — | 26,782 | — |
| 南京華網科技有限公司 | 3,876 | — | — | (1,016) | — | — | — | — | 2,860 | — |
| Nubia Technology Limited | 801,118 | — | — | (136,070) | — | — | — | — | 665,048 | — |
| Whale Cloud Technology Co., Ltd. | 665,209 | — | — | 15,575 | — | (1,411) | — | — | 679,373 | — |
| Shijiazhuang Smart Industries Company Limited | 48,278 | — | — | (16,198) | — | — | — | — | 32,080 | — |
| Zhongxing Feliu Information Technology Company Limited | — | 20,849 | — | — | — | — | — | — | 20,849 | — |
| | 1,989,268 | 20,849 | — | (139,954) | — | (1,411) | — | — | 1,868,752 | (7,241) |

(3) Subsidiaries

| | Investment cost | Opening balance | Increase/decrease during the year | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the year |
|---|-----------------|-----------------|-----------------------------------|-----------------|----------------------------|-----------------------------|----------------------------|
| Shenzhen Zhongxing Software Company Limited | 263,293 | 263,293 | — | 263,293 | 100.0% | 100.0% | 4,690,000 |
| 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 | 68.0% | 68.0% | — |
| 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) | — | — | — | — |
| Xi'an Zhongxing New Software Company Limited | 600,000 | 600,000 | — | 600,000 | 100.0% | 100.0% | 1,200,000 |
| Shenzhen Zhongxing ICT Company Limited | 157,019 | 157,019 | — | 157,019 | 90.0% | 90.0% | — |
| ZTE (Hangzhou) Company Limited | — | 100,000 | (100,000) | — | — | — | — |
| 中興國通通訊裝備技術(北京)有限公司 | 22,160 | 15,200 | 6,960 | 22,160 | 100.0% | 100.0% | — |
| Shenzhen Guoxin Electronics Development Company Limited | 29,700 | 29,700 | — | 29,700 | 100.0% | 100.0% | 2,752 |
| 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% | — |

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(Prepared under PRC ASBES)
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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2019 (continued)

(3) Subsidiaries (continued)

| | Investment cost | Opening balance | Increase/decrease during the year | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the year |
|--|-----------------|-----------------|-----------------------------------|-----------------|----------------------------|-----------------------------|----------------------------|
| ZTE 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% | 129,562 |
| Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise | — | — | — | — | 30.0% | * | 186,000 |
| 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% | — |
| 北京中興高遠通信技術有限公司 | 42,750 | 42,750 | — | 42,750 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing Cloud Service Company Limited | 50,000 | 50,000 | — | 50,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing SI Technology Company Limited | 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% | — |
| Zhongxing New Energy Automobile Company Limited | 232,360 | 218,240 | 14,120 | 232,360 | 100.0% | 100.0% | — |
| Xi'an ZTE Terminal Technology Company Limited | 300,000 | 300,000 | — | 300,000 | 100.0% | 100.0% | 718,136 |
| Zhongxing Health Technology Company Limited | 15,000 | 15,000 | — | 15,000 | 50.0% | 50.0% | — |
| Shenzhen Zhongxing Smart Valley Technology Company Limited | 15,000 | 15,000 | — | 15,000 | 100.0% | 100.0% | — |
| Jiaxing Xinghe Equity Investment Partnership | 56,800 | 92,800 | (36,000) | 56,800 | 28.9% | * | 45,000 |
| 中興捷維通訊技術有限責任公司 | 51,530 | 46,530 | 5,000 | 51,530 | 100.0% | 100.0% | — |
| 深圳市興聯達科技有限公司 | — | 30,000 | (30,000) | — | — | — | — |
| 西安中興精誠科技有限公司 | 9,393 | 9,393 | — | 9,393 | 100.0% | 100.0% | — |
| Xinjiang ZTE Silk Road Network Technology Company Limited | 19,500 | 19,500 | — | 19,500 | 65.0% | 65.0% | — |
| Changsha Zhongxing Smart Technologies Company Limited | 350,000 | 350,000 | — | 350,000 | 100.0% | 100.0% | 128,504 |
| Shenzhen Zhongxing Videocom Technologies Company Limited | 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 | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Shenzhen ZTE Jinkong Commercial Factoring Company Limited | 50,000 | 50,000 | — | 50,000 | 100.0% | 100.0% | — |
| ZTE (Huai'an) Smart Industries Company Limited | — | 31,620 | (31,620) | — | 0.0% | 0.0% | — |
| 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) | — | 0.0% | 0.0% | — |
| 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) | — | 0.0% | 0.0% | — |
| ZTE Smart Auto Company Limited | 790,500 | 790,500 | — | 790,500 | 100.0% | 100.0% | 127,034 |
| Shijiazhuang Smart City Research Institute Company Limited | — | 2,000 | (2,000) | — | 0.0% | 0.0% | — |
| Zhongxing Opto-electronic Technology Company Limited | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | — |
| Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) | 120,000 | 300,000 | (180,000) | 120,000 | 25.0% | * | 21,000 |
| Shenzhen Zhongrui Detection Technology Co., Ltd. | 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% | 100,230 |
| ZTE Wangkun Information Technology (Shanghai) Co., Ltd. | 36,000 | 36,000 | — | 36,000 | 75.0% | 75.0% | — |

Notes to Financial Statements

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

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

4. Long-term equity investments (continued)

31 December 2019 (continued)

(3) Subsidiaries (continued)

| | Investment cost | Opening balance | Increase/decrease during the year | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the year |
|--|-----------------|-----------------|-----------------------------------|-----------------|----------------------------|-----------------------------|----------------------------|
| Xi'an Zhongxing Electronic Technology Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Wuhan ZTE Smart City Research Institute Co., Ltd. | 3,000 | 3,000 | — | 3,000 | 100.0% | 100.0% | — |
| ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd. | — | 2,000 | (2,000) | — | 0.0% | 0.0% | — |
| ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd. | 10,000 | 10,000 | — | 10,000 | 100.0% | 100.0% | — |
| ZTE (Nanjing) Co., Ltd. | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | 623,260 |
| Shenzhen Yingbo Super Computer Technology Company Limited | 13,000 | — | 13,000 | 13,000 | 45.2% | ** | — |
| | | 11,156,132 | (396,150) | 10,759,982 | | | 7,987,578 |

* 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.

(4) Provision for long-term equity investments

| | Opening balance | Increase/decrease during the year | Closing balance |
|---|-----------------|-----------------------------------|-----------------|
| ZTE (USA) Inc. | 5,381 | — | 5,381 |
| Shenzhen Guoxin Electronics Development Company Limited | 23,767 | — | 23,767 |
| ZTE DoBrasil LT DA | 10,059 | 8,513 | 18,572 |
| 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 | 334,105 | 335,759 |
| ZTE Romania S.R.L | 827 | — | 827 |
| PT ZTE Indonesia | — | 15,275 | 15,275 |
| ZTE-Communication Technologies Ltd. | — | 6,582 | 6,582 |
| | 61,192 | 364,475 | 425,667 |

Notes to Financial Statements

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

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

5. Operating revenue and costs

| | Six months ended 30 June 2020 | | Six months ended 30 June 2019 | |
|----------------------|----------------------------------|-------------------|----------------------------------|------------|
| | Revenue | Cost | Revenue | Cost |
| Principal operations | 36,601,236 | 37,445,605 | 31,856,507 | 32,276,787 |
| Other businesses | 6,708,198 | 31,984 | 7,618,769 | 13,455 |
| | 43,309,434 | 37,477,589 | 39,475,276 | 32,290,242 |

6. Investment income

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|--|-------------------------------------|-------------------------------------|
| Investment loss from long-term equity investment under equity method | (56,186) | (98,657) |
| Investment income from long-term equity investment under cost method | 89,650 | 239,135 |
| Investment income from the disposal of derivative investment | 49,538 | 18,061 |
| Investment gain earned during the period of holding other non-current financial assets | 1,289 | 1,176 |
| Investment income/(loss) from the disposal of long-term equity investment | 3,431 | (24,918) |
| Loss on derecognition of financial assets at amortised cost | (7,504) | (21,607) |
| | 80,218 | 113,190 |

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 2020 |
|---|-------------------------------------|
| Loss from the disposal of non-current assets | (26,618) |
| Investment gain from the disposal of long-term equity investments | (12,970) |
| 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 | (10,197) |
| Reversal of impairment provision for individually tested receivables | 47,654 |
| Gain/loss from change in fair value of investment properties | 3,622 |
| Long-term equity investment impairment loss | (7,165) |
| Other income (other than software VAT refund and refund of tax handing fees) | 334,002 |
| Net amount of other non-operating income and expenses and others other than the above | 26,988 |
| Other profit or loss items meeting the criteria for extraordinary profit or loss | 790,815 |
| | 1,146,131 |
| Effect of income tax | (171,920) |
| Effect of non-controlling interests (net of tax) | (19,037) |
| | 955,174 |

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 2020 | Reason |
|---|----------------------------------|---|
| Refund of VAT on software products | 513,313 | In line with national policies and received on an ongoing basis |
| Return of tax refund fee | 12,856 | In line with national policies and received on an ongoing basis |
| Venture capital firm | 100,596 | Within the scope of business |
| Gain/loss from fair-value change of venture companies | 487,728 | 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 2020

| | Weighted average return on net assets (%) | Earnings per share | |
|---|---|--------------------|---------|
| | | Basic | Diluted |
| Net profit attributable to ordinary shareholders of the Company | 5.28% | RMB0.40 | RMB0.40 |
| Net profit after extraordinary items attributable to ordinary shareholders of the Company | 2.56% | RMB0.20 | RMB0.19 |

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 |

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 2020

| | Notes | Six months ended 30 June 2020 (Unaudited) RMB'000 | Six months ended 30 June 2019 (Unaudited) RMB'000 |
|--|-------|--|--|
| REVENUE | 4 | 47,199,373 | 44,609,219 |
| Cost of sales | | (31,764,345) | (28,058,303) |
| Gross profit | | 15,435,028 | 16,550,916 |
| Other income and gains | 4 | 2,157,517 | 1,818,453 |
| Research and development costs | | (6,637,376) | (6,471,866) |
| Selling and distribution expenses | | (3,940,595) | (4,025,746) |
| Administrative expenses | | (2,474,729) | (2,766,954) |
| Impairment losses on financial and contract assets, net | | (279,143) | (1,416,091) |
| Loss on disposal of financial assets measured at amortised cost | | (69,797) | (84,063) |
| Other expenses | | (438,196) | (385,973) |
| Finance costs | 6 | (847,922) | (823,053) |
| Share of profits and losses of: | | | |
| Joint ventures | | (8,461) | (3,363) |
| Associates | | (55,355) | (154,783) |
| PROFIT BEFORE TAX | 5 | 2,840,971 | 2,237,477 |
| Income tax | 7 | (517,590) | (412,914) |
| Profit for the period | | 2,323,381 | 1,824,563 |
| Attributable to: | | | |
| Ordinary equity holders of the parent | | 1,857,289 | 1,470,699 |
| Perpetual capital instruments | | 16,236 | 172,867 |
| Non-controlling interests | | 449,856 | 180,997 |
| | | 2,323,381 | 1,824,563 |
| OTHER COMPREHENSIVE (LOSS)/INCOME | | | |
| Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | (115,505) | 51,077 |
| Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods | | (115,505) | 51,077 |
| OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX | | (115,505) | 51,077 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 2,207,876 | 1,875,640 |
| Attributable to: | | | |
| Ordinary equity holders of the parent | | 1,738,217 | 1,522,528 |
| Perpetual capital instruments holders | | 16,236 | 172,867 |
| Non-controlling interests | | 453,423 | 180,245 |
| | | 2,207,876 | 1,875,640 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 9 | | |
| Basic | | RMB0.40 | RMB0.35 |
| Diluted | | RMB0.40 | RMB0.35 |

Consolidated Statement of Financial Position

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2020

| | Notes | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|---|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 11,159,679 | 10,555,204 |
| Investment properties | | 1,960,864 | 1,957,242 |
| Right-of-use assets | | 3,551,894 | 3,468,949 |
| Goodwill | | 186,206 | 186,206 |
| Other intangible assets | | 7,521,269 | 7,190,061 |
| Investments in joint ventures | | 106,054 | 114,515 |
| Investments in associates | | 2,186,398 | 2,212,773 |
| Financial assets at fair value through profit or loss | | 1,530,232 | 1,594,254 |
| Long-term trade receivables | 11 | 3,110,970 | 2,819,606 |
| Factored long-term trade receivables | | 310,393 | 200,671 |
| Deferred tax assets | | 2,472,641 | 2,511,372 |
| Pledged deposits | | 3,108,302 | 2,928,810 |
| Long-term prepayments, deposits and other receivables | | 2,974,212 | 2,895,298 |
| Total non-current assets | | 40,179,114 | 38,634,961 |
| CURRENT ASSETS | | | |
| Inventories | | 37,179,092 | 27,688,508 |
| Contract assets | 10 | 10,203,533 | 9,537,850 |
| Trade receivables | 11 | 16,898,230 | 19,778,280 |
| Factored trade receivables | | 252,220 | 308,710 |
| Prepayments, deposits and other receivables | | 9,767,113 | 8,847,363 |
| Financial assets at fair value through profit or loss | | 1,066,532 | 560,662 |
| Derivative financial instruments | | 31,147 | 106,065 |
| Debt investments at fair value through other comprehensive income | | 3,987,386 | 2,430,389 |
| Pledged deposits | | 2,116,777 | 3,343,511 |
| Time deposits with original maturity of over three months | | 6,776,208 | 1,460,036 |
| Cash and cash equivalents | | 36,975,012 | 28,505,800 |
| Total current assets | | 125,253,250 | 102,567,174 |

Consolidated Statement of Financial Position (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2020

| | Notes | 30 June 2020 (Unaudited) RMB'000 | 31 December 2019 (Audited) RMB'000 |
|---|-------|---|---|
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 12 | 35,567,404 | 27,728,550 |
| Contract liabilities | 10 | 14,562,034 | 14,517,057 |
| Other payables and accruals | | 12,775,433 | 14,059,625 |
| Provision | | 2,008,730 | 1,966,464 |
| Derivative financial instruments | | 131,527 | 126,223 |
| Short-term bonds payables | | 8,000,000 | — |
| Interest-bearing bank borrowings | | 16,905,177 | 26,738,019 |
| Bank advances on factored trade receivables | | 254,444 | 310,024 |
| Dividend payables | | 924,012 | 5,222 |
| Tax payable | | 423,464 | 399,124 |
| Current portion of lease liabilities | | 432,638 | 520,208 |
| Total current liabilities | | 91,984,863 | 86,370,516 |
| NET CURRENT ASSETS | | 33,268,387 | 16,196,658 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 73,447,501 | 54,831,619 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | | 21,835,076 | 10,045,093 |
| Bank advances on factored long-term trade receivables | | 310,727 | 200,858 |
| Deferred tax liabilities | | 139,938 | 172,060 |
| Provision for retirement benefits | | 142,296 | 144,505 |
| Lease liabilities | | 660,325 | 645,294 |
| Other non-current liabilities | | 6,082,344 | 5,669,511 |
| Total non-current liabilities | | 29,170,706 | 16,877,321 |
| Net assets | | 44,276,795 | 37,954,298 |
| EQUITY | | | |
| Equity attributable to ordinary equity holders of the parent | | | |
| Issued capital | | 4,613,435 | 4,227,530 |
| Reserves | | 36,542,681 | 24,599,338 |
| | | 41,156,116 | 28,826,868 |
| Perpetual capital instruments | 13 | — | 6,252,364 |
| Non-controlling interests | | 3,120,679 | 2,875,066 |
| Total equity | | 44,276,795 | 37,954,298 |

Li Zixue
Director

Xu Ziyang
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Accounting Standard 34)
Six months ended 30 June 2020

| | Attributable to ordinary equity holders of the parent | | | | | | | | | | Total equity (Unaudited) RMB'000 |
|---|---|---|---|--|--|--|--|---------------------------------|---|---|--|
| | 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 | |
| | At 1 January 2020 | 4,227,530 | 12,617,918 | (67,982) | 290,356 | 2,775,521 | (2,696,840) | 11,680,365 | 28,826,868 | 6,252,364 | |
| Profit for the period | — | — | — | — | — | — | 1,857,289 | 1,857,289 | 16,236 | 449,856 | 2,323,381 |
| Other comprehensive income | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | — | (119,072) | — | (119,072) | — | 3,567 | (115,505) |
| Total comprehensive income for the period | — | — | — | — | — | (119,072) | 1,857,289 | 1,738,217 | 16,236 | 453,423 | 2,207,876 |
| Issue of shares | 381,099 | 11,081,352 | — | — | — | — | — | 11,462,451 | — | — | 11,462,451 |
| Dividends declared to non-controlling shareholders | — | — | — | — | — | — | — | — | — | (127,122) | (127,122) |
| Capital contributions by non-controlling shareholders | — | (51) | — | — | — | — | — | (51) | — | 15,098 | 15,047 |
| Acquisition of non-controlling shareholders | — | (1,298) | — | — | — | — | — | (1,298) | — | (5,212) | (6,510) |
| Capital withdrawal by non-controlling shareholders | — | — | — | — | — | — | — | — | — | (90,574) | (90,574) |
| Dividends declared | — | — | — | — | — | — | (922,687) | (922,687) | — | — | (922,687) |
| Distribution to perpetual capital instrument holders | — | — | — | — | — | — | — | — | (348,600) | — | (348,600) |
| Share Incentive Scheme: | | | | | | | | | | | |
| — Equity-settled share option expense | — | — | — | 52,162 | — | — | — | 52,162 | — | — | 52,162 |
| — Issue of shares | 4,806 | 122,558 | — | (46,910) | — | — | — | 80,454 | — | — | 80,454 |
| Repurchase of Perpetual capital instruments | — | (80,000) | — | — | — | — | — | (80,000) | (5,920,000) | — | (6,000,000) |
| At 30 June 2020 | 4,613,435 | 23,740,479* | (67,982)* | 295,608* | 2,775,521* | (2,815,912)* | 12,614,967* | 41,156,116 | — | 3,120,679 | 44,276,795 |

* These reserve accounts comprise the consolidated reserves of approximately RMB36,542,681,000 in the consolidated statement of financial position.

| | Attributable to ordinary equity holders of the parent | | | | | | | | | | Total equity (Unaudited) RMB'000 |
|---|---|---|---|--|--|--|--|---------------------------------|---|---|--|
| | 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 | |
| | 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 | |
| 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 |

Consolidated Cash Flow Statement

(Prepared under Hong Kong Accounting Standard 34)
Six months ended 30 June 2020

| Item | Six months ended 30 June 2020 (Unaudited) RMB'000 | Six months ended 30 June 2019 (Unaudited) RMB'000 |
|--|---|---|
| Net cash outflows from operating activities | (663,535) | (625,067) |
| Net cash outflows from investing activities | (6,100,680) | (4,637,865) |
| Net cash inflows from financing activities | 15,087,400 | 10,687,566 |
| Net increase in cash and cash equivalents | 8,323,185 | 5,424,634 |
| Cash and cash equivalents at the beginning of the period | 28,505,800 | 21,134,111 |
| Effect of changes in foreign exchange rate | 146,027 | 77,915 |
| Cash and cash equivalents at the end of the period | 36,975,012 | 26,636,660 |
| Analysis of balances of cash and cash equivalents | | |
| Unrestricted bank balances and cash | 35,839,222 | 26,261,213 |
| Time deposits with original maturity of less than three months | 1,135,790 | 375,447 |
| | 36,975,012 | 26,636,660 |

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2020

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, 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 2020 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 2019.

2.2 Changes in accounting policies and disclosures

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 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

| | |
|--|---|
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |
| Amendments to HKAS 16 | Covid-19-Related Rent Concessions (early adopted) |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

The nature and impact of the new and revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2020

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' Network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer networks, core networks, telecommunication software systems and services and other innovative technologies and product solutions.
- (b) 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.
- (c) The Government and Corporate business is focused on meeting requirements of government and corporate clients, providing informatization solutions for the government and corporations through the application of products such as communications networks, IOT, big data and cloud computing.

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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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3. OPERATING SEGMENT INFORMATION (CONTINUED)

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 2020 | | | | |
| Segment revenue: | | | | |
| Sales to external customers | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |
| Rental income | — | — | 68,782 | 68,782 |
| | 34,969,589 | 7,413,186 | 4,816,598 | 47,199,373 |
| Segment results | 9,558,202 | 1,042,922 | 927,505 | 11,528,629 |
| Bank and other interest income | | | | 581,860 |
| Dividend income and unallocated gains | | | | 1,575,657 |
| Unallocated expenses | | | | (9,978,398) |
| Finance costs | | | | (802,961) |
| Share of profits and losses of: | | | | |
| Joint ventures | | | | (8,461) |
| Associates | | | | (55,355) |
| Profit before tax | | | | 2,840,971 |
| 30 June 2020 | | | | |
| Segment assets | 54,150,990 | 10,332,253 | 7,458,581 | 71,941,824 |
| Investment in joint ventures | | | | 106,054 |
| Investment in associates | | | | 2,186,398 |
| Unallocated assets | | | | 91,198,088 |
| Total assets | | | | 165,432,364 |
| Segment liabilities | 11,768,197 | 1,738,095 | 1,620,913 | 15,127,205 |
| Unallocated liabilities | | | | 106,028,364 |
| Total liabilities | | | | 121,155,569 |
| Six months ended 30 June 2020 | | | | |
| Other segment information: | | | | |
| Impairment losses recognised in profit or loss | (104,986) | (22,256) | (14,461) | (141,703) |
| Impairment losses on financial and contract assets | (206,815) | (43,843) | (28,485) | (279,143) |
| Depreciation and amortisation | 1,263,094 | 267,763 | 450,140 | 1,980,997 |
| Capital expenditure* | 2,213,218 | 469,179 | 454,903 | 3,137,300 |

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

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3. OPERATING SEGMENT INFORMATION (CONTINUED)

| | Carriers' Networks RMB'000 | Consumer Business RMB'000 | Government & Corporate Business RMB'000 | Total RMB'000 |
|---|----------------------------------|---------------------------------|--|--------------------|
| Six months ended 30 June 2019 | | | | |
| Segment revenue: | | | | |
| Sales to external customers | 32,485,158 | 7,424,030 | 4,549,262 | 44,458,450 |
| Rental income | — | — | 150,769 | 150,769 |
| | <u>32,485,158</u> | <u>7,424,030</u> | <u>4,700,031</u> | <u>44,609,219</u> |
| Segment results | 11,164,485 | 454,661 | 1,249,742 | 12,868,888 |
| Bank and other interest income | | | | 322,233 |
| Dividend income and unallocated gains | | | | 1,496,220 |
| Unallocated expenses | | | | (11,468,665) |
| Finance costs | | | | (823,053) |
| Share of profits and losses of: | | | | |
| Joint ventures | | | | (3,363) |
| Associates | | | | (154,783) |
| Profit before tax | | | | <u>2,237,477</u> |
| 31 December 2019 | | | | |
| Segment assets | 46,843,989 | 9,479,379 | 6,440,646 | 62,764,014 |
| Investment in joint ventures | | | | 114,515 |
| Investment in associates | | | | 2,212,773 |
| Unallocated assets | | | | 76,110,833 |
| Total assets | | | | <u>141,202,135</u> |
| Segment liabilities | 11,511,610 | 1,933,582 | 1,582,747 | 15,027,939 |
| Unallocated liabilities | | | | 88,219,898 |
| Total liabilities | | | | <u>103,247,837</u> |
| Six months ended 30 June 2019 | | | | |
| Other segment information: | | | | |
| Impairment losses recognised in profit or loss | 342,260 | 78,219 | 49,519 | 469,998 |
| Impairment losses on financial and contract assets | 1,031,221 | 235,671 | 149,199 | 1,416,091 |
| Depreciation and amortisation | 979,104 | 223,761 | 352,569 | 1,555,434 |
| Capital expenditure* | 2,171,090 | 496,173 | 585,376 | 3,252,639 |

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As at 30 June 2020

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external transactions

| | Six months ended 30 June 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|------------------------------|--|--|
| The PRC (place of domicile) | 31,751,164 | 27,421,729 |
| Asia (excluding the PRC) | 6,923,102 | 7,807,728 |
| Africa | 2,522,750 | 2,715,340 |
| Europe, Americas and Oceania | 6,002,357 | 6,664,422 |
| Total | 47,199,373 | 44,609,219 |

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

(b) Non-current assets

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|------------------------------|----------------------------|--------------------------------|
| The PRC (place of domicile) | 18,253,766 | 17,439,577 |
| Asia (excluding the PRC) | 1,705,524 | 1,651,432 |
| Africa | 539,127 | 562,167 |
| Europe, Americas and Oceania | 143,395 | 49,331 |
| Total | 20,641,812 | 19,702,507 |

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 RMB14,884,180,000 represented revenue for carriers' network and consumer business from one major customer for the reporting period (Six months ended 30 June 2019: RMB11,950,398,000 from one major customer).

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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 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|---------------------------------------|--|--|
| Revenue | | |
| Revenue from contracts with customers | 47,130,591 | 44,458,450 |
| Rental income | 68,782 | 150,769 |
| | 47,199,373 | 44,609,219 |

Revenue from contracts with customers

(i) Disaggregated revenue information

Six Months ended 30 June 2020

| Segments | Government and Corporate Business | | | Total RMB'000 |
|--|-----------------------------------|---------------------------------|------------------|-------------------|
| | Carriers' Networks RMB'000 | Consumer Business RMB'000 | RMB'000 | |
| Type of goods or services | | | | |
| Sale of goods | 2,977,565 | 7,278,988 | 2,284,177 | 12,540,730 |
| Sale of services | 5,625,640 | 134,198 | 517,812 | 6,277,650 |
| Telecommunication system construction contracts | 26,366,384 | — | 1,945,827 | 28,312,211 |
| Total revenue from contracts with customers | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |
| Geographical markets | | | | |
| The PRC (place of domicile) | 26,428,281 | 2,877,740 | 2,376,361 | 31,682,382 |
| Asia (excluding the PRC) | 5,078,163 | 1,140,121 | 704,818 | 6,923,102 |
| Africa | 1,767,785 | 296,463 | 458,502 | 2,522,750 |
| Europe, Americas and Oceania | 1,695,360 | 3,098,862 | 1,208,135 | 6,002,357 |
| Total revenue from contracts with customers | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |
| Timing of revenue recognition | | | | |
| Transferred at a point in time | 29,343,949 | 7,278,988 | 4,230,004 | 40,852,941 |
| Transferred over time | 5,625,640 | 134,198 | 517,812 | 6,277,650 |
| Total revenue from contracts with customers | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |

Notes to Condensed Consolidated Interim Financial Statements (continued)

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As at 30 June 2020

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(i) *Disaggregated revenue information (continued)*

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 |

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 2020 RMB'000 |
|--|--|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | 6,643,607 |

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*

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 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|--|--|--|
| Other income | | |
| Bank interest income | 448,939 | 295,065 |
| Finance income on the net investment in a lease | 32,897 | — |
| Interest income arising from revenue contracts | 100,024 | 27,168 |
| VAT refunds and other tax subsidies [#] | 526,169 | 730,378 |
| Dividend income from equity investments at fair value through profit or loss | 5,769 | 9,972 |
| Others ^{##} | 389,661 | 204,730 |
| | 1,503,459 | 1,267,313 |
| Gains | | |
| Gain on disposal of financial assets at fair value through profit or loss | 100,596 | 407,010 |
| Gain on disposal of derivative financial instruments | 70,475 | 49,382 |
| Gain on disposal of equity interests | — | 90,772 |
| Fair value gains, net: | | |
| Equity investments at fair value through profit or loss | 479,365 | — |
| Wealth management products | — | 656 |
| Fair value gains on investment properties | 3,622 | 3,320 |
| | 654,058 | 551,140 |
| | 2,157,517 | 1,818,453 |

[#] 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 other income, contract penalty income and other miscellaneous income.

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 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|--|--|--|
| Cost of goods and services | 28,596,539 | 24,638,913 |
| Depreciation of property, plant and equipment | 648,956 | 602,416 |
| Depreciation of right-of-use assets charged to profit or loss | 293,837 | 287,365 |
| Amortisation of intangible assets other than deferred development costs | 246,930 | 162,529 |
| Research and development costs: | | |
| Deferred development costs amortised | 791,274 | 562,157 |
| Current period expenditure | 6,958,795 | 6,926,255 |
| Less: Deferred capitalised development costs | (1,112,693) | (1,016,546) |
| | 6,637,376 | 6,471,866 |
| Fair value losses/(gains), net*: | | |
| Derivative instruments | 80,671 | 23,278 |
| Investment properties | (3,622) | (3,320) |
| Equity investments at fair value through profit or loss | (454,850) | 122,832 |
| Wealth management products | 77 | (186) |
| Impairment of financial and contract assets, net: | | |
| Impairment of short-term trade receivables | 205,715 | 1,074,003 |
| Impairment of long-term trade receivables | 4,738 | (1,172) |
| Impairment of contract assets, net | 4,382 | 341,058 |
| Impairment of other receivables | 63,165 | 2,974 |
| Impairment of debt investments at fair value through other comprehensive income | 1,013 | 204 |
| Impairment of factored trade receivables | (17) | (778) |
| Impairment of factored long-term trade receivables | 147 | (198) |
| Dividend income from equity investments at fair value through profit or loss | (5,769) | (9,972) |
| Provision for onerous contract** | 1,712,320 | 434,513 |
| Provision for warranties** | 66,456 | 86,132 |
| Provision for legal obligation* | 2,504 | 22,737 |
| Write-down of inventories to net realisable value** | 134,538 | 469,998 |
| Impairment of investments in associates* | 7,165 | — |
| Lease payments not included in the measurement of lease liabilities | 98,266 | 177,029 |
| Contingent rental income in respect of operating leases | (843) | (1,623) |
| Auditors' remuneration | 700 | 700 |
| Staff costs (including directors', chief executives' and supervisors' remuneration): | | |
| Wages, salaries, bonuses, allowances and welfare | 9,786,762 | 9,344,178 |
| Equity-settled share option expense | 52,162 | 150,266 |
| Retirement benefit scheme contributions: | | |
| Defined contribution pension schemes | 304,766 | 614,065 |
| | 10,143,690 | 10,108,509 |
| Foreign exchange loss* | 257,510 | 59,823 |
| Loss on disposal of items of property, plant and equipment* | 26,618 | 16,975 |
| Loss/(gain) on disposal of subsidiaries* | 12,970 | (90,772) |
| Gain on disposal of derivative financial instruments | (70,475) | (49,382) |
| Gain on disposal of financial assets at fair value through profit or loss | (100,596) | (407,010) |
| Loss on disposal of financial assets measured at amortised cost | 69,797 | 84,063 |

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5. PROFIT BEFORE TAX (CONTINUED)

* The fair value losses, provision for legal obligation, the impairment of investments in associates, 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.

** The 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 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|---|--|--|
| Interest on bank loans and other loans | 611,904 | 557,399 |
| Interest on lease liabilities | 44,961 | 32,669 |
| Interest on other non-current liabilities | 31,643 | — |
| Interest on short-term bonds payable | 23,414 | — |
| Finance costs on trade receivables factored and bills discounted | 136,000 | 232,985 |
| Total interest expense on financial liabilities not at fair value through profit or loss | 847,922 | 823,053 |

7. INCOME TAX

| | Six months ended 30 June 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|---------------------------------|--|--|
| The Group: | | |
| Current — Hong Kong | 1,271 | 2,807 |
| Current — Mainland China | 307,145 | 296,650 |
| Current — Overseas | 202,565 | 229,677 |
| Deferred | 6,609 | (116,220) |
| Total tax charge for the period | 517,590 | 412,914 |

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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 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 of 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen, the application for national-grade hi-tech enterprise certificate for 2020 to 2022 is still ongoing and will be completed before year 2020's tax filing, hence the company applied enterprise income tax rate of 15% from January 2020 to June 2020.

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7. INCOME TAX (CONTINUED)

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Shenzhen Zhongxing Software Company Limited, Shanghai Zhongxing Software Company Limited, Xi'an Zhongxing New Software Company Limited, Nanjing Zhongxing Software Company Limited, Nanjing Zhongxing New Software Company Limited and Chongqing Zhongxing Software Company Limited are subject to an enterprise income tax rate of 10% for 2020 as a national-grade key software enterprise.

Shenzhen Zhongxing Telecom Technology & Service Company Limited and Beijing Zhongxing Gaoda Communication Technology Limited are subject to an enterprise income tax rate of 15% for the years from 2019 to 2022 as a national-grade hi-tech enterprise.

ZTE 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.

Xi'an Cris Semi-conductor Technology Company Limited is subject to an enterprise income tax rate of 12.5% for 2020 in the fifth year of its entitlement to the preferential treatment for qualified Integrated Circuit Design Enterprise of "exemption for two years and 50% reduction for three years".

ZTE Microelectronics Technology Company Limited, Shanghai Zhongxing Yilian Telecom Equipment Technology & Service Company Limited, Nanjing Yilian Technology and Software Company Limited, Shenzhen Zhongxing SI Technology Company Limited and Guangdong ZTE Newstart Technology Co., Ltd, were subject to an enterprise income tax rate of 15% for the years of 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen, the application for national-grade hi-tech enterprise certificate for 2020 to 2022 is still ongoing and will be completed before year 2020's tax filing, hence the company applied enterprise income tax rate of 15% from January 2020 to June 2020.

Wuhan Zhongxing Software Company Limited is subject to an enterprise income tax rate of 12.5% for 2020 in the fourth year of its entitlement to the preferential treatment for software companies of "exemption for two years and 50% reduction for three years".

Xi'an ZTE Terminal Technology Limited is subject to an enterprise income tax rate of 15% for 2020 as an approved enterprise engaged in nationally encouraged industries under the West China preferential policy.

8. DIVIDEND

During the six months ended 30 June 2020, a dividend of RMB0.2 per share totalling RMB922,687,000 (2019: nil), was declared by the Company to its shareholders as the final dividend for the year ended 31 December 2019.

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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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.

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

| | Six months ended 30 June 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|---|--|--|
| Earnings | | |
| Profit for the period attributable to ordinary equity holders of the parent | 1,857,289 | 1,470,699 |
| | | |
| | Six months ended 30 June 2020 '000 shares | Six months ended 30 June 2019 '000 shares |
| Shares | | |
| Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation | 4,612,335 | 4,192,672 |
| Effect of dilution – weighted average number of ordinary shares: | 22,143 | 30,440 |
| Adjusted weighted average number of ordinary shares in issue | 4,634,478 | 4,223,112 |

The 2017 share options granted by the Company gave rise to 22,143,000 potential dilutive ordinary shares during the reporting period.

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10. CONTRACT ASSETS/CONTRACT LIABILITIES

(a) Contract assets

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|-----------------|----------------------------|--------------------------------|
| Contract assets | 10,653,477 | 9,987,937 |
| Impairment | (449,944) | (450,087) |
| | 10,203,533 | 9,537,850 |

The expected timing of recovery or settlement for contract assets as at 30 June 2020 is as follows:

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|-----------------|----------------------------|--------------------------------|
| Within one year | 10,203,533 | 9,537,850 |

The movements in the loss allowance for impairment of contract assets are as follows:

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|-------------------------------------|----------------------------|--------------------------------|
| At the beginning of the period | 450,087 | 152,485 |
| Impairment losses recognised | 4,382 | 294,632 |
| Amount written off as uncollectible | (90) | — |
| Fluctuation in exchange | (4,435) | 2,970 |
| At the end of the period | 449,944 | 450,087 |

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:

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|---------------------------|----------------------------|--------------------------------|
| Expected credit loss rate | 4.22% | 4.51% |
| Gross carrying amount | 10,653,477 | 9,987,937 |
| Expected credit losses | 449,944 | 450,087 |

Notes to Condensed Consolidated Interim Financial Statements (continued)

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As at 30 June 2020

10. CONTRACT ASSETS/CONTRACT LIABILITIES (CONTINUED)

(b) Contract liabilities

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|------------------------|----------------------------|--------------------------------|
| Consideration received | 14,562,034 | 14,517,057 |

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 2020 RMB'000 | 31 December 2019 RMB'000 |
|-------------------|----------------------------|--------------------------------|
| Trade receivables | 30,332,956 | 35,766,089 |
| Impairment | (10,323,756) | (13,168,203) |
| | 20,009,200 | 22,597,886 |
| Current portion | (16,898,230) | (19,778,280) |
| Long-term portion | 3,110,970 | 2,819,606 |

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 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------------------------------|----------------------------|--------------------------------|
| Within 6 months | 16,864,375 | 18,838,561 |
| 6 to 12 months | 1,742,643 | 2,331,934 |
| 1 to 2 years | 1,157,884 | 1,061,611 |
| 2 to 3 years | 244,298 | 365,780 |
| | 20,009,200 | 22,597,886 |
| Less: Current portion of trade | (16,898,230) | (19,778,280) |
| Long-term portion | 3,110,970 | 2,819,606 |

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under Hong Kong Accounting Standard 34)
As at 30 June 2020

11. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES (CONTINUED)

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

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|-------------------------------------|----------------------------|--------------------------------|
| At beginning of year | 13,168,203 | 12,412,280 |
| Impairment losses, net | 210,453 | 1,817,629 |
| Amount written off as uncollectible | (3,174,252) | (1,359,859) |
| Fluctuation in exchange | 119,352 | 298,153 |
| Closing balance | 10,323,756 | 13,168,203 |

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 2020

| | Past due | | | | | Total |
|---------------------------|--------------------|-------------------|-----------------|-----------------|-----------------|------------|
| | Within 6 months | 6 to 12 months | 1 to 2 years | 2 to 3 years | Over 3 years | |
| Expected credit loss rate | 8% | 15% | 47% | 92% | 100% | 34% |
| Gross carrying amount | 18,281,519 | 2,044,401 | 2,170,856 | 3,113,691 | 4,722,489 | 30,332,956 |
| Expected credit losses | 1,417,144 | 301,758 | 1,012,972 | 2,869,393 | 4,722,489 | 10,323,756 |

As at 31 December 2019

| | Past due | | | | | Total |
|---------------------------|--------------------|-------------------|-----------------|-----------------|-----------------|------------|
| | Within 6 months | 6 to 12 months | 1 to 2 years | 2 to 3 years | Over 3 years | |
| Expected credit loss rate | 11% | 13% | 76% | 81% | 100% | 37% |
| Gross carrying amount | 21,102,244 | 2,675,234 | 4,353,567 | 1,956,298 | 5,678,746 | 35,766,089 |
| Expected credit losses | 2,263,683 | 343,300 | 3,291,956 | 1,590,518 | 5,678,746 | 13,168,203 |

Notes to Condensed Consolidated Interim Financial Statements (continued)

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As at 30 June 2020

11. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES (CONTINUED)

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

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|-----------------------------|-------------------------------------|--------------------------------|
| The controlling shareholder | — | 33 |
| Joint ventures | 9,513 | 17,772 |
| Associates | 275,134 | 339,276 |
| Other related companies | 10,143 | 10,494 |
| | 294,790 | 367,575 |

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 2020 RMB'000 | 31 December 2019 RMB'000 |
|-----------------|-------------------------------------|--------------------------------|
| Within 6 months | 34,460,284 | 26,928,446 |
| 6 to 12 months | 499,655 | 398,107 |
| 1 to 2 years | 303,096 | 194,548 |
| 2 to 3 years | 232,982 | 166,176 |
| Over 3 years | 71,387 | 41,273 |
| Total | 35,567,404 | 27,728,550 |

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

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|-----------------------------|-------------------------------------|--------------------------------|
| The controlling shareholder | 2,199 | 6,494 |
| Joint ventures | — | 30 |
| Associates | 661,967 | 772,207 |
| Other related companies | 65,393 | 86,840 |
| Total | 729,559 | 865,571 |

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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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13. PERPETUAL CAPITAL INSTRUMENTS

(1) Medium Term Notes 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. The Medium Term Notes were redeemed by the Company in January 2020 with payment of the principal and interests a total amount of RMB6,348,600,000.

(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 | 16,236 | (5,920,000) | (348,600) | — |

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 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|----------------------------|--------------------------------|
| Guarantees given to banks in respect of performance bonds | 12,969,004 | 13,559,281 |

(b) In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB40,484,300). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB40,317,300), together with accrued interest and legal fees payable immediately by the Brazilian company. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB40,317,300) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB40,317,300) together with accrued interest 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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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14. CONTINGENT LIABILITIES (CONTINUED)

(b) (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 RMB107 million). The Company has appointed a 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.

- (c) On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) ("ZTE") from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644) on 23 April 2018.

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017. 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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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14. CONTINGENT LIABILITIES (CONTINUED)

(c) (continued)

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and sophisticated export control compliance experts with global coverage and engaged a number of counsels and consultants; established and optimized the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System to automate export compliance management; carried out ECCN Publication Project, makes available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the Export Administration Regulations; continued to provide comprehensive online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring; and made continuous investment on the work on export control compliance.

In 2020, the Company will continually comply with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses.

Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as foundation to the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually build its value for its customers, shareholders, and employees, and build a compliant and healthy business environment with customers and partners through the dedication and vigilance to export compliance of every employee.

During the period from 1 January 2020 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.

- (d) 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 Shenzhen Zhongxing Jixun Communication Co.,Ltd (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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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15. COMMITMENTS

Capital commitments

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|-----------------------------------|----------------------------|--------------------------------|
| Contracted, but not provided for: | | |
| Land and buildings | 3,196,257 | 3,097,021 |
| Investments in associates | 28,190 | 48,690 |
| | 3,224,447 | 3,145,711 |

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 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|--|-------|--|--|
| The controlling shareholder: | | | |
| Purchase of raw materials | (a) | — | 1,062 |
| Sales of finished goods | (b) | 31 | 48 |
| Rental expense | (c) | 5,112 | 4,697 |
| Associates: | | | |
| Purchase of raw materials | (a) | 294,848 | 58,020 |
| Sales of finished goods | (b) | 307,449 | 152,514 |
| Rental income | (d) | 9,449 | 8,924 |
| Interest expense | (f) | — | 3 |
| Joint ventures: | | | |
| Sales of finished goods | (b) | 2,103 | 10,684 |
| Rental income | (d) | — | 348 |
| Entities controlled by the controlling shareholder: | | | |
| Purchase of raw materials | (a) | 170,478 | 208,075 |
| Sales of finished goods | (b) | 6,128 | 6,507 |
| Rental income | (d) | 403 | 566 |
| Other related parties: | | | |
| Purchase of raw materials | (a) | 48,081 | 28,170 |
| Sales of finished goods | (b) | 461,447 | 284,236 |
| Rental expense | (e) | 16,186 | 15,095 |
| Rental income | (d) | 28,219 | 27,728 |
| Interest income | (f) | — | 88 |

In the opinion of the directors, the related party transactions were conducted in the ordinary course of business.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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16. RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

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 RMB46.5 per square metre per month and RMB200 per car parking space per month.
- (d) Rental income ranged from RMB53.0 to RMB152.1 per square metre per month.
- (e) The housing rental expense was charged at rates ranging from RMB14.1 to RMB80.0 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.

(II) Compensation of key management personnel of the Group

| | Six months ended 30 June 2020 RMB'000 | Six months ended 30 June 2019 RMB'000 |
|--|--|--|
| Short-term employee benefits | 5,050 | 3,793 |
| Post-employment benefits | 76 | 127 |
| Equity-settled share option expense | 842 | 1,056 |
| Total compensation paid to key management personnel | 5,968 | 4,976 |

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.

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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 2020 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.

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.

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17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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 2020 and 31 December 2019:

| | Valuation technique | Significant unobservable input | 30 June 2020 Range | 31 December 2019 Range |
|--|---------------------|---|--------------------|------------------------|
| Listed equity investment with lock up period | Market approach | Discount for lack of marketability % | 4~10 | 4~10 |
| Non-listed equity investment | Market approach | Discount for lack of marketability % | 30 | 30 |
| | | Price-Earnings ratio ("P/E ratio") | 13~67 | 13~67 |
| | | Entity Value/Revenue ratio ("EV/Revenue ratio") | 2~6 | 2~6 |
| | | Entity Value/EBIT ratio ("EV/EBIT ratio") | 11~14 | 11~14 |

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 2020

| | Fair value measurement using | | | Total RMB'000 |
|--|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Equity investments designated at fair value through profit or loss | | | | |
| — listed entities | 119,395 | — | 877,000 | 996,395 |
| — unlisted entities | — | — | 1,530,232 | 1,530,232 |
| Wealth management products | — | 70,137 | — | 70,137 |
| Derivative financial instruments | — | 31,147 | — | 31,147 |
| Debt investments designated at fair value through other comprehensive income | — | 3,987,386 | — | 3,987,386 |
| | 119,395 | 4,088,670 | 2,407,232 | 6,615,297 |

As at 31 December 2019

| | Fair value measurement using | | | Total RMB'000 |
|--|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Equity investments designated at fair value through profit or loss | | | | |
| — listed entities | 116,220 | — | 407,007 | 523,227 |
| — unlisted entities | — | — | 1,594,254 | 1,594,254 |
| Wealth management products | — | 37,435 | — | 37,435 |
| Derivative financial instruments | — | 106,065 | — | 106,065 |
| Debt investments designated at fair value through other comprehensive income | — | 2,430,389 | — | 2,430,389 |
| | 116,220 | 2,573,889 | 2,001,261 | 4,691,370 |

Notes to Condensed Consolidated Interim Financial Statements (continued)

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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 2020

| | Fair value measurement using | | | Total RMB'000 |
|----------------------------------|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Derivative financial instruments | — | (131,527) | — | (131,527) |

As at 31 December 2019

| | Fair value measurement using | | | Total RMB'000 |
|----------------------------------|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Derivative financial instruments | — | (126,223) | — | (126,223) |

The movements in fair value measurements within Level 3 during the period/year are as follows:

| | 30 June 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|----------------------------|--------------------------------|
| Equity investments at fair value through profit or loss — unlisted: | | |
| At 1 January | 2,001,261 | 1,551,551 |
| Total gains recognised in profit or loss included in other income | 558,491 | 545,721 |
| Additions | 21,872 | 4,793 |
| Transfer to the level 3 | — | 130,581 |
| Transfer out of level 3 | (90,971) | (119,633) |
| Disposals | (83,421) | (111,752) |
| At 30 June 2020 | 2,407,232 | 2,001,261 |

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 August 2020.

Documents Available for Inspection

- (I) Text of the 2020 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 2020 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

29 August 2020

ZTE 中兴通讯股份有限公司
ZTE CORPORATION

