

ZTE 中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

INTERIM REPORT
2021



Important

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

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

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

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

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

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

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

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

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

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Definitions

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

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

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

Glossary

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

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

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

Corporate Information

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|----|--|--|
| 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

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| 5. | Authorised representatives | Gu Junying
Ding Jianzhong |
| 6. | Media designated for information disclosure
by the Company
Authorised websites on which this report
is made available
Place where this report is available for
inspection | China Securities Journal, Securities Times, Shanghai
Securities News
http://www.cninfo.com.cn
http://www.hkexnews.hk
No. 55, Keji Road South, Shenzhen,
Guangdong Province
The People's Republic of China |
| 7. | Listing information | A shares
Shenzhen Stock Exchange
Abbreviated name of stock: 中興通訊
Stock code: 000063

H shares
Hong Kong Stock Exchange
Abbreviated name of stock: ZTE
Stock code: 763 |
| 8. | Change in other relevant information | <input type="checkbox"/> Applicable <input checked="" type="checkbox"/> N/A |

Highlights of Accounting Data and Financial Indicators

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

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

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

Applicables N/A

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

Unit: RMB in thousands

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

Highlights of Accounting Data and Financial Indicators

Unit: RMB in thousands

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

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

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

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

Unit: RMB in thousands

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

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

Applicable N/A

Summary of the Company's Business

I. PRINCIPAL BUSINESSES

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

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

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

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

II. THE INDUSTRY IN WHICH WE OPERATE

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

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

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

III. TECHNOLOGICAL INNOVATION

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

Summary of the Company's Business

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

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

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

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

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

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

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

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

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

Summary of the Company's Business

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

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

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

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

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

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

The Group is a member of more than 70 international organisations and forums for standardisation, such as ITU (International Telecommunication Union), 3GPP (third generation partnership programme), ETSI (European Telecommunications Standards Institute), NGMN (The Next Generation Mobile Networks), IEEE (Institute of Electrical and Electronics Engineers), and CCSA (The China Communications Standards Association), a board member in numerous organisations such as GSA (Global Suppliers’ Alliance) and ETSI, while more than 60 specialists served in key roles such as chairmen and reporters of leading international standardisation organisation, having submitted more than 100,000 propositions and research papers for international or domestic standardisation by far.

Report of the Board of Directors

FINANCIAL RESULTS

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

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

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

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

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

Source: MIIT

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

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

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

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

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

(1) By market*The domestic market*

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

The international market

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

(2) By business segment

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

Carriers' network

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

Government and corporate business

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

Report of the Board of Directors

Consumer business

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

(II) MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

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

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

Unit: RMB in thousands

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

(1) Analysis of change in revenue

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

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

(2) Analysis of operating cost and gross profit

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

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

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

Unit: RMB in thousands

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

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

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

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

Report of the Board of Directors

2. Research and development expenditure of the Group

Unit: RMB in thousands

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

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

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

Unit: RMB in thousands

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

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

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

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

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

4. Other items of the Company's profit components

Unit: RMB in thousands

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

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

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

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

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

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

5. Breakdown of the Group's cash flow

Unit: RMB in thousands

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

Report of the Board of Directors

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

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

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

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

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

6. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in thousands

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

(2) Major overseas assets

Applicable N/A

(3) Assets and liabilities measured at fair value

Unit: RMB in thousands

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

Note: Financial liabilities included trading financial liabilities.

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

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

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

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

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

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

Report of the Board of Directors

(3) Investment in financial assets

① Investment in securities

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

Unit: RMB in ten thousands

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

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

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

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

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

B. Details in investment in securities during the reporting period

a. Shareholdings in China Eagle Electronic

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

b. Shareholdings in Huaheng Biotech

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

c. Shareholdings in Anji Technology

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

d. Shareholdings in NOVORAY

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

e. Shareholdings in Chipsea Technologies

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

f. Shareholdings in Leadyo

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

g. Shareholdings in Circuit Fabology

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

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h. Shareholdings in Hajime

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

i. Shareholdings in Enablence Technologies

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

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

② Entrusted fund management

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

Unit: RMB ten thousand

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

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

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

Applicable N/A

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

Applicable N/A

③ Derivative investments

Unit: RMB in ten thousands

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

Source of funds for derivative investment Internal funds

Litigation (if applicable)

Not involved in any litigation

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Non-executive Directors’ Opinion:

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

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

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

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

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

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

9. Analysis of principal subsidiaries and investee companies

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

Unit: RMB in thousands

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

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

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

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

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

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

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

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

(2) Capital resources and use

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

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(3) *Indebtedness*

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

① *Analysed by maturity profile*

Unit: RMB in thousands

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

② *Analysed by security*

Unit: RMB in thousands

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

(4) *Foreign exchange risk and relevant hedge*

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates, which might affect the operations of the Group. The Group adopts ongoing measures to strengthen foreign exchange risk management covering the entire business process and seeks to minimise exposures through initiatives such as business strategic guidance, internal settlement management, financing mix design and value-protected derivative exchange instruments. The Group has also strengthened liquidity risk management in countries practicing exchange control and endeavoured to facilitate RMB pricing and settlement for overseas projects to lower its exchange risks in the long term. For details, please refer to the section headed "Report of the Board of Directors (II) 7. Analysis of investments — Derivative investments" in this report.

(5) Contractual obligations

Unit: RMB in thousands

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

(6) Capital commitments

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

Unit: RMB in thousands

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

(7) Contingent liabilities

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

(8) Plans for investments or acquisition of capital assets

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

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

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

✓ Applicable □ N/A

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

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

1. Business outlook for the second half of 2021

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

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

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

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

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

2. Risk exposures

(1) Country risks

Given the complex nature of international economic and political conditions and the presence of the Group's business and branch organisations in over 100 countries and regions, as well as the differences in macro-economy, policy and regulation and political and social backgrounds among the countries where the Group's businesses are operated, the Group will continue to be exposed to risks relating to legal compliance, taxation, exchange rates and political developments (such as war and domestic unrest), which might affect the operations of

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

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risks

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

(4) Interest rate risk

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

(5) Customer credit risk

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

Corporate Governance

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

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

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

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

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

(III) INFORMATION ON THE CONVENING OF GENERAL MEETING

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

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(IV) SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

(V) THE AUDIT COMMITTEE

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

(VI) PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE

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

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

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

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

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

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

(1) Summary of the 2017 Share Option Incentive Scheme

(1) Approval procedures fulfilled and grant of options

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Summary of the 2020 Share Option Incentive Scheme

(1) Approval procedures fulfilled and grant of options

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(VIII) MANAGEMENT STOCK OWNERSHIP SCHEME OF THE COMPANY

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

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

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

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

Environmental and Social Responsibility

(I) ENVIRONMENTAL INFORMATION OF THE GROUP

1. Development of the Group's environmental initiatives

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

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

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

(1) Discharge of pollutants

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

Environmental and Social Responsibility

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

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

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

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

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

(4) *Contingency plans for unforeseen environmental incidents*

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

(5) *Environmental self-monitoring plan*

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

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

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

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

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

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

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

Material Matters

(I) MATERIAL LITIGATION AND ARBITRATION

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

1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB40,509,300). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand an compensation amount of BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interests and legal fees payable immediately by the Brazilian company. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Applicable N/A

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

Applicable N/A

Material Matters

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

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

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

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

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

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

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

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

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

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

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

Unit: RMB ten thousand

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

Material Matters

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

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

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

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

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

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

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

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

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

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

1. Connected transactions in the ordinary course of business

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

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

Material Matters

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

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

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

Applicable N/A

3. Connected transactions involving joint investment in third parties.

Applicable N/A

4. Creditors or debtors with connected parties

Applicable N/A

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

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

6. Other material connected transactions

Applicable N/A

(IX) MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

2. Third-party guarantees of the Group

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

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

Guarantees provided by the Company on behalf of subsidiaries

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

Material Matters

Guarantees provided by the Company on behalf of subsidiaries

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Collateral	Counter-guarantee	Term of guarantee	Whether performance was completed	Whether provided on behalf of connected parties
PT. ZTE Indonesia ^{Note 8}	19 February 2021 202118	USD40 million	30 June 2021	USD40 million	Joint liability	N/A	N/A	Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	No	No
PT. ZTE Indonesia ^{Note 8}	19 February 2021 202118	IDR400 billion	30 June 2021	IDR400 billion	Joint liability	N/A	N/A	Effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later	No	No
11 overseas subsidiaries involved in the MTN Group project ^{Note 9}	17 March 2021 202128	USD160 million	N/A	—	Joint liability	N/A	N/A	Commencing on the date of issuance of the guarantee certificate to MTN Group by the Company and ending upon the date of expiry of the "Framework Agreement", in any case not later than 5 years after the effective date of the "Framework Agreement"	N/A	No
11 overseas subsidiaries involved in the MTN Group project ^{Note 9}	17 March 2021 202128	USD16 million	N/A	—	Joint liability	N/A	N/A	Commencing on the date of issuance of the performance bond and ending upon the date on which performance of obligations under the "Framework Agreement" and its subsidiary contract is completed	N/A	No
Total amount of guarantee approved during the reporting period (B1)		RMB4,158,660,800 ^{Note 10}		Total amount of guarantee actually incurred during the reporting period (B2)		RMB436,260,800				
Total amount of guarantee approved as at the end of the reporting period (B3)		RMB9,251,370,900 ^{Note 10}		Total amount of balance of guarantee actually incurred as at the end of the reporting period (B4)		RMB2,831,456,400				

Guarantees provided by subsidiaries on behalf of fellow subsidiaries

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

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

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

Material Matters

- Note 6: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million. The aforesaid guarantee was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting of the Company. In June 2020, ZTE HK entered a USD300 million loan agreement with 8 Chinese/foreign banks headed by Bank of China, Macau Branch (“BOC Macau”). At the same time, the Company entered into a guarantee agreement with BOC Macau to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. On 13 August 2020, ZTE HK entered into a USD50 million loan agreement with 3 banks, including CITIC Bank London Branch. At the same time, the Company entered into a guarantee agreement with CITIC Bank London Branch to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. On 2 March 2021, ZTE HK entered into a USD150 million loan agreement with BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. As of the end of the reporting period, the above-mentioned debts of ZTE HK in BOCHK have not yet been incurred.
- Note 7: As considered and passed at the Thirty-ninth Meeting of the Seventh Session of the Board of Directors of the Company, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of an IDR300 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. The aforesaid guarantee was within the limit of USD200 million for the guarantee of contract performance provided for wholly-owned overseas subsidiaries as considered and passed at the 2017 Annual General Meeting. As of the end of the reporting period, the Company’s US\$40 million performance guarantee for its wholly-owned subsidiary, ZTE Indonesia, has been released, and the cancellation of the performance bond of IDR300 billion has not yet been completed.
- Note 8: As considered and passed at the Thirty-second Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of an IDR400 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. As of the end of the reporting period, the aforementioned guarantees have become effective.
- Note 9: As considered and passed at the Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of no more than USD160 million performance guarantee and the application to the relevant bank for the issuance of a USD16 million bank letter of guarantee by the Company for 11 overseas subsidiaries involved in MTN Group projects (including ZTE Corporation South Africa Proprietary Limited, ZTE Congo SARL, ZTE Zambia Service Limited, ZTE Uganda Limited, ZTE Nigeria Limited, ZTE Corporation Cote D’Ivoire SARL, ZTE Ghana Limited, ZTE Guinea SA, ZTE Afghanistan Ltd Co, ZTE Cameroon SARL and ZTE (H.K.) Limited), was approved. As of the end of the reporting period, the aforementioned guarantee has not yet become effective.
- Note 10: As considered and passed at the Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of performance guarantee line of no more than USD400 million in aggregate for 11 overseas subsidiaries (excluding the 11 overseas subsidiaries involved in the MTN Group projects), was approved. The computations of the total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) include a USD400 million guarantee provided for overseas wholly-owned subsidiaries. As at the end of the reporting period, the aforesaid guarantee had yet to be applied.
- Note 11: It was considered and approved at the board meeting of ZTE Micro-electronics, a subsidiary of the Company, that ZTE Micro-electronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between Xi’an Cris Semiconductor Technology Company Limited (“Cris”), its wholly-owned subsidiary, and Taiwan Semiconductor Manufacturing Company Limited (“TSMC”) for a term commencing on the date on which the “Guarantee Contract” comes into effect and ending upon on the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. As at the end of the reporting period, the aforesaid guarantee was under normal operation and guarantee for an amount of USD2,759,900 had come into effect.
- Note 12: As considered and approved at the Forty-fifth Meeting of the Seventh Session of the Board of Directors of the Company and by the board of directors and general meeting of ZTE ICT, ZTE ICT would provide guarantee by way of assurance with an amount of RMB10 million in respect of the obligations of ZTE ICT (Guangxi) Company Limited (“Guangxi ICT”), under the “Working Capital Maximum Borrowing Contract” in favour of Guilin Bank, Wuzhou Branch, for a term commencing on the date on which the “Maximum Guarantee Contract” comes into effect and ending on the date on which a period of 3 years has lapsed since the conclusion of the performance period for the primary creditor rights guaranteed. On 20 March 2019, ZTE ICT entered into a “Maximum Guarantee Contract” with Guilin Bank, Wuzhou Branch. As of the end of the reporting period, Guangxi ICT had settled the loan to the Guilin Bank, Wuzhou Branch and the aforementioned guarantee was released.

- Note 13: As considered and approved at the Sixteenth Meeting of the Eighth Session of the Board of Directors of the Company and by the board of directors and general meeting of Hunan ZICT Technology Co., Ltd (“Hunan ZICT”), Hunan ZICT would provide a maximum RMB100 million guarantee backed by real estate mortgages in favour of Shanghai Pudong Development Bank Corporation Shenzhen Branch (“PDB”) in respect of financing for ZICT. The real estate mortgage came into effect after ZICT entered into a Finance Facility Agreement with PDB and Hunan ZICT entered into a Maximum Mortgage Contract with PDB and completed registration of the mortgage on 7 May 2020. As at the end of the reporting period, the aforesaid guarantees were under normal performance.
- Note 14: The Company completed the acquisition of Netaş, a listed Turkish company, on 28 July 2017. Prior to the acquisition of Netaş by the Company, Netaş had provided the following guarantee for its subsidiaries Probil Bilgi İşlem Destek ve Danışmanlık San.ve Tic. A.Ş. (renamed Netaş Bilişim Teknolojileri A.Ş and hereinafter as “Netaş Bilişim”) and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. (“BDH”): (1) guarantee in respect of the performance obligations of Netaş Bilişim under the “Systems Integration Agreement” for an amount of approximately USD2,153,300 for a term commencing on the date on which the “Systems Integration Agreement” comes into effect upon execution and ending on the date on which the performance of the obligations of Netaş Bilişim under the “Systems Integration Agreement” are completed. As at the end of the reporting period, the actual amount of guarantee incurred by Netaş Bilişim was 0; (2) guarantee in respect of the performance obligations of BDH under the “Procurement and Installation Agreement” for an amount of EUR10,753,800 for a term commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the “Procurement and Installation Agreement” is completed. As at the end of the reporting period, the aforesaid guarantees were under normal performance.
- Note 15: As considered and approved at the Twenty-ninth Meeting of the Eighth Session of the Board of Directors of the Company and the Netaş board of directors, it was approved that a reciprocal joint-liability guarantee would be effected among Netaş and its subsidiaries in respect of composite credit facilities sought from financial institutions for an amount of not more than USD150 million. The facilities shall cover loans, letters of guarantee and reverse supply chain financing, among others. The effective period of the guarantee shall be 1 January 2021 to 31 December 2021. The guarantees that are still in effect under the guarantee of the previous year occupy such guarantee. As at the end of the reporting period, Netaş and BDH had provided guarantee for credit facilities amounting to USD8,924,300 for Netaş Bilişim; Netaş and Netaş Bilişim had provided guarantee for credit facilities amounting to USD1,296,100 for BDH; and Netaş Bilişim had provided guarantee for credit facilities amounting to USD2,914,400 for Netaş. As at the end of the reporting period, the guarantee provided to NetaşTelecom Limited Liability Partnership by Netaş had yet to be applied.
- Note 16: The guarantee amounts were translated at the book exchange rates of the Company as at 30 June 2021: USD1: RMB6.4625; EUR1: RMB7.6902; IDR1: RMB0.000444402.

3. Statement on guarantees provided in violation of regulations

Applicable N/A

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

5. Entrusted fund management

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

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

Applicable N/A

Material Matters

(X) UNDERTAKING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

② Undertaking in relation to the lock-up of shares

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

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

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

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

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

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

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

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

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

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

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

Applicable N/A

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

Applicable N/A

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

Applicable N/A

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

Applicable N/A

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

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

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

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

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

Material Matters

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

Applicable N/A

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

Applicable N/A

(XVIII) CREDIBILITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER

Applicable N/A

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

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

Applicable N/A

(XX) OTHER MATERIAL MATTERS

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

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

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: share

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

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

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

Unit: share

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

Changes in Shareholdings and Information of Shareholders

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

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

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

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

(IV) SHAREHOLDERS OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD

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

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

Changes in Shareholdings and Information of Shareholders

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,005,840,400	A share
	2,038,000	H share
2. HKSCC Nominees Limited	752,366,075	H share
3. Hong Kong Securities Clearing Company Limited	83,780,165	A share
4. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
5. Shenzhen Huitong Rongxin Investment Co., Ltd.	43,032,108	A share
6. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership)	43,032,108	A share
7. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	43,032,108	A share
8. Hunan Nantian (Group) Co., Ltd.	41,516,065	A share
9. New China Life Insurance Company Limited — New Traditional Products 2	40,032,165	A share
10. NSSF Portfolio #112	39,287,181	A share
Descriptions of any connected party relationships or concerted actions among the above shareholders	1. Zhongxingxin was neither a connected party nor a party of concerted action of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.	
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A	
Description of the above-mentioned shareholders' delegated/entrusted voting rights and waiver of voting rights	N/A	
Special description for the existence of special repurchase account among the top 10 shareholders	N/A	
Top 10 shareholders and top 10 holders of shares that were not subject to lock-up of the Company conducted any transactions on agreed repurchases during the reporting period	N/A	

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

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

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

Note 4: During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.

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

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

2. Controlling shareholder of the Company

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

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

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

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

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

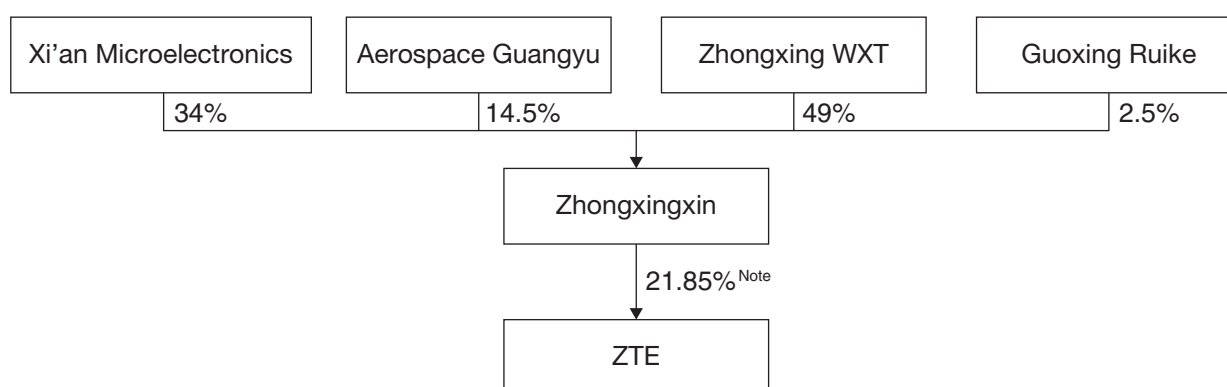
Changes in Shareholdings and Information of Shareholders

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a state-owned enterprise established on 17 August 1989. The legal representative is Xie Jing and the registered capital amounts to RMB17,950,000. Its uniform social credit code is 91440300192175031U. The scope of business includes sales of aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile and automobile. Domestic trade and import and export operations; trade brokerage and agency; lease of owned properties; wholesale of aqua-products; sales of mining products (other than mining products required to be centrally purchased by entities designated by the State) and timber; sales of goldware and silverware; logistics information service (excluding dangerous items) and sales of construction materials (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items). Cargo freight and warehousing; wholesale of pre-packaged food; wholesale of agricultural by-products; sales of coal products; sales of pre-packaged food (including refrigerated food) and sales of bulk food (including refrigerated food); sales of medical equipment; sales of Class II and Class III radioactive devices; sales of light cycle oil (excluding dangerous chemicals).

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

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

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



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

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

As at 30 June 2021, the following shareholders held interests or short positions in 5% or more in various classes of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO.

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

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

Note 1: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,613,434,898 shares, comprising 3,857,932,364 A shares and 755,502,534 H shares, as at 30 June 2021.

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

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

(V) PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

(VI) THE COMPANY HAS NO PREFERENTIAL SHARES.

Directors, Supervisors and Senior Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors, Supervisors and Senior Management

- Note 3: Ms. Fang Rong has ceased to be chairman of Shenzhen Heyu International Supply Chain Company Limited as from January 2021 and has been appointed director of Heyihui (Shenzhen) Health Service Company Limited with effect from February 2021.
- Note 4: Ms. Cai Manli has ceased to be general manager respectively of HEYI Rising Assets Management Co., Ltd, Shanghai Heyi Consulting and Management Group Co., Ltd, chairman of Zhejiang Caihe Tongyi Enterprise Development Co., Ltd. and Heyi Ruifeng Investment Management Co., Ltd. and manager of Ningpo Meishan Bonded Area Heyi Ruixiang Asset Management Co., Ltd. and Ningpo Meishan Bonded Area Heyi Yuejing Asset Management Co., Ltd. as from April 2021, and has been appointed independent director of Guangzhou Jifei Technology Co., Ltd with effect from March 2021.
- Note 5: Mr. Li Quancai has ceased to be supervisor of 深圳市益和天成投資發展有限公司 from March 2021.
- Note 6: Mr. Shang Xiaofeng has been appointed as the supervisor of Hainan Xinghang Technology Co., Ltd. since April 2021.
- Note 7: Ms. Zhang Sufang has ceased to be representative of the executive partner of Hefei Zhongxing Hechuang Semiconductor Venture Investment Fund (Limited Partnership) from April 2021.
- Note 8: Mr. Wang Xiyu has ceased to be chairman of Guangdong Newstart Technology & Service Company Limited and Xi'an Cris Semiconductor Technology Company Limited from January 2021 and March 2021 respectively.

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

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

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

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

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

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

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

Save as disclosed above, as at 30 June 2021, none of the Directors, Supervisors and Chief Executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules.

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

Information on Bonds

(I) CORPORATE BONDS

Applicable N/A

(II) DEBENTURES

Applicable N/A

(III) NON-FINANCIAL CORPORATE DEBT FINANCING INSTRUMENTS

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

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

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

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

Applicable N/A

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

Applicable N/A

Information on Bonds

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

Applicable N/A

5. **Other information**

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

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

(IV) CONVERTIBLE CORPORATE BONDS

Applicable N/A

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

Applicable N/A

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

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

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

Consolidated Balance Sheet

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

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

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

Consolidated Balance Sheet (continued)

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

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

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

Consolidated Balance Sheet (continued)

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

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

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

Legal Representative:
Li Zixue

Chief Financial Officer:
Li Ying

Head of Finance Division:
Xu Jianrui

Consolidated Income Statement

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

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

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

Consolidated Income Statement (continued)

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

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

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

Consolidated Statement of Changes in Equity

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

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

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

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

Consolidated Cash Flow Statement

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

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

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

Balance Sheet

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

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

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

Balance Sheet (continued)

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

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

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

Income Statement

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

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

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

Income Statement (continued)

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

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

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

Statement of Changes in Equity

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

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

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

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

Cash Flow Statement

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

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

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

Notes to Financial Statements

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

Note: Items in the notes to the financial statements marked with # are disclosures provided in compliance with the Companies Ordinance of Hong Kong and the Listing Rules of the Hong Kong Stock Exchange.

I. CORPORATE BACKGROUND

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

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

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

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

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements are prepared on a going concern basis.

Notes to Financial Statements

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

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

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Statement of compliance

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

2. Financial year

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

3. Reporting currency

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

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

4. Business combination

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

Business combinations involving entities under common control

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (continued)

Business combinations not involving entities under common control

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

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

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

5. Consolidated financial statements

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

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

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

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

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

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

8. Foreign currency translation

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

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

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur (unless the adoption of such exchange rate is considered inappropriate owing to exchange rate fluctuations, in which case the spot exchange rate prevailing on the date of transaction shall be adopted). Translation differences arising from the aforesaid translation of financial statements denominated in foreign currency shall be recognised as other comprehensive income. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognised on a pro-rata basis.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency translation (continued)

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

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

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

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

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

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

Classification and valuation of financial assets

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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

Debt instruments at amortised cost

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

Debt instrument at fair value through other comprehensive income

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

Financial assets at fair value through current profit or loss

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

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

Impairment of financial instruments

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

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

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial instruments (continued)

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

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

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

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

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

Financial guarantee contracts

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Derivative financial instruments

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

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

Transfer of financial assets

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

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

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

10. Inventories

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

12. Investment properties

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

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

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

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

13. Fixed Assets

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Fixed Assets (continued)

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

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

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

14. Construction in progress

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

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

15. Borrowing costs

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

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

Capitalisation of borrowing costs begins where:

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs (continued)

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

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

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

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

16. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Intangible assets (continued)

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

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

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

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

17. Provisions

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Share-based payments

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

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

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

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

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

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

19. Other equity instrument

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue

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

Contract for the sales of products

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

Contract for the rendering of services

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

Telecommunication system construction contract

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

Variable consideration

Certain contracts between the Group and its customers contain cash discount and price guarantee clauses which will give rise to variable consideration. Where a contract contains variable consideration, the Group determines the best estimates on the variable consideration based on expected values or the most probable amount, provided that transaction prices including variable consideration shall not exceed the cumulative amount of recognised revenue upon the removal of relevant uncertainties in connection with which a significant reversal is highly unlikely.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

Consideration payable to customers

Where consideration is payable by the Group to a customer, such consideration payable shall be deducted against the transaction price, and against current revenue upon the recognition of revenue or the payment of (or the commitment to pay) the consideration to the customer (whichever is later), save for consideration payable to the customer for the purpose of acquiring from the customer other clearly separable products.

Return clauses

In connection with sales with a return clause, revenue is recognised according to the amount of consideration it expects to be entitled to for the Transfer to a customer when the customer acquires control of the relevant. Amounts expected to be refunded for the return of sales are recognised as liabilities. At the same time, the balance of the carrying value of the product expected to be returned upon transfer less expected costs for the recall of such product (including impairment loss of the recalled product) shall be recognised as an asset (i.e. cost of return receivables), and the net amount of the carrying value of the transferred product upon the transfer less the aforesaid asset cost shall be transferred to cost. At each balance sheet date, the Group reassess the future return of sales and remeasured the above assets and liabilities.

Significant financing component

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

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

Warranty clauses

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

Contract changes

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

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

21. Contract assets and contract liabilities

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

Contract assets

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

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

Contract liabilities

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Assets relating to contract cost

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

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

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

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

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

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

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

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

23. Government grants

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Government grants (continued)

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

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

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

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

24. Income tax

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Income tax (continued)

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

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

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

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

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

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

25. Leases

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee

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

Initial measurement

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

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

Subsequent measurement

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee (continued)

Modification of leases

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

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee (continued)

Short-term lease and low-value asset lease

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

As a lessor

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

As the lessor under a finance lease

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessor (continued)

As the lessor under a finance lease (continued)

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

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

As the lessor under an operating lease

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

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

Leaseback transactions

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

As lessee

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

As lessor

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Impairment

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

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

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

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

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

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

Previously recognised impairment losses are not reversed in subsequent periods.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Employee remuneration

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

Short-term remuneration

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

Retirement benefit (defined deposit scheme)

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

Retirement benefit (defined benefit scheme)

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

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

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

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

Termination benefits

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Employee remuneration (continued)

Other long-term employees' benefits

Other long-term employees' benefits provided to employees shall be recognised and measured as net liabilities or net assets where provisions regarding post-employment benefits are applicable, provided that changes shall be included in current profit and loss or related capital costs.

28. Fair value measurement

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

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

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

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

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

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

29. Profit distribution

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates

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

Judgement

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

Determination of standalone contractual performance obligations under telecommunication system construction contracts

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

Determination of progress of performance of service rendering contracts

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

Performance of obligation at a point of time

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

Business model

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

Characteristics of contract cash flow

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

Deferred tax liabilities relating to subsidiaries, associates and joint ventures

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

Derecognition of financial assets

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

Estimation uncertainty

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

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

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

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

Impairment of financial instruments

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Depreciation and amortisation

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

Development costs

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

Deferred tax assets

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

Estimated standalone selling price

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

Provision for inventory impairment

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

Warranty

The Group makes reasonable estimates on warranty fee rates in respect of contract groups with similar characteristics based on the historic data and current conditions of warranty, taking into consideration all relevant information such as product improvements and market changes, among others. The Group reassesses the warranty fee rates at least annually at each balance sheet date and determines its estimated liabilities based on the reassessed warranty fee rates.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value estimates of investment properties

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

Fair value of non-listed equity investment

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

Provision for expected credit losses on trade receivables and contract assets

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Lease period – lease contracts comprising the optional for renewal

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

IV. TAXATION

1. Principal tax items and tax rates

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

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IV. TAXATION (CONTINUED)

2. Tax concession

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Cash and Bank Balance

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

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

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

2. Trading financial assets

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

3. Derivative financial assets

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

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

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

4A. Trade receivables

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

Aging analysis of trade receivables was as follows:

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

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

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

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

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

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

4A. Trade receivables (continued)

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

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

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

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

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

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

4A. Trade receivables (continued)

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

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

During the period, RMB205,296,000 (Six months ended 30 June 2020: RMB47,654,000) was reversed in respect of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately. RMB91,839,000 (Six months ended 30 June 2020: RMB2,979,036,000) was written off as the amount, arising from non-connected transactions, was deemed irrecoverable.

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

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

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

4A. Trade receivables (continued)

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

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

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

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

4B. Receivable financing

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

If the endorsing or discounting of bills receivable and the disposal of trade receivables only take place occasionally or their value, whether individual or aggregated, is minimal, and the objective of their business model remains the collection of contract cash flow, they are measured at amortised cost; if the enterprise's business model for bills receivable and trade receivables is aimed at both the collection of contract cash flow and disposal, they are classified as financial assets at fair value through other comprehensive income and reported as receivable financing.

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

4B. Receivable financing (continued)

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

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

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

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

5. Prepayments

Aging analysis of prepayments was as follows:

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

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

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

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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 31 December 2020 were as follows:

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

6. Other receivables

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

Interests receivables

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

Other receivables

Aging analysis of other receivables was as follows:

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

Other receivables analysed by nature were as follows:

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

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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 2021 were as follows:

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

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

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

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

6. Other receivables (continued)

Other receivables (continued)

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

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

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

7. Inventories

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

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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 2021

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

2020

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

8. Contract assets

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

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

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

8. Contract assets (continued)

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

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

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

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

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

9. Long-term receivables

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

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

9. Long-term receivables (continued)

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

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

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

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

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

10. Long-term equity investments

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

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

10. Long-term equity investments (continued)

30 June 2021

(1) Joint Ventures

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

(2) Associates

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

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

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

10. Long-term equity investments (continued)

2020

(1) Joint Ventures

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

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

(2) Associates

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

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

10. Long-term equity investments (continued)

2020 (continued)

(2) Associates (continued)

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

Impairment provision for long-term equity investment:

30 June 2021

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

31 December 2020

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

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

11. Other non-current financial assets

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

12. Investment properties

30 June 2021

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

31 December 2020

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

During the period, the Group leased buildings of the investment properties to a related party and other non-related parties by way of operating lease.

As at 30 June 2021, investment properties with a carrying value of RMB1,256,000,000 (31 December 2020: RMB1,727,000,000) had yet to obtain title registration certificates.

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

13. Fixed Assets

30 June 2021

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	9,584,112	29,289	6,367,292	3,135,370	275,430	396,183	19,787,676
Acquisitions	151,943	—	647,773	229,841	8,441	21,642	1,059,640
Transfer from construction in progress	—	—	40,138	1,406	—	36	41,580
Disposal or retirement	(532,876)	—	(388,883)	(137,621)	(13,204)	(75,713)	(1,148,297)
Exchange rate adjustments	(2,937)	869	(7,558)	(3,477)	(364)	(6,512)	(19,979)
Closing balance	9,200,242	30,158	6,658,762	3,225,519	270,303	335,636	19,720,620
Accumulated depreciation							
Opening balance	2,150,165	—	3,457,403	1,800,470	165,703	271,258	7,844,999
Charge	165,195	—	454,113	127,724	11,096	17,892	776,020
Disposal or retirement	(131,582)	—	(316,810)	(89,416)	(11,100)	(34,792)	(583,700)
Exchange rate adjustments	(2,831)	—	(6,747)	(2,720)	(249)	(3,875)	(16,422)
Closing balance	2,180,947	—	3,587,959	1,836,058	165,450	250,483	8,020,897
Provision for impairment							
Opening balance	21,270	—	1,840	5,521	—	104	28,735
Charge	—	—	—	57,032	—	952	57,984
Disposal or retirement	—	—	(422)	(10)	—	(21)	(453)
Exchange rate adjustments	—	—	(284)	—	—	(3)	(287)
Closing balance	21,270	—	1,134	62,543	—	1,032	85,979
Net book value							
As at the end of the period	6,998,025	30,158	3,069,669	1,329,918	104,853	84,121	11,613,744
As at the beginning of the period	7,412,677	29,289	2,908,049	1,329,379	109,727	124,821	11,913,942

31 December 2020

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	7,376,296	40,441	5,533,723	3,164,125	281,759	362,772	16,759,116
Acquisitions	1,653,580	—	1,566,243	249,756	22,940	74,009	3,566,528
Transfer from construction in progress	533,155	—	31,824	1,610	—	88	566,677
Business combination not under common control	79,598	—	60,453	57,045	6,706	779	204,581
Disposal or retirement	(35,617)	—	(818,322)	(315,996)	(31,234)	(22,424)	(1,223,593)
Exchange rate adjustments	(22,900)	(11,152)	(6,629)	(21,170)	(4,741)	(19,041)	(85,633)
Closing balance	9,584,112	29,289	6,367,292	3,135,370	275,430	396,183	19,787,676
Accumulated depreciation							
Opening balance	1,853,492	—	3,313,005	1,775,221	169,974	222,677	7,334,369
Charge	280,061	—	798,921	278,667	23,062	84,210	1,464,921
Business combination not under common control	47,707	—	45,053	27,401	3,684	672	124,517
Disposal or retirement	(18,557)	—	(695,099)	(261,273)	(28,446)	(25,103)	(1,028,478)
Exchange rate adjustments	(12,538)	—	(4,477)	(19,546)	(2,571)	(11,198)	(50,330)
Closing balance	2,150,165	—	3,457,403	1,800,470	165,703	271,258	7,844,999
Provision for impairment							
Opening balance	21,270	—	1,886	16,926	1,096	81	41,259
Charge	—	—	426	10	—	21	457
Disposal or retirement	—	—	(638)	(11,415)	(1,096)	—	(13,149)
Exchange rate adjustments	—	—	166	—	—	2	168
Closing balance	21,270	—	1,840	5,521	—	104	28,735
Net book value							
As at the end of the year	7,412,677	29,289	2,908,049	1,329,379	109,727	124,821	11,913,942
As at the beginning of the year	5,501,534	40,441	2,218,832	1,371,978	110,689	140,014	9,383,488

As at 30 June 2021, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai and Nanjing in China with a net book value of approximately RMB1,995,169,000 (31 December 2020: RMB2,033,892,000).

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14. Construction in progress

Changes in major construction in progress as at 30 June 2021 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets during the year	Other reduction	Impairment provision	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Nanjing Project	978,070	361,161	54,498	—	—	—	415,659	Internal funds	42.50%	Under construction
New energy commercial vehicle production base	578,333	6,356	32,274	—	—	—	38,630	Internal funds	97.59%	Under construction
Shanghai R&D Centre Phase III	478,000	182,031	62,039	—	—	—	244,070	Internal funds	62.46%	Under construction
ZTE headquarters	169,040	84,520	16,904	—	—	—	101,424	Internal funds	14.50%	Under construction
Xi'an Project	774,200	194,464	33,044	—	—	—	227,508	Internal funds	29.39%	Under construction
Others	—	211,368	4,381	41,580	31,871	—	142,298	Internal funds		Under construction
		1,039,900	203,140	41,580	31,871	—	1,169,589			

Changes in major construction in progress as at 31 December 2020 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets during the year	Other reduction	Impairment provision	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Nanjing Project	978,070	261,568	99,593	—	—	—	361,161	Internal funds	36.93%	Under construction
New energy commercial vehicle production base	578,333	526,796	5,317	525,757	—	—	6,356	Internal funds	92.01%	Under construction
Shanghai R&D Centre Phase III	478,000	75,810	106,221	—	—	—	182,031	Internal funds	49.49%	Under construction
ZTE headquarters	169,040	50,712	33,808	—	—	—	84,520	Internal funds	12.08%	Under construction
Xi'an Project	774,200	129,471	64,993	—	—	—	194,464	Internal funds	25.12%	Under construction
Others	—	127,359	131,520	40,920	—	6,591	211,368	Internal funds		Under construction
		1,171,716	441,452	566,677	—	6,591	1,039,900			

As at 30 June 2021, there was no capitalised interest in the balance of the construction in progress (31 December 2020: Nil).

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

15. Rights-of-use assets

30 June 2021

	Buildings and structures	Vehicles	Other investment	Total
Cost				
Opening balance	1,615,090	129,627	143,818	1,888,535
Increase	92,947	23,398	—	116,345
Decrease	(69,275)	(50,025)	(73,813)	(193,113)
Exchange rate adjustment	(21,138)	(30,297)	(103)	(51,538)
Closing balance	1,617,624	72,703	69,902	1,760,229
Cumulative depreciation				
Opening balance	628,047	99,259	114,019	841,325
Charge	220,366	11,675	17,969	250,010
Decrease	(69,275)	(50,025)	(73,813)	(193,113)
Exchange rate adjustment	(11,334)	(14,093)	(77)	(25,504)
Closing balance	767,804	46,816	58,098	872,718
Book value				
As at the end of the period	849,820	25,887	11,804	887,511
As at the beginning of the period	987,043	30,368	29,799	1,047,210

31 December 2020

	Buildings and structures	Vehicles	Other investment	Total
Cost				
Opening balance	1,395,884	110,319	123,555	1,629,758
Increase	299,975	11,646	74,423	386,044
Decrease	(127,650)	(22,912)	(53,907)	(204,469)
Exchange rate adjustment	46,881	30,574	(253)	77,202
Closing balance	1,615,090	129,627	143,818	1,888,535
Cumulative depreciation				
Opening balance	437,127	32,804	96,046	565,977
Charge	274,565	59,628	71,909	406,103
Decrease	(127,650)	(22,912)	(53,907)	(204,469)
Exchange rate adjustment	44,005	29,739	(29)	73,714
Closing balance	628,047	99,259	114,019	841,325
Book value				
As at the end of the year	987,043	30,368	29,799	1,047,210
As at the beginning of the year	958,757	77,515	27,509	1,063,781

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

16. Intangible assets

30 June 2021

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	994,714	464,259	3,075,120	2,061,615	14,191,688	20,787,396
Acquisition	146,790	38,376	—	44,336	—	229,502
In-house R&D	—	—	—	—	482,844	482,844
Disposal or retirement	(57,479)	(1,692)	(65,926)	(1,415)	—	(126,512)
Exchange rate adjustments	(9,120)	—	—	(16,824)	—	(25,944)
Closing balance	1,074,905	500,943	3,009,194	2,087,712	14,674,532	21,347,286
Accumulated amortisation						
Opening balance	389,337	327,705	393,296	952,686	9,271,610	11,334,634
Charge	107,190	29,693	37,456	158,247	874,150	1,206,736
Disposal or retirement	(41,693)	(771)	(17,249)	(436)	—	(60,149)
Exchange rate adjustments	(6,660)	(1)	—	(2,308)	—	(8,969)
Closing balance	448,174	356,626	413,503	1,108,189	10,145,760	12,472,252
Provision for impairment						
Opening balance	14,615	12,205	—	58,660	—	85,480
Charge	16,214	—	—	—	—	16,214
Disposal or retirement	—	—	—	—	—	—
Exchange rate adjustments	(537)	—	—	(2,423)	—	(2,960)
Closing balance	30,292	12,205	—	56,237	—	98,734
Book value						
As at the end of the period	596,439	132,112	2,595,691	923,286	4,528,772	8,776,300
As at the beginning of the period	590,762	124,349	2,681,824	1,050,269	4,920,078	9,367,282

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

16. Intangible assets (continued)

31 December 2020

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	707,951	157,517	2,733,148	1,152,934	12,145,786	16,897,336
Acquisition	343,047	11,270	346,789	163,741	—	864,847
In-house R&D	—	—	—	—	2,045,902	2,045,902
Business combination not under common control	37,024	304,415	1,640	735,132	—	1,078,211
Disposal or retirement	(70,980)	(8,943)	(6,457)	(65)	—	(86,445)
Exchange rate adjustments	(22,328)	—	—	9,873	—	(12,455)
Closing balance	994,714	464,259	3,075,120	2,061,615	14,191,688	20,787,396
Accumulated amortisation						
Opening balance	206,494	149,587	321,658	746,349	7,676,568	9,100,656
Charge	230,393	22,552	71,513	214,581	1,595,042	2,134,081
Business combination not under common control	28,667	158,679	260	572	—	188,178
Disposal or retirement	(61,367)	(3,113)	(135)	(34)	—	(64,649)
Exchange rate adjustments	(14,850)	—	—	(8,782)	—	(23,632)
Closing balance	389,337	327,705	393,296	952,686	9,271,610	11,334,634
Provision for impairment						
Opening balance	14,300	—	6,322	57,238	—	77,860
Charge	—	12,205	—	—	—	12,205
Disposal or retirement	—	—	(6,322)	—	—	(6,322)
Exchange rate adjustments	315	—	—	1,422	—	1,737
Closing balance	14,615	12,205	—	58,660	—	85,480
Book value						
As at the end of the year	590,762	124,349	2,681,824	1,050,269	4,920,078	9,367,282
As at the beginning of the year	487,157	7,930	2,405,168	349,347	4,469,218	7,718,820

As at 30 June 2021, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a carrying value of approximately RMB1,004,026,000 (31 December 2020: RMB1,032,215,000).

As at 30 June 2021, intangible assets formed through internal research and development accounted for 52% of the book value of intangible assets as at the end of the period (31 December 2020: 53%).

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17. Deferred development costs

30 June 2021

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Handsets	2,270	18,080	(2,438)	17,912
System products	2,070,587	1,041,542	(480,406)	2,631,723
	2,072,857	1,059,622	(482,844)	2,649,635

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	32,057	77,485	(107,272)	2,270
System products	1,844,352	2,164,865	(1,938,630)	2,070,587
	1,876,409	2,242,350	(2,045,902)	2,072,857

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

18. Goodwill

Movements in the original value of goodwill are as follows:

30 June 2021

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

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

18. Goodwill (continued)

31 December 2020

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

Change in goodwill impairment provision was as follows:

30 June 2021

	Opening balance	Increase during the period	Decrease during the period	Closing
		Exchange rate movement	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	—	—	—	—
Suzhou Laxense Technology Co., Ltd.	33,500	—	—	33,500
NETAS TELEKOMUNIKASYON A.S.	89,763	—	—	89,763
Total	123,263	—	—	123,263

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing
		Exchange rate movement	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	—	—	—	—
Suzhou Laxense Technology Co., Ltd.	33,500	—	—	33,500
NETAS TELEKOMUNIKASYON A.S.	89,763	—	—	89,763
Total	123,263	—	—	123,263

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Goodwill (continued)

Goodwill acquired as a result of corporate merger has been allocated to the following asset groups or portfolio of asset groups for the purpose of impairment testing:

In 2019, Zhuhai Guangtong Bus Co., Ltd. transferred significant assets to Zhongxing Smart Auto Company Limited, its parent company. The management is of the view that Zhuhai Guangtong Bus Co., Ltd and Zhongxing Smart Auto Company Limited should be treated as one single asset group.

- Zhongxing Smart Auto Company Limited asset group

Zhongxing Smart Auto Company Limited asset group

In 2019, Zhuhai Guangtong Bus Co., Ltd. and Zhongxing Smart Auto Company Limited were combined as one single asset group, resulting in modification of the asset group ascertained on the date of purchase.

19. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities, which are not offset:

	30 June 2021		31 December 2020	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	2,545,307	482,121	2,281,961	464,969
Provision for impairment in inventory	1,210,614	259,863	1,295,712	266,314
Foreseeable construction contract losses	1,189,126	178,369	1,424,193	213,629
Amortisation of deferred development costs	2,842,665	319,837	2,572,554	279,142
Provision for warranties and returned goods	197,281	33,631	245,741	40,938
Provision for retirement benefits	190,694	32,891	175,954	29,277
Deductible tax losses	8,758,212	1,537,098	10,369,097	1,599,119
Accruals	2,133,825	383,943	4,118,262	545,809
Overseas taxes pending deduction	—	—	1,747,971	262,196
Share option scheme expenses	965,274	144,791	496,504	74,476
Lease liabilities	1,077,891	153,362	1,162,649	165,721
	21,110,889	3,525,906	25,890,598	3,941,590

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Deferred tax assets/liabilities (continued)

	30 June 2021		31 December 2020	
	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	1,091,779	163,767	1,090,898	163,635
Investment in equity instrument at fair value through profit or loss	740,226	147,158	513,699	99,174
Adjustments to fair value of business combination not under common control	915,667	137,350	1,073,769	161,065
Rights-of-use assets	887,511	133,127	1,047,210	157,082
Others	519,910	77,986	385,670	57,850
	4,155,093	659,388	4,111,246	638,806

The net amount of deferred tax assets and deferred tax liabilities after set-off:

	30 June 2021		31 December 2020	
	Amount of set-off	Amount after set-off	Amount of set-off	Amount after set-off
Deferred tax assets	529,958	2,995,948	504,489	3,437,101
Deferred tax liabilities	529,958	129,430	504,489	134,317

Deductible temporary differences and deductible tax losses of unrecognised deferred tax assets:

	30 June 2021	31 December 2020
Deductible tax losses	4,417,119	5,008,396

Deductible tax losses of unrecognised deferred tax assets expiring in:

	30 June 2021	31 December 2020
2021	31,847	103,206
2022	339,795	106,593
2023	190,178	372,143
2024	236,291	341,724
Beyond 2025	3,619,008	4,084,730
	4,417,119	5,008,396

The Group recognises deferred tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible tax loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible tax loss and tax allowance.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Other current assets/other non-current assets

Other current assets

	30 June 2021	31 December 2020
Advanced payment of output tax and credit tax available for set off	7,277,274	8,024,888
Others	75,067	68,027
	7,352,341	8,092,915

Other non-current assets

	30 June 2021	31 December 2020
Prepayments for project, equipment and land	744,804	967,600
Risk compensation fund	227,796	261,394
Guarantee deposit	351,323	351,623
Restricted cash (Note 1)	2,668,257	2,692,163
Prepaid income tax	265,311	241,137
Others	1,756,324	1,765,940
	6,013,815	6,279,857

Note 1: Restricted funds represented deposits in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed. For details, please refer to Note XII.2.

21. Short-term loans

		30 June 2021		31 December 2020	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	5,876,351	5,876,351	4,631,452	4,631,452
	USD	403,000	2,604,388	531,948	3,468,509
	EUR	64,599	496,779	125,817	1,009,251
	TRY	324,150	241,330	266,000	236,282
Bills discounting loans	RMB	450,322	450,322	748,180	748,180
Letter of credit loans	RMB	3,200,000	3,200,000	300,000	300,000
Pledged loans	Note 1 RMB	30,000	30,000	30,000	30,000
Guarantee loans	RMB	—	—	20,000	20,000
Secured loans	Note 2 RMB	26,175	26,175	115,486	115,486
			12,925,345		10,559,160

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Short-term loans (continued)

As at 30 June 2021, the annual interest rate of the above loans ranged from 0.80%–20.00% (except for TRY loans which were subject to an annual interest rate of 9.30%–20.00%) (31 December 2020: 0.80%–19.50%, including TRY loans which were subject to an annual interest rate of 9.30%–19.50%).

Note 1: The guaranteed loan comprised mainly loans extended to ZTE ICT Company Limited secured by trade receivables with a book value of RMB6,841,000 and contract assets with a book value of RMB10,259,000 of the “Jinan Environmental Project” and trade receivables with a book value of RMB3,586,000 and contract assets with a book value of RMB5,892,000 of the “Suzhou High-speed Rail” project.

Note 2: The secured loans comprised mainly an RMB26,176,000 loan extended to ZTE ICT (Hunan) Company Limited secured by buildings with a book value of RMB46,531,000 and land use rights with a book value of RMB23,736,000.

22. Derivative financial liabilities

	30 June 2021	31 December 2020
Financial liabilities at fair value through current profit and loss	31,853	153,961

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.3.

23A. Bills payable

	30 June 2021	31 December 2020
Bank acceptance bills	3,870,265	5,624,190
Commercial acceptance bills	4,927,631	5,739,866
	8,797,896	11,364,056

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23B. Trade payables

Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2021	31 December 2020
0 to 6 months	19,029,820	16,404,105
6 to 12 months	433,512	371,996
1 year to 2 years	211,850	181,788
2 years to 3 years	180,956	155,278
Over 3 years	44,944	38,566
	19,901,082	17,151,733

Trade payables are interest-free and repayable normally within 6 months.

As at 30 June 2021, were no material trade payables aged over 1 year (31 December 2020: Nil).

24. Short-term bonds payable

	30 June 2021	31 December 2020
SCPs	2,000,000	—
	2,000,000	—

The balance of short-term bonds payable as at 30 June 2021 is set out as follows:

Face value	Issue date	Term	Issue amount	Opening balance	Issued during the period	Annual interest rate	Interest provision for the period	Amortisation of discount/premium	Repayment during the period	Closing balance
1,000,000,000	2021/4/29	180 days	1,000,000,000	—	1,000,000,000	2.70%	4,586	—	—	1,000,000,000
1,000,000,000	2021/4/29	180 days	1,000,000,000	—	1,000,000,000	2.70%	4,586	—	—	1,000,000,000

25. Contract liabilities

	30 June 2021	31 December 2020
Contracted consideration received	18,051,874	14,998,172

Contract liabilities refer to the obligation to transfer goods to customers in consideration of payments received or receivable from customers. Contract liabilities are incurred when the payment schedule agreed under the contract is ahead of the performance of contract obligations.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Salary and welfare payables

Salaries payable

30 June 2021

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	10,383,922	11,705,225	(13,304,173)	8,784,974
Retirement benefits (Defined contribution scheme)	126,395	809,728	(743,339)	192,784
Termination benefits	35,178	134,255	(116,558)	52,875
	10,545,495	12,649,208	(14,164,070)	9,030,633

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	8,800,736	21,677,370	(20,094,184)	10,383,922
Retirement benefits (Defined contribution scheme)	143,866	808,532	(826,003)	126,395
Termination benefits	9,403	272,837	(247,062)	35,178
	8,954,005	22,758,739	(21,167,249)	10,545,495

Short-term remuneration analysed as follows:

30 June 2021

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	8,443,244	10,563,750	(12,421,216)	6,585,778
Staff welfare	14,973	12,356	(17,156)	10,173
Social Insurance	61,668	448,047	(471,748)	37,967
Including: Medical	58,421	414,258	(437,971)	34,708
Work injuries	1,373	10,672	(11,041)	1,004
Maternity	1,874	23,117	(22,736)	2,255
Housing funds	33,405	330,599	(360,459)	3,545
Labour union fund and employee education fund	1,830,632	350,473	(33,594)	2,147,511
	10,383,922	11,705,225	(13,304,173)	8,784,974

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Salary and welfare payables (continued)

Salaries payable (continued)

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	7,322,241	19,338,887	(18,217,884)	8,443,244
Staff welfare	16,880	25,380	(27,287)	14,973
Social Insurance	62,202	731,430	(731,964)	61,668
Including: Medical	55,308	686,624	(683,511)	58,421
Work injuries	2,913	8,413	(9,953)	1,373
Maternity	3,981	36,393	(38,500)	1,874
Housing funds	22,725	683,172	(672,492)	33,405
Labour union fund and employee education fund	1,376,688	898,501	(444,557)	1,830,632
	8,800,736	21,677,370	(20,094,184)	10,383,922

Defined contribution plans are analysed as follows:

30 June 2021

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	123,944	788,969	(721,842)	191,071
Unemployment insurance	2,451	20,759	(21,497)	1,713
	126,395	809,728	(743,339)	192,784

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	136,591	789,947	(802,594)	123,944
Unemployment insurance	7,275	18,585	(23,409)	2,451
	143,866	808,532	(826,003)	126,395

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Tax payable

	30 June 2021	31 December 2020
Value-added tax	104,799	118,864
Enterprise income tax	445,619	445,022
Including: PRC tax	433,212	424,621
Overseas tax	12,407	20,401
Personal income tax	133,504	213,819
City maintenance and construction tax	31,527	30,996
Education surcharge	27,448	27,643
Other taxes	3,185	41,857
	746,082	878,201

28. Other payables

	30 June 2021	31 December 2020
Interest payables	43,048	28,561
Dividend payables	926,591	4,677
Other payables	3,532,570	4,319,564
	4,502,209	4,352,802

Dividend payables

	30 June 2021	31 December 2020
Dividend on ordinary shares	922,912	225
Dividend payables to minority shareholders	3,679	4,452
	926,591	4,677

Other payables

	30 June 2021	31 December 2020
Accruals	872,332	881,389
Deferred income from staff housing due in 1 year	205,724	633,222
Payables to external parties	2,101,107	2,483,236
Deposits	5,559	8,105
Others	347,848	313,612
	3,532,570	4,319,564

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Provisions

30 June 2021

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Expected contract loss (Note 1)	1,756,267	676,411	(785,766)	1,646,912
Outstanding litigation (Note 2)	172,964	95,933	(61,197)	207,700
Provision for warranties	156,003	40,149	(43,499)	152,653
	2,085,234	812,493	(890,462)	2,007,265

31 December 2020

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Expected contract loss (Note 1)	1,619,216	1,185,309	(1,048,258)	1,756,267
Outstanding litigation (Note 2)	166,491	60,538	(54,065)	172,964
Provision for warranties	180,757	127,260	(152,014)	156,003
	1,966,464	1,373,107	(1,254,337)	2,085,234

Note 1: Unavoidable cost for the performance of contract in excess of expected economic benefits of the contract.

Note 2: Provisions in respect of likely compensation amounts for cases as assessed based on the advice from appointed legal counsel and the progress of such cases.

30. Non-current liabilities due within one year

	30 June 2021	31 December 2020
Long-term loans due within one year	5,215,899	1,651,543
Lease liabilities	440,101	453,134
	5,656,000	2,104,677

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Long-term loans

		30 June 2021		31 December 2020	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	18,077,450	18,077,450	16,269,550	16,269,550
	USD	565,000	3,651,312	572,500	3,732,929
	EUR	18,343	13,657	23,502	20,876
	TRY	363	2,789	363	2,909
Guaranteed loans	Note 1 USD	350,000	2,261,875	350,000	2,282,140
Secured loans	Note 2 RMB	204,190	204,190	206,190	206,190
Pledged loans	Note 3 RMB	32,213	32,213	99,710	99,710
			24,243,486		22,614,304

Note 1: The loan comprised mainly bank loans extended to ZTE (H.K.) Limited and guaranteed by ZTE Corporation (31 December 2020: RMB350,000,000).

Note 2: The secured loans comprised mainly an RMB3,000,000 loan extended to 安徽皖興通信息技術有限公司 secured by land use rights with a book value of RMB14,707,000 and an RMB201,190,000 (31 December 2020: RMB201,189,000) loan extended to Zhongxing Smart Auto Company Limited secured by land use rights with a book value of RMB225,500,000 and buildings with a book value of RMB511,883,000.

Note 3: The loan comprised mainly an RMB22,213,000 loan pledged by trade receivables with a book value of RMB26,582,000, contract assets with a book value of RMB1,319,000 and project long-term receivables with a book value of RMB7,299,000 and an RMB10,000,000 loan pledged by trade receivables of "Guangming Huanshui" with a book value of RMB7,303,000 extended to ZTE ICT Company Limited.

As at 30 June 2021, the annual interest rate for the aforesaid loans was 0.75%–10.00%, among which the loan interest rate for the TRY contract was 9.00%–10.00% (31 December 2020: 0.75%–12.06%, among which the loan interest rate for the TRY contract was 9.00%–12.06%).

Aging profile of bank loans

	30 June 2021	31 December 2020
Listed as:		
Bank loan repayable:		
Within one year	18,141,244	12,210,703
Within the second year	13,527,360	9,914,007
Within the third to fifth years, inclusive	10,641,407	12,625,578
After five years	74,719	74,719
Total bank loans	42,384,730	34,825,007

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Lease liabilities

	30 June 2021	31 December 2020
Lease liabilities	637,791	718,186

33. Other non-current liabilities

	30 June 2021	31 December 2020
Deferred income relating to staff housing	233,199	236,408
Long-term payable	3,699,686	3,668,911
Amounts payable to third parties	17,058	19,290
	3,949,943	3,924,609

34. Share capital

30 June 2021

	Opening balance	Increase/decrease during the period				Closing balance
		Issue of new share	Transfer from reserves	Others	Sub-total	
Restricted shares						
State-owned legal person shares	43,032	—	—	(43,032)	(43,032)	—
Other domestic shareholdings	338,067	—	—	(338,067)	(338,067)	—
Senior management shares	580	—	—	(14)	(14)	566
Total number of restricted shares	381,679	—	—	(381,113)	(381,113)	566
Unrestricted shares						
RMB Ordinary shares	3,476,254	—	—	381,113	381,113	3,857,367
Overseas listed foreign shares	755,502	—	—	—	—	755,502
Total number of unrestricted shares	4,231,756	—	—	381,113	381,113	4,612,869
Total number of shares	4,613,435	—	—	—	—	4,613,435

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Share capital (continued)

31 December 2020

	Opening balance	Increase/decrease during the period				Closing balance
		Issue of new share	Transfer from reserves	Others	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

35. Capital reserves

30 June 2021

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium (Note 1)	22,716,657	9,258	—	22,725,915
Share-based payment (Note 2)	479,153	468,770	—	947,923
Other capital investment	80,000	—	—	80,000
	23,275,810	478,028	—	23,753,838

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	11,774,076	11,480,688	(538,107)	22,716,657
Share-based payment	290,356	235,705	(46,908)	479,153
Other capital investment	80,000	—	—	80,000
	12,144,432	11,716,393	(585,015)	23,275,810

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Capital reserves (continued)

Note 1: Additional capital contribution by minority interests resulted in the dilution of equity interests and the increase in the shareholders' premium of the capital reserve by RMB9,258,000.

Note 2: Registration of the grant under the Company's 2017 Share Option Incentive Scheme was completed in July 2017. The scheme was implemented in three exercise periods. Share option expenses for the period of RMB47,171,000 were recognised in respect of share options for the third period. Registration of the grant under the Company's 2020 Share Option Incentive Scheme was completed in November 2020. The scheme was implemented in three exercise periods. Share option expenses for the period of RMB385,009,000 were recognised in respect of share options for the three periods. The Company's Management Stock Ownership Scheme completed non-trading transfer in December 2020, divided into two phases based on the exercise periods. Expenses for the period of RMB36,590,000 were recognised in respect of Management Stock Ownership Scheme. For details please refer to Note XI.

36. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to the parent company:

	1 January 2020	Increase/ decrease	31 December 2020	Increase/ decrease	30 June 2021
Changes in net liabilities arising from the re-measurement of defined benefit plans	(73,277)	350	(72,927)	—	(72,927)
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss	44,350	—	44,350	—	44,350
Effective portion of hedging instruments	(67,982)	—	(67,982)	—	(67,982)
Differences arising from foreign currency translation	(2,696,840)	(269,992)	(2,966,832)	17,325	(2,949,507)
Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value	792,769	—	792,769	—	792,769
	(2,000,980)	(269,642)	(2,270,622)	17,325	(2,253,297)

Other comprehensive income on the income statement incurred during the current period:

Six months ended 30 June 2021

	Amount before taxation	Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period	Less: income tax	Attributable to the parent company	Attributable to non-controlling interests
Differences arising from foreign currency translation	12,448	—	—	17,325	(4,877)

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Other comprehensive income (continued)

Six months ended 30 June 2020

	Amount before taxation	Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period	Less: income tax	Attributable to the parent company	Attributable to non-controlling interests
Differences arising from foreign currency translation	(115,505)	—	—	(119,072)	3,567

37. Surplus reserves

30 June 2021

	Opening balance	Opening adjustment	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	2,968,473	—	—	—	2,968,473

31 December 2020

	Opening balance	Opening adjustment	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	2,775,521	—	192,952	—	2,968,473

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalised as the Company's share capital.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Retained profits

	30 June 2021	31 December 2020
Retained profits at the beginning of the period	14,824,478	11,680,365
Net profit attributable to shareholders of the parent	4,078,613	4,259,752
Surplus reserve	—	(192,952)
Distribution to shareholders	(922,687)	(922,687)
Retained profits at the end of the period	17,980,404	14,824,478

Pursuant to the resolution passed at the general meeting held on 25 June 2021, the Company shall pay a cash dividend of RMB0.2 (2020: RMB0.2) per share to all shareholders. Based on the total share capital in issue of 4,637,709,675 shares (2020: 4,613,434,898) as at the shareholding record date, the total amount of profit distribution shall be RMB927,541,935 (2020: RMB922,686,980), the implementation of which was completed on 20 August 2021.

39. Other equity instruments

(1) General information of Medium Term Notes outstanding as at the end of the period

As at 30 June 2021, the Group had no outstanding perpetual capital instruments in issue.

As at 31 December 2020, the Group had no outstanding perpetual capital instruments in issue.

(2) Change of issued Medium Term Note as at the end of the period

The change of Medium Term Notes outstanding of the Group are as follows:

30 June 2021: Nil

31 December 2020

	Opening balance		Increase during the year		Decrease during the year		Closing balance	
	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)
Tranche I	6,000	6,000,000	—	—	6,000	6,000,000	—	—

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Operating revenue and costs

	Six months ended 30 June 2021		Six months ended 30 June 2020	
	Revenue	Cost	Revenue	Cost
Principal business	51,434,237	32,871,077	46,122,101	30,644,231
Other business	1,636,733	1,021,705	1,077,272	774,072
	53,070,970	33,892,782	47,199,373	31,418,303

Operating revenue is analysed as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Revenue from customer contract	53,010,999	47,130,591
Rental income — operating leases	59,971	68,782
	53,070,970	47,199,373

Breakdown of revenue from customer contracts:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Major operating area		
The PRC	35,894,853	31,682,382
Asia (excluding the PRC)	7,140,276	6,923,102
Africa	2,351,270	2,522,750
Europe, America and Oceania	7,624,600	6,002,357
	53,010,999	47,130,591
Types of key products		
Sale of products	17,754,461	12,540,730
Rendering of services	3,767,790	6,277,650
Network construction	31,488,748	28,312,211
	53,010,999	47,130,591
Timing of revenue recognition		
Recognition of revenue at a point in time	49,243,209	40,852,941
Recognition of revenue over a period of time	3,767,790	6,277,650
	53,010,999	47,130,591

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Operating revenue and costs (continued)

Revenue included in the opening book value of contract liabilities and recognized for the period is as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Revenue included in the opening book value of contract liabilities and recognized for the period	6,173,073	6,643,607

41. Taxes and surcharges

	Six months ended 30 June 2021	Six months ended 30 June 2020
City maintenance and construction tax	139,950	119,525
Education surcharge	110,571	91,981
Property tax	40,239	20,338
Stamp duty	35,973	32,425
Others	58,938	47,577
	385,671	311,846

42. Selling and distribution costs

	Six months ended 30 June 2021	Six months ended 30 June 2020
Wages, welfare and bonuses	2,468,358	2,496,826
Services charges	280,796	452,148
Travelling expenses	259,253	223,271
Service fees	95,010	117,210
Office expense	108,630	112,859
Advertising and promotion expenses	488,612	337,090
Others	469,145	201,191
	4,169,804	3,940,595

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Administrative expenses

	Six months ended 30 June 2021	Six months ended 30 June 2020
Wages, welfare and bonuses	1,160,306	983,163
Office expenses	85,489	37,331
Amortisation and depreciation charges	308,698	232,439
Lease expenses	32,095	26,049
Travelling expenses	27,736	27,617
Audit fees [#]	8,429	9,227
Others	920,785	949,300
	2,543,538	2,265,126

44. Research and development costs

	Six months ended 30 June 2021	Six months ended 30 June 2020
Wages, welfare and bonuses	5,996,212	4,560,698
Direct material costs	241,769	232,602
Amortisation and depreciation charges	1,344,819	955,618
Office expenses	157,372	123,215
Technical cooperation fee	794,836	500,842
Others	326,398	264,401
	8,861,406	6,637,376

45. Finance costs

	Six months ended 30 June 2021	Six months ended 30 June 2020
Interest expenses	665,129	847,922
Including: Interest expenses on lease liabilities	34,490	44,961
Interest expense on long-term payables	28,781	31,643
Interest expense on SCPs	9,172	23,414
Less: Interest income	661,600	581,860
Loss on foreign currency exchange	406,610	257,510
Bank charges	70,563	109,261
	480,702	632,833

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Finance costs (continued)

Details of interest income are as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Interest income from cash	517,400	448,939
Interest income from finance contract	110,626	100,024
Interest income from finance lease	33,574	32,897
	661,600	581,860

46. Other income

	Six months ended 30 June 2021	Six months ended 30 June 2020	Relating to asset/ income
Refund of VAT on software products (Note 1)	801,562	513,313	Relating to income
Refund of handling charges for personal tax	21,893	12,856	Relating to income
Others	444,251	334,002	Relating to income
	1,267,706	860,171	

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

47. Investment income

	Six months ended 30 June 2021	Six months ended 30 June 2020
Investment loss from long-term equity investment under equity method	(70,777)	(63,816)
Investment income from financial assets at fair value through current profit or loss during the period of holding	6,254	5,769
Investment (loss)/income arising from the disposal of derivative financial assets	(71,317)	70,475
Investment income arising from the disposal of financial assets at fair value through profit or loss	82,358	100,596
Investment income/(loss) from the disposal of long-term equity interests	862,666	(12,970)
Loss upon derecognition of financial assets at amortised cost	(106,075)	(69,797)
	703,109	30,257

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Gain/loss from changes in fair values

	Six months ended 30 June 2021	Six months ended 30 June 2020
Financial assets at fair value through current profit or loss	607,798	454,773
Derivative financial instruments	265,985	(80,671)
Investment properties at fair value	878	3,622
	874,661	377,724

49. Credit impairment losses

	Six months ended 30 June 2021	Six months ended 30 June 2020
Impairment loss of trade receivables	55,706	205,715
Impairment loss of receivable financing	3,025	1,013
Impairment loss of other receivables	74,101	63,165
(Reversal)/loss of impairment of long-term receivables	(7,831)	4,738
Loss/(reversal) of impairment of factored trade receivables	155	(17)
Loss of impairment of long-term factored receivables	93	147
	125,249	274,761

50. Asset impairment losses

	Six months ended 30 June 2021	Six months ended 30 June 2020
(Reversal)/loss on inventories provisions	(161,051)	134,538
Long-term equity investment impairment loss	16,070	7,165
Impairment loss of contract assets	29,855	4,382
Impairment loss of intangible assets	16,214	—
Impairment loss of fixed assets	57,984	—
	(40,928)	146,085

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. Gain on asset disposal

	Six months ended 30 June 2021	Six months ended 30 June 2020
Gain on disposal of fixed assets	47,494	—

52. Non-operating income/non-operating expenses

Non-operating income

	Six months ended 30 June 2021	Six months ended 30 June 2020	Amount of extraordinary gain/loss recognised for the six months ended 30 June 2021
Income from contract penalty and reward	15,581	11,316	15,581
Others	127,593	44,343	127,593
	143,174	55,659	143,174

Non-operating expenses

	Six months ended 30 June 2021	Six months ended 30 June 2020	Amount of extraordinary gain/loss recognised for the six months ended 30 June 2021
Compensation and indemnity	83,036	6,602	83,036
Others	78,878	48,686	78,878
	161,914	55,288	161,914

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53. Expenses by nature

Supplementary information of the Group's operating costs, Selling and distribution costs, Research and development costs and administration expenses by nature were as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Cost of goods and services	32,436,327	28,596,539
Staff remuneration (including share-based payment)	10,766,759	10,143,690
Depreciation and amortisation	2,215,862	1,980,997
Others	4,048,582	3,540,174
	49,467,530	44,261,400

54. Income tax

	Six months ended 30 June 2021	Six months ended 30 June 2020
Current income tax	540,084	510,981
Deferred income tax	436,266	6,609
	976,350	517,590

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Total profit	5,526,976	2,840,971
Tax at statutory tax rate (Note 1)	1,381,744	710,243
Effect of different tax rates applicable to certain subsidiaries	(516,163)	(392,114)
Adjustment to current tax in previous periods	(14,795)	27,241
Profits and losses attributable to jointly-controlled entities and associates	10,617	9,720
Income not subject to tax	(14,030)	(44,620)
Additional deduction for R&D expenses, interest on perpetual instruments and non-deductible tax expenses	(121,434)	(81,776)
Utilisation of tax losses from previous years	(11,601)	(5,951)
Unrecognised tax losses and temporary difference available for setoff	262,012	294,847
Tax charge at the Group's effective rate	976,350	517,590

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits and applicable tax rates arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

55. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to holder of ordinary shares of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period, as the numerator, is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognised as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current period, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Calculations of basic and diluted earnings per shares were as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	4,078,613	1,857,289
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	4,613,435	4,612,335
Diluting effect — weighted average number of ordinary shares ('000 shares) Note 1		
Stock option	17,177	22,143
Adjusted weighted average number of ordinary shares of the Company ('000 shares)	4,630,612	4,634,478

Note 1: The calculation of the diluted earnings/(losses) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

56. Notes to major items in cash flow statement

	Six months ended 30 June 2021	Six months ended 30 June 2020
Cash received in connection with other operating activities:		
Interest income	658,774	581,860
Cash received in connection with other investing activities:		
Receipt of transfer amounts for equity interests in Guoxin Electronics	—	245,000
Cash paid in connection with other investing activities:		
Net cash outflow in connection with disposal of Zhongxin New Energy	—	33,709
Cash received in connection with other financing activities:		
Disposal of minority interests in subsidiaries	—	3,000
Cash paid in connection with other financing activities:		
Refund of investment by non-controlling interests	—	42,315
Principal and interest payment for lease liabilities	220,584	228,255

57. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Net profit	4,550,626	2,323,381
Add: Credit impairment losses	125,249	274,761
Asset impairment (reversal)/losses	(40,928)	146,085
Depreciation of fixed assets	776,020	648,956
Depreciation of rights-of-use assets	250,010	276,166
Amortisation of intangible assets	1,189,832	1,055,875
Loss on disposal of fixed assets, intangible assets and other long-term assets	(25,344)	26,618
Gain from changes in fair value	(874,661)	(377,724)
Finance costs	490,987	755,103
Investment income	(703,109)	(30,257)
Decrease in deferred tax assets	441,153	38,731
Decrease in deferred tax liabilities	(4,887)	(32,122)
Increase in inventories	(599,382)	(9,865,735)
(Increase)/decrease in operating receivables	(827,668)	926,489
Increase in operating payables	4,740,967	10,091,211
Cost of share-based payment	468,770	52,162
Increase in cash not immediately available for payments	(2,929,200)	(4,268,930)
Net cash flow from operating activities	7,028,435	2,040,770

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

57. Supplemental information on cash flow statement (continued)

(1) Supplemental information on cash flow statement (continued)

Change in cash and cash equivalents:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Balance of cash at the end of the period	1,586	2,584
Less: balance of cash at the beginning of the period	1,655	2,269
Add: Balance of cash at the end of the period	40,382,524	36,972,428
Less: balance of cash at the beginning of the period	31,401,401	28,503,531
Net increase in balance of cash and cash equivalents	8,981,054	8,469,212

(2) Information on subsidiaries and other business units acquired or disposed of:

Information on subsidiaries and other business units disposed of:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Price at which subsidiaries and other business units were disposed of	1,111,422	3,830
Cash and cash equivalents received on disposal of subsidiaries and other business units	1,111,422	3,830
Cash and cash equivalents held by subsidiaries and other business units disposed of	(67,770)	(37,539)
Net cash received on disposal of subsidiaries and other business units	1,043,652	(33,709)

(3) Cash and cash equivalents

	Six months ended 30 June 2021	Six months ended 30 June 2020
Cash		
Including: Cash on hand	1,586	2,584
Bank deposit readily available for payment	40,382,524	36,972,428
Cash and cash equivalents at end of period	40,384,110	36,975,012

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Assets under restrictions on ownership or right of use

	30 June 2021	31 December 2020	
Cash	1,978,274	1,683,733	Note 1
Trade receivables and contract assets	69,081	188,303	Note 2
Fixed assets	558,413	608,213	Note 3
Work in progress	—	6,356	
Intangible assets	263,937	282,266	Note 4
Other non-current assets — restricted cash	3,247,376	3,305,180	Note 5
	6,117,081	6,074,051	

Note 1: As at 30 June 2021, the Group's cash subject to ownership restriction amounted to RMB1,978,274,000 (31 December 2020: RMB1,683,733,000), including acceptance bill deposits of RMB174,110,000 (31 December 2020: RMB115,095,000), letter of credit deposits of RMB863,427,000 (31 December 2020: RMB421,498,000), deposit for guarantee letter of RMB68,561,000 (31 December 2020: RMB185,796,000), dues from the People's Bank of China of RMB159,482,000 (31 December 2020: RMB180,812,000), technology grants of RMB712,694,000 (31 December 2020: RMB767,435,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released at the original percentage in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2021, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB227,796,000 (31 December 2020: RMB261,394,000), being risk compensation fund to be released within one year and accounted for as other non-current assets.

Note 2: As at 30 June 2021, trade receivables and contract assets with a carrying value of RMB69,081,000 (31 December 2020: RMB15,860,000 and RMB172,443,000) were pledged to secure bank borrowing.

Note 3: As at 30 June 2021, fixed assets with a carrying value of RMB558,413,000 (31 December 2020: RMB608,213,000) were pledged to secure bank borrowing; no fixed assets were pledged in connection with asset acquisitions (31 December 2020: Nil).

Note 4: As at 30 June 2021, intangible assets with a carrying value of RMB263,937,000 (31 December 2020: RMB282,266,000) were pledged to secure bank borrowings. No intangible assets were pledged as security for asset acquisition (31 December 2020: Nil).

Note 5: As at 30 June 2021, restricted funds represented a RMB2,668,257,000 (31 December 2020: RMB2,692,163,000) deposit in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed, the details of which are set out in Note XII.2; a RMB351,323,000 performance bond with a term of over 1 year provided for ZTE in favour of a project partner (31 December 2020: RMB351,623,000); and risk compensation fund to be released after one year amounting to RMB227,796,000 (31 December 2020: RMB261,394,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

59. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		30 June 2021			31 December 2020		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	USD	135	6.4625	874	144	6.5204	939
	DZD	958	0.0480	46	1,054	0.0493	52
	EGP	—	0.0480	—	90	0.3671	33
Bank deposit	USD	549,019	6.4625	3,548,033	781,347	6.5204	5,094,698
	EUR	264,460	7.6902	2,033,752	198,162	8.0216	1,589,574
	JPN	5,503,138	0.0585	321,774	2,047,247	0.0632	129,341
	PKR	3,960,779	0.0409	162,106	3,054,547	0.0406	124,054
	MYR	51,409	1.5555	79,969	27,884	1.6186	45,132
	ETB	332,070	0.1479	49,122	401,712	0.1708	68,603
	NPR	882,417	0.0544	48,018	817,829	0.0556	45,461
	DZD	886,678	0.0480	42,554	166,087	0.0493	8,196
	GBP	4,586	8.9348	40,979	6,198	8.8931	55,122
	RUB	453,832	0.0893	40,525	779,987	0.0883	68,843
	IDR	89,632,725	0.0004	39,833	63,862,311	0.0005	29,522
	HKD	46,380	0.8318	38,579	51,058	0.8408	42,931
	CAD	5,033	5.2142	26,241	8,262	5.1213	42,313
	BRL	16,273	1.2920	21,025	11,930	1.2548	14,970
THB	89,217	0.2019	18,015	190,863	0.2172	41,464	
EGP	43,253	0.4108	17,770	20,619	0.4143	8,543	
Other cash	USD	—	—	—	21,773	6.9830	152,041
Trade receivables	USD	753,508	6.4625	4,869,543	683,372	6.5204	4,455,859
	EUR	121,900	7.6902	937,436	180,735	8.0216	1,449,784
	INR	7,874,626	0.0869	684,305	10,581,764	0.0890	941,777
	THB	391,357	0.2019	79,015	308,237	0.2172	66,949
	BRL	13,070	1.2920	16,886	34,430	1.2548	43,203
Other receivables	USD	23,598	6.4625	152,504	39,587	6.5204	258,123
	EUR	10,440	8.0216	83,743	11,204	8.022	89,874
	JPN	446,061	0.0632	28,181	166,440	0.0632	10,515
	RUB	165,516	0.0893	14,780	4,782	0.0883	422
	PKR	346,980	0.0409	14,201	497,099	0.0406	20,189
Trade payables	USD	1,040,344	6.4625	6,723,224	703,148	6.5204	4,584,806
	IDR	1,750,613,701	0.0004	700,245	2,121,098,139	0.0005	1,060,549
	EUR	67,018	7.6902	515,381	89,483	8.0216	717,797
	MXN	830,532	0.3246	269,630	—	—	—
	PHP	1,634,948	0.1324	216,513	1,299,128	0.1358	176,422
Other payables	USD	86,711	6.4625	560,373	103,414	6.5204	674,301
	EUR	38,118	7.6902	293,132	85,214	8.0216	683,553
	JPN	499,019	0.0585	29,178	83958	0.0632	5304
	SAR	10,224	1.7233	17,620	10,116	1.7388	17,590

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

59. Monetary items in foreign currencies (continued)

		30 June 2021			31 December 2020		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Short-term loans	USD	403,000	6.4625	2,604,388	531,948	6.5204	3,468,507
	EUR	64,599	7.6902	496,779	125,817	8.0216	1,009,254
	TRY	400,061	0.7445	297,845	412,174	0.8883	366,134
Long-term loans	USD	915,000	6.4625	5,913,188	922,500	6.5204	6,015,069
	TRY	18,343	0.7445	13,657	23,502	0.8883	20,877
	EUR	363	7.6902	2,789	363	8.0216	2,909

The Group's principal places of business overseas include the United States, Indonesia and India. Its operating entities in these countries adopt their respective principal currency for conducting business as their book currencies.

VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

	Place of registration	Business nature	The Group's total shareholding percentage (%)	Percentage of the Group's total voting rights (%)	Reason for ceasing to be subsidiary
Caltta Technologies Co., Ltd.	Beijing	Mobile communication system equipment	90%	90%/100%	Note 1
NetRD Bilgi Teknolojiler İve Telekomunikasyon A.S.	Istanbul	IT and communication technology	100%	100%/100%	Note 2

Note 1: The Company entered into an equity transfer agreement with Beijing E-town Semiconductor Industrial Investment Centre (Limited Partnership) ("E-town Semiconductor") on 11 January 2020 for the disposal of 90% equity interests in Caltta Technologies Co., Ltd. held by the Company for a consideration of RMB1,035,000,000. The disposal was completed in March 2021. Hence, as from March 2021, the Group has ceased to include Caltta Technologies Co., Ltd. in its consolidated financial statements. The relevant financial information of Caltta Technologies Co., Ltd. is set out as follows:

	30 June 2021 Book value
Current assets	441,539
Non-current assets	66,829
Current liabilities	(259,692)
Non-current liabilities	—
	248,676
Minority interests	(24,867)
Gain/loss from disposal	811,191
Consideration for disposal	1,035,000
	January to March 2021
Operating revenue	63,498
Operating cost	39,271
Net profit	(40,276)

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (CONTINUED)

1. Disposal of subsidiaries (continued)

Note 2: Netas Bilisim Teknolojileri Anonim Sirketi, a subsidiary of the Group, completed the disposal of 100% equity interest in NetRD Bilgi Teknolojiler ive Telekomunikasyon A.S. to MERA Switzerland AG in March 2021. Hence, as from March 2021, the Group has ceased to include NetRD Bilgi Teknolojiler ive Telekomunikasyon A.S. in its consolidated financial statements.

2. Changes to the scope of consolidation for other reasons

Xi'an Zhongxing Jingcheng Technology Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities in February 2021 and had been excluded from the consolidated financial statements of the Group as from February 2021. ZTE Switzerland AG, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities in March 2021 and had been excluded from the consolidated financial statements of the Group as from March 2021. Xiamen Zhenkun New Energy Auto Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities in June 2021 and had been excluded from the consolidated financial statements of the Group as from June 2021. During the period, a new tier-one subsidiary Zhongxing Intelligent Technology (Nanjing) Company Limited was established.

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the major subsidiaries of the Group are as below:

Type of subsidiary	Place of registration/ principal places of business	Business nature	Registered capital	Percentage of shareholding %	
				Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen	Manufacturing	RMB1,755 million	100%	—
ZTE (H.K.) Limited	Hong Kong	Information technology	HKD995 million	100%	—
Shenzhen Zhongxing Software Company Limited	Shenzhen	Information technology	RMB51.08 million	100%	—
Xi'an ZTE Terminal Technology Company Limited	Xi'an	Manufacturing	RMB300 million	100%	—
ZTE Microelectronics Technology Co., Ltd.	Shenzhen	Manufacturing	RMB131,578,947	68.4%	12.78%
Xi'an Zhongxing New Software Company Limited	Xi'an	Information technology	RMB600 million	100%	—
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%
Shenzhen ZTE Capital Management Company Limited	Shenzhen	Investment fund	RMB30 million	55%	—

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Joint Ventures						
Puxing Mobile Tech Company Limited	PRC	R&D, production and sales of communications equipment	RMB128,500,000	33.85%	—	Equity method
德特賽維技術有限公司	PRC	Software development, information technology consultant and information systems integration	RMB60,000,000	49%	—	Equity method
重慶百德行置業有限公司	PRC	Real estate	RMB70,000,000	10%	—	Equity method
Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Venture investment, equity investment, investment management and investment consultation	RMB100,000,000	40%	—	Equity method
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Equity investment, investment management and asset management	RMB1,000,000,000	40%	—	Equity method

* Companies in which the Group had a shareholding percentage less than 20% were listed as associates, mainly in view of the Group's right to participate in the decision-making of the financial and operational policies of the investees.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Associates						
ZTE Energy Limited	PRC	Energy	RMB1,290,000,000	23.26%	—	Equity method
Telecom Innovations (Uzbekistan)	Uzbekistan	Sales and production of communications equipment	USD5,050,000	34.04%	—	Equity method
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	—	Equity method
中興耀維科技江蘇有限公司	PRC	Energy	RMB20,000,000	23%	—	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ring and other telecommunications VAS	USD500	49%	—	Equity method
中山優順置業有限公司	PRC	Real estate	RMB10,000,000	20%	—	Equity method
鐵建聯合(北京)科技有限公司	PRC	Technology promotion and application services	RMB20,000,000	30%	—	Equity method
廣東中城信息技術有限公司	PRC	Software and IT services	RMB30,000,000	39%	—	Equity method
上海博色信息技術有限公司	PRC	Professional technical services	RMB1,894,100	29%	—	Equity method
南京寧網科技有限公司	PRC	Manufacturing of computers, communication and other electronic equipment	RMB25,487,370	21.26%	—	Equity method
New Idea Investment Pte. Ltd	Singapore	Investment company	USD10,200,000 + SGD1	20%	—	Equity method
Xingchen Smart Tech Industry Company Limited*	PRC	Manufacturing of computers and related equipment	RMB200,000,000	19%	—	Equity method
Hengyang ICT Real Estate Co., Ltd	PRC	Real estate	RMB20,000,000	30%	—	Equity method
貴州中安雲網科技有限公司*	PRC	Technology and innovative IOT inter-network services	RMB30,000,000	9.31%	—	Equity method
陝西高端裝備與智能製造產業研究院有限公司*	PRC	High-end equipment and smart manufacturing, product research, consultation service and technology development	RMB16,000,000	12.5%	—	Equity method
Kron Telekomunikasyon Hizmetleri A.S.*	Turkey	Communication and Internet service	TRY14,268,513	10%	—	Equity method
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	—	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd	PRC	Education	RMB50,000,000	25%	—	Equity method
Shijiazhuang Smart Industry Company Limited*	PRC	Smart City construction and operation	RMB400,000,000	12%	—	Equity method
Whale Cloud Technology Co., Ltd.	PRC	Scientific research and technical service	RMB754,108,771	28.99%	—	Equity method
江西國投信息技術有限公司	PRC	Smart city operation	RMB100,000,000	15%	—	Equity method
安徽奇英智能技術有限公司	PRC	Intelligent technology, automobile and Information technology	RMB20,000,000	35%	—	Equity method
Zhongxing Feiliu Information Technology Company Limited	PRC	Development of computer software/and hardware, development of big data technology	RMB118,153,846	31.69%	—	Equity method

* Companies in which the Group had a shareholding percentage less than 20% were listed as associates, mainly in view of the Group's right to participate in the decision-making of the financial and operational policies of the investees.

During the reporting period, the Group had no subsidiaries that were subject to material minority interest, nor key joint ventures or associates which had a significant impact on the Group.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group:

	30 June 2021	31 December 2020
Joint ventures		
Aggregate carrying value of investments	353,824	205,022
	Six months ended 30 June 2021	Six months ended 30 June 2020
Aggregate amounts of the following attributable to shareholdings:		
Net loss	(31,198)	(8,461)
Other comprehensive income	—	—
Total comprehensive income	(31,198)	(8,461)
	30 June 2021	31 December 2020
Associates		
Aggregate carrying value of investments	1,403,671	1,508,781
	Six months ended 30 June 2021	Six months ended 30 June 2020
Aggregate amounts of the following attributable to shareholdings:		
Net loss	(39,579)	(8,928)
Other comprehensive income	(749)	547
Total comprehensive income	(40,328)	(8,381)

As at 30 June 2021, there were no contingent liabilities associated with the investments in joint ventures and associates (31 December 2020: Nil).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

30 June 2021

Financial assets

	Financial assets at fair value through current profit and loss	At amortised cost	Measured at fair value through other comprehensive income	Total
Cash	—	50,050,246	—	50,050,246
Derivative financial assets	179,954	—	—	179,954
Trading financial assets	1,246,342	—	—	1,246,342
Trade receivables	—	14,566,155	—	14,566,155
Long-term trade receivables	—	2,575,406	—	2,575,406
Factored trade receivables and factored long-term receivables	—	421,061	—	421,061
Financial assets in other receivables	—	1,076,552	—	1,076,552
Receivable financing	—	—	6,751,417	6,751,417
Financial assets in other non-current assets	—	3,247,376	—	3,247,376
Other non-current assets	1,372,893	—	—	1,372,893
	2,799,189	71,936,796	6,751,417	81,487,402

Financial liabilities

	Financial liabilities at fair value through current profit and loss	At amortised cost	Total
Derivative financial liabilities	31,853	—	31,853
Bank loans	—	42,384,730	42,384,730
Lease liabilities	—	1,077,892	1,077,892
Bills payable	—	8,797,896	8,797,896
Trade payables	—	19,901,082	19,901,082
Short-term bonds payable	—	2,000,000	2,000,000
Bank advances on factored trade receivables and long-term trade receivables	—	428,520	428,520
Other payables (excluding accruals and staff housing fund contributions)	—	2,454,514	2,454,514
Other non-current liabilities	—	3,699,686	3,699,686
	31,853	80,744,320	80,776,173

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(Prepared in accordance with PRC ASBEs)
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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments (continued)

31 December 2020

Financial assets

	Financial assets at fair value through current profit and loss	At amortised cost	Measured at fair value through other comprehensive income	Total
Cash	—	35,659,832	—	35,659,832
Derivative financial assets	36,118	—	—	36,118
Trading financial assets	1,036,906	—	—	1,036,906
Trade receivables	—	15,891,020	—	15,891,020
Long-term trade receivables	—	2,679,578	—	2,679,578
Factored trade receivables and factored long-term receivables	—	547,792	—	547,792
Financial assets in other receivables	—	994,141	—	994,141
Receivable financing	—	—	1,970,624	1,970,624
Financial assets in other non-current assets	—	3,305,180	—	3,305,180
Other non-current assets	1,536,741	—	—	1,536,741
	2,609,765	59,077,543	1,970,624	63,657,932

Financial liabilities

	Financial liabilities at fair value through current profit and loss	At amortised cost	Total
Derivative financial liabilities	153,961	—	153,961
Bank loans	—	34,825,007	34,825,007
Lease liabilities	—	1,171,320	1,171,320
Bills payable	—	11,364,056	11,364,056
Trade payables	—	17,151,733	17,151,733
Bank advances on factored trade receivables and long-term trade receivables	—	554,930	554,930
Other payables (excluding accruals and staff housing fund contributions)	—	2,804,953	2,804,953
Other non-current liabilities	—	3,668,911	3,668,911
	153,961	71,540,910	71,694,871

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that there was nil bills receivable (31 December 2020: Nil) which retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 30 June 2021, there were no trade receivables that have been transferred but not settled by the debtors (31 December 2020: Nil).

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognised to the extent of trade receivables transferred under continuous involvement. As at 30 June 2021 the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB22,573,718,000 (31 December 2020: RMB22,950,261,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortised cost) Trade receivables/long-term receivables	
	30 June 2021	31 December 2020
Carrying value of assets under continuous involvement	421,061	547,792
Carrying value of liabilities under continuous involvement	428,520	554,930

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 30 June 2021, the amount of factored trade receivables was RMB421,061,000 (31 December 2020: RMB547,792,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2021, the amount of bank advances on factored trade receivables was RMB428,520,000 (31 December 2020: RMB554,930,000).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets (continued)

Transferred financial assets derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the period. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB1,320,237,000 (31 December 2020: RMB2,983,900,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognised at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognised bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognised bills receivable is not significant. For the relevant period, the Group recognised discounted interests of RMB8,447,000 (six months ended 30 June 2020: RMB32,891,000) in respect of the derecognised bills receivable as at the date of transfer.

3. Risks of financial instruments

The Group's daily activities expose it to the risk of a variety of financial instruments, mainly including credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's major financial instruments included cash and bank balances, equity investments, borrowings, notes receivable and trade receivables, notes payable and trade payables, etc. The risks related to these financial instruments and the risk management strategy adopted by the Group to reduce these risks are described as follows.

The Company management is responsible for planning and establishing the risk management framework of the Group, formulating risk management policies and related guidelines of the Group and supervising the implementation of risk management measures. The Group has already developed risk management policies to identify and analyse the risks faced by the Group, which have clearly identified specific risks, covering numerous aspects such as market risk, credit risk and liquidity risk management. The Group regularly assesses the market environment and changes in the Group's business activities to determine whether or not to update its risk management policies and systems. The risk management of the Group is conducted by the operations and management department according to the policy approved by the Company management. The operations and management department identifies, evaluates and avoids related risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports to the Audit Committee of the Group.

The Group spreads the risks of financial instruments by means of the appropriate diversification of its investment and business portfolios, and reduces the risks of concentration on any single industry, particular region or specific trading counterparty by formulating corresponding risk management policies.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group is not exposed to significant bad debts. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the special approval of the credit control department of the Group.

Since cash and bank balances, bank acceptance bills receivable and derivative financial instruments are placed with the well-established banks with high credit ratings, the credit risk of these financial instruments is relatively low.

The Group's other financial assets comprise cash, equity investments, other receivables and certain derivatives. The credit risk associated with such financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Criteria for judging significant increases in credit risk

The Company assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Company takes into account the reasonable and substantiated information that is accessible without exerting undue extra cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Company compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to determine changes in the risk of default during the expected lifetime of financial instruments.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met:

- Quantitative criteria are primarily represented by the increase in the probability of default for the remaining lifetime at the reporting date being considered significant comparing with the one at initial recognition.
- Qualitative criteria are primarily represented by the significant adverse change in the debtor's operational or financial status and the watch list for potential default, among others.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Definition of credit-impaired financial assets

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred,

the principal factors considered are as follows:

- Significant financial difficulty of the issuer or debtor;
- Debtors' breach of contract, such as defaulting or becoming overdue on interest or principal payments;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or debtor;
- The purchase or origination of a financial asset at a deep discount that reflects the incurrence of credit losses;

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

Based on whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Parameters of ECL measurement (continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the expected credit loss model, taking into account the forward-looking information to reflect the debtor's PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Company should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL.

The impact of these economic indicators on the PD and the LGD varies according to different business sectors. The Group applies experts' judgement in this process and predicts these economic indicators on a monthly basis according to the result of the experts' judgement to determine the impact of these economic indicators on the PD and the LGD.

For trade receivables and contract assets for which impairment provision for expected credit loss for the entire period has been made, a risk matrix model may be provided in lieu of credit risk rating. The risk matrix may follow the example shown in Note V.4A and V.8.

Liquidity risk

The Group monitors its risk to the shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarised as follows:

30 June 2021

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	18,369,034	14,057,302	9,370,901	2,369,625	44,166,862
Lease liabilities	—	463,949	341,944	175,133	189,673	1,170,699
Derivative financial liabilities	—	31,853	—	—	—	31,853
Bills payable	—	8,797,896	—	—	—	8,797,896
Trade payables	19,901,082	—	—	—	—	19,901,082
Bank advances on factored trade receivables and factored long-term trade receivable	—	165,272	81,676	31,729	149,843	428,520
Other payables (excluding accruals and staff housing fund contributions)	2,454,514	—	—	—	—	2,454,514
Short-term bond payable	—	2,009,173	—	—	—	2,009,173
Other non-current liabilities	6,541	13,519	747,502	740,485	2,435,078	3,943,125
	22,362,137	29,850,696	15,228,424	10,318,248	5,144,219	82,903,724

31 December 2020

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	12,455,544	10,356,144	13,069,761	444,609	36,326,058
Lease liabilities	—	453,134	428,583	211,222	276,437	1,369,376
Derivative financial liabilities	—	153,961	—	—	—	153,961
Bills payable	—	11,364,056	—	—	—	11,364,056
Trade payables	17,151,733	—	—	—	—	17,151,733
Bank advances on factored trade receivables and factored long-term trade receivable	—	239,672	150,365	63,440	102,182	555,659
Other payables (excluding accruals and staff housing fund contributions)	2,804,953	—	—	—	—	2,804,953
Other non-current liabilities	86,266	13,238	13,871	1,480,971	2,398,617	3,992,963
	20,042,952	24,679,605	10,948,963	14,825,394	3,221,845	73,718,759

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 30 June 2021, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR and Euribor. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 0.75% to 20.00%. Approximately 25% (31 December 2020: 9.50%) of the Group's interest bearing borrowings were subject to interests at fixed rates. In addition, the Group borrowed USD1,298 million loans at floating interest rate.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2021	25 (25)	(74,681) 74,681	— —	(74,681) 74,681
Six months ended 30 June 2020	25 (25)	(50,897) 50,897	— —	(50,897) 50,897

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's net profit or loss, with all other variables held constant, as at the balance sheet date.

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other Comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2021				
Weaker RMB against USD	5%	(18,545)	—	(18,545)
Stronger RMB against USD	(5%)	18,545	—	18,545
Six months ended 30 June 2020				
Weaker RMB against USD	5%	(19,922)	—	(19,922)
Stronger RMB against USD	(5%)	19,922	—	19,922

	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2021				
Weaker RMB against EUR	5%	84,541	—	84,541
Stronger RMB against EUR	(5%)	(84,541)	—	(84,541)
Six months ended 30 June 2020				
Weaker RMB against EUR	5%	72,910	—	72,910
Stronger RMB against EUR	(5%)	(72,910)	—	(72,910)

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group makes adjustments in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the current period ended 30 June 2021.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	30 June 2021	31 December 2020
Interest-bearing bank borrowings	42,384,730	34,825,007
Lease liabilities	1,077,892	1,171,320
Short-term bonds payable	2,000,000	—
Bank advances on factored receivables and long-term trade receivables	428,520	554,930
Total interest-bearing liabilities	45,891,142	36,551,257
Owners' equity	50,166,217	46,122,506
Total equity and interest-bearing liabilities	96,057,359	82,673,763
Gearing ratio	47.8%	44.2%

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

30 June 2021

	Input applied in the measurement of fair value			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Continuous measurement of fair value				
Derivative financial assets	—	179,954	—	179,954
Trading financial assets	260,400	—	985,942	1,246,342
Other non-current financial assets	—	—	1,372,893	1,372,893
Receivable financing investment properties	—	6,751,417	—	6,751,417
Leased buildings	—	—	2,036,112	2,036,112
	260,400	6,931,371	4,394,947	11,586,718
Derivative financial liabilities	—	(31,853)	—	(31,853)
	—	(31,853)	—	(31,853)

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

1. Assets and liabilities measured at fair value (continued)

31 December 2020

	Input applied in the measurement of fair value			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Continuous measurement of fair value				
Derivative financial assets	—	36,118	—	36,118
Trading financial assets	312,925	529,085	194,896	1,036,906
Other non-current financial assets	—	—	1,536,741	1,536,741
Receivable financing	—	1,970,624	—	1,970,624
Investment properties				
Leased buildings	—	—	2,035,234	2,035,234
	312,925	2,535,827	3,766,871	6,615,623
Derivative financial liabilities	—	(153,961)	—	(153,961)
	312,925	2,381,866	3,766,871	6,461,662

2. Estimation of fair value

Fair value of financial assets

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values 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 2021, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices. The fair values of equity investments in listed companies during the lock-up period is arrived at based on quotations in an active market discounted at a percentage reflecting the lack of liquidity during lock-up.

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

2. Estimation of fair value (continued)

Fair value of financial assets (continued)

Fair value of non-listed equity investment at fair value through profit or loss is estimated using the market-based method. The assumptions on which it is based are unobservable input. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each identified comparable company, such as enterprise value to EBIT ("EV/EBIT"), enterprise value to revenue ("EV/Revenue") or price to earnings ("P/E"), etc. Such multiples are measured and arrived at based on the relevant data of the comparable companies and discounted by a percentage for the lack of liquidity. The discounted multiple shall be used for the measurement of the profit or asset of the non-listed equity investment to arrive at its fair value. The management believes that the estimated fair value (as recorded in the balance sheet) and changes in fair value (as recorded in profit or loss and other comprehensive income) arrived at using the aforesaid valuation method were reasonable and represented the most appropriate value as the end of the reporting period.

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 30 June 2021, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

For financial products at fair value through profit or loss, the Group estimates the fair value based on the discounted cash flow model using market interest rates of instruments with similar terms and risks.

Fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 30 June 2021 was RMB2,036,112,000 (31 December 2020: RMB2,035,234,000).

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

30 June 2021

	Fair value at end of period	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB2,036,112,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate	RMB51–RMB513 2%–5% 0.5%–5.9%
Equity instrument investment	RMB2,358,835,000	Market method	Discount rate Liquidity discount rate P/E EV/Revenue EV/EBIT	7.50%–8.25% 4%–30% 13–67 2–6 11–14

31 December 2020

	Fair value at end of year	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB2,035,234,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate	RMB43–RMB513 2%–5% 0.5%–5.9%
Equity instrument investment	RMB1,731,637,000	Market method	Discount rate Liquidity discount rate P/E EV/Revenue EV/EBIT	7.50%–8.25% 4%–30% 7–43 1–6 11–13

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorised within Level 3 of the fair value hierarchy:

30 June 2021

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Addition	Disposal	Closing balance	Change in unrealised profit or loss for the period of assets held at end of period included in profit and loss
Investment properties	2,035,234	—	—	878	—	—	2,036,112	878
Trading financial assets	194,896	736,376	(6,041)	60,711	—	—	985,942	60,710
Other non-current financial assets	1,536,741	—	(166,060)	21,918	—	(19,706)	1,372,893	6,165
Total	3,766,871	736,376	(172,101)	83,507	—	(19,706)	4,394,947	67,753

31 December 2020

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Addition	Disposal	Closing balance	Change in unrealised profit or loss for the period of assets held at end of period included in profit and loss
Investment properties	1,957,242	—	—	1,758	76,234	—	2,035,234	1,758
Trading financial assets	407,007	182,815	(407,005)	(4,743)	16,822	—	194,896	(4,743)
Other non-current financial assets	1,594,254	—	(59,937)	177,638	11,018	(186,232)	1,536,741	150,263
Total	3,958,503	182,815	(466,942)	174,653	104,074	(186,232)	3,766,871	147,278

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets is analyzed as follows:

	Six months ended 30 June 2021 Relating to non-financial assets	Six months ended 30 June 2020 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	878	3,622
Change in unrealised profit or loss for the period of assets held at the end of the period	878	3,622

5. Transfers between levels of fair value measurement

During the period, there were no transfers of fair value measurements between Level 1 and Level 2.

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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	21.85%	21.85%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Zhongxingxin Telecom Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

	Relationship
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
ZTE Quantum Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxingxin Cloud Service Company Limited	Subsidiary of the Company's controlling shareholder
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited*	Subsidiary of the Company's controlling shareholder
深圳市星楷通訊設備有限公司	Subsidiary of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Subsidiary of the Company's controlling shareholder
Zhongxing Development Company Limited	Company for which a connected natural person of the Company acted as director and executive vice president
Huatong Technology Co., Ltd.	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Software Technology (Nanjing) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
ZTE Software Technology (Shenyang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Hangzhou Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship
三河中興物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
重慶中興中投物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
深圳中興和泰海景酒店投資發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Company for which a connected natural person of the Company acted as director
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company
Shenzhen ZTE International Investment Company Limited	Company for which a connected natural person of the Company acted as chairman
Tianjin ZTE International Investment Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman
Shenzhen Zhongxing WXT Equipment Company Limited	Company for which a connected natural person of the Company acted as director
北京中興協力科技有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as director
航天歐華信息技術有限公司	Subsidiary of a company for which a connected natural person of the Company served as senior management
廣東歐科空調製冷有限公司	a company for which a connected natural person of the Company acted as director
深圳市中興宜和投資發展有限公司	a company for which a connected natural person of the Company acted as director
Xi'an Microelectronics Technology Research Institute	Entity at which a connected natural person of the Company had previously acted as head
Lishan Microelectronics Corporation	Company for which a connected natural person of the Company acted as executive director and general manager
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
上海中興科源實業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as vice chairman
Whale Cloud Technology (Changsha) Co., Ltd.	Subsidiary of an associate of the Company
玄雀數據科技(南京)有限公司	Subsidiary of an associate of the Company

*1 The company was deregistered on 17 November 2020.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties

(1) Transaction of goods with related parties

Sales of goods to related parties

	Six months ended 30 June 2021	Six months ended 30 June 2020
Zhongxingxin Telecom Company Limited	6	31
Puxing Mobile Tech Company Limited	811	2,103
Sindi Technologies Co., Ltd	22	153
航天歐華信息技術有限公司	357,680	456,384
Telecom Innovations (Uzbekistan)	—	285
Shenzhen Zhongxingxin Cloud Service Company Limited	—	231
Shenzhen Zhongxing Information Company Limited	15,859	3,648
上海中興思積通訊有限公司	—	439
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	27	36
南京中興和泰酒店管理有限公司	24	9
西安中興和泰酒店管理有限公司	1,368	724
Nubia Technology Limited	—	298,016
Zhongxing Development Company Limited	93	29
Whale Cloud Technology (Changsha) Co., Ltd	—	3
江西國投信息科技有限公司	—	7,451
上海博色信息科技有限公司	225	1,046
Shenzhen Zhongxin New Energy Technology Company Limited	5	173
深圳星楷通訊設備有限公司	29,635	5,744
ZTE Energy Limited	—	3
上海市和而泰酒店投資管理有限公司	829	650
Whale Cloud Technology Co., Ltd.	191	—
Huanggang Education Valley Investment Holdings Co., Ltd.	13	—
	406,788	777,158

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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 2021	Six months ended 30 June 2020
Sindi Technologies Co., Ltd [#]	57,831	75,863
Shenzhen Xinyu Tengyue Electronics Co., Ltd	11,690	11,446
ZTE Software Technology (Nanchang) Company Limited	15,671	12,036
深圳市中興新力精密機電技術有限公司 [#]	56,059	71,218
Huatong Technology Company Limited	22,940	23,235
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	6,720	4,855
南京中興和泰酒店管理有限公司	3,396	2,197
上海市和而泰酒店投資管理有限公司	2,153	2,282
西安中興和泰酒店管理有限公司	2,926	1,266
Pylon Technologies Co., Ltd [#]	18,452	22,845
Nubia Technology Limited	—	98,240
ZTE Software Technology (Shenyang) Company Limited	2,349	5,908
廣東歐科空調製冷有限公司	12,191	1,747
Whale Cloud Technology Co., Ltd.	97,506	179,717
安徽中興聚力精密機電技術有限公司 [#]	761	552
北京中興協力科技有限公司	2,828	—
深圳中興和泰海景酒店投資發展有限公司	2,077	—
重慶中興中投物業服務有限公司	24	—
	315,574	513,407

[#] Also a connected person defined under the Hong Kong Listing Rules.

Note: For the period, the Group conducted commodity trade with connected parties based on market prices.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

As lessor

	Property leased	Six months ended 30 June 2021 Lease income	Six months ended 30 June 2020 Lease income
上海中興思秸通訊有限公司	Office	170	192
上海中興科源實業有限公司	Office	213	208
Huatong Software Technology (Nanjing) Company Limited	Office	193	184
Shenzhen Zhongxingxin Cloud Service Company Limited	Office	1,688	397
Zhongxing Feiliu Information Technology Company Limited	Office	369	300
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	7,069	8,957
南京中興和泰酒店管理有限公司	Property and equipment and facilities	3,789	4,203
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	8,596	10,003
西安中興和泰酒店管理有限公司	Property and equipment and facilities	479	13,533
深圳中興節能環保股份有限公司	Office	88	88
深圳市中興新力精密機電技術有限公司	Quarters	—	6
Shenzhen ZTE International Investment Company Limited	Property	66	—
		22,720	38,071

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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 2021 Lease income	Six months ended 30 June 2020 Lease income
Zhongxingxin Telecom Company Limited	Office	4,386	5,112
Zhongxing Development Company Limited	Office	979	867
Chongqing Zhongxing Development Company Limited	Office	4,358	3,989
三河中興發展有限公司	Office	7,557	7,283
三河中興物業服務有限公司	Office	1,629	1,864
Tianjin ZTE International Investment Company Limited	Office	2,401	2,183
		21,310	21,298

Note: The Group recognised lease income of RMB22,720,000 (Six months ended 30 June 2020: RMB38,071,000) for the period according to the lease contracts for the lease of office and equipment to the aforesaid connected parties.

The Group recognised lease expenses of RMB21,310,000 (Six months ended 30 June 2020: RMB21,298,000) for the period according to the lease contracts for the lease of office from the aforesaid connected parties.

(3) Other major related transactions

Remuneration of key management staff

	Six months ended 30 June 2021	Six months ended 30 June 2020
Short-term staff remuneration	5,120	5,050
Retirement benefit	132	76
Share option incentive and management stock ownership schemes*	5,682	842
	10,934	5,968

* Share option incentive scheme and management stock ownership scheme for the reporting period included the 2017 Share Option Incentive Scheme, 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme. For details, please refer to Note XI. 2 and 3.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties

- (1) In December 2018, the Group entered into a 3-year purchase agreement with Zhongxingxin Telecom Company Limited and its subsidiaries for the purchase of raw materials for use in production. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of total purchases by the Group from the aforesaid related parties for 2021 are estimated at RMB900 million (before VAT).
- (2) In December 2018, the Group entered into a 3-year purchase agreement with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries for the purchase of hotel services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of total purchases of hotel services by the Group from the aforesaid related parties for 2021 are estimated at RMB37,500,000 (before VAT).
- (3) In January 2020, the Group entered into a 3-year purchase agreement with Huatong Software Technology (Nanjing) Company Limited for the purchase of software outsource services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of software outsource service purchased by the Group from the aforesaid related parties for 2021 and 2022 are estimated at RMB91,650,000 and RMB98,380,000 (before VAT), respectively.
- (4) In January 2020, the Group entered into a 3-year software outsource service cooperation agreement with ZTE Software Technology (Nanchang) Company Limited for the purchase of software outsource services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of purchase by the Group from the aforesaid related parties for 2021 and 2022 are estimated at RMB58,200,000 and RMB66,000,000 (before VAT), respectively.
- (5) In January 2020, the Group entered into a 2-year property and equipment lease contract with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiaries. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The rental income for the Group from the aforesaid related parties for 2021 estimated at RMB59,720,000.
- (6) In December 2020, the Group entered into a 1-year sales agreement with 航天歐華信息技術有限公司 for the sales of the full range of government and corporate products. For details of sales incurred during the year, please refer to Note X.5 (1). The maximum amounts of sales by the Group to the aforesaid related parties for 2021 is estimated at RMB1.1 billion (before VAT).
- (7) In July 2020, the Group entered into a 2-year property lease contract with 上海中興科源實業有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB425,000 and RMB213,000, respectively.
- (8) In June 2020, the Group entered into a 2-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB1,106,000 and RMB553,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties (continued)

- (9) In July 2020, the Group entered into a 26-month property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB937,000 and RMB703,000, respectively.
- (10) In November 2020, the Group entered into a 27-month property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 be RMB1,067,000 and RMB1,067,000 respectively.
- (11) In June 2021, the Group entered into a 1-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB287,000 and RMB246,000, respectively.
- (12) In January 2021, the Group entered into a 9-month property lease contract with 深圳中興節能環保股份有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 to be RMB132,000.
- (13) In February 2021, the Group entered into a 7-year property lease assignment with Shenzhen ZTE International Investment Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB132,000 and RMB132,000, respectively.
- (14) In January 2020, the Group entered into a 2-year property lease contract with Huatong Software Technology (Nanjing) Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 to be RMB386,000.
- (15) In April 2019, the Group entered into a 3-year property lease contract with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB341,000 and RMB114,000, respectively.
- (16) In August 2020, the Group entered into a 2-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB184,000 and RMB122,000, respectively.
- (17) In January 2021, the Group entered into a 2-year property lease contract with Zhongxing Feiliu Information Technology Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB738,000 and RMB738,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties (continued)

- (18) In April 2019, the Group entered into a 2-year lease agreement with Zhongxingxin Telecom Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2).
- (19) In April 2021, the Group entered into a 2-year lease agreement with Zhongxingxin Telecom Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB5,489,000 and RMB10,977,000, respectively.
- (20) In April 2021, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB2,102,000 and RMB2,803,000, respectively.
- (21) In April 2021, the Group entered into a 1-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB317,000 and RMB106,000, respectively.
- (22) In April 2021, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB1,119,000 and RMB1,493,000, respectively.
- (23) In May 2021, the Group entered into a 1-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB190,000 and RMB99,000, respectively.
- (24) In December 2018, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 to be RMB573,000.
- (25) In June 2019, the Group entered into a 5-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB796,000 and RMB796,000, respectively.
- (26) In March 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB10,061,000 and RMB10,061,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties (continued)

- (27) In March 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB2,088,000 and RMB2,088,000, respectively.
- (28) In December 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB1,983,000 and RMB1,983,000, respectively.
- (29) In January 2021, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental 2021 and 2022 to be RMB8,055,000 and RMB8,137,000, respectively.
- (30) In January 2021, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental 2021 and 2022 to be RMB405,000 and RMB405,000, respectively.
- (31) In January 2021, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental 2021 and 2022 to be RMB338,000 and RMB338,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Balances of amounts due from/to related parties

Item	Name of related parties	30 June 2021	31 December 2020
Receivable financing	航天歐華信息技術有限公司	264,368	149,436
	Shenzhen Zhongxing Information Company Limited	8,955	4,932
		273,323	154,368
Trade receivable	Puxing Mobile Tech Company Limited	8,774	9,513
	Xi'an Microelectronics Technology Research Institute	—	9
	航天歐華信息技術有限公司	410	7,319
	ZTE Software Technology (Nanchang) Company Limited	650	650
	Huanggang Education Valley Investment Holdings Co., Ltd.	—	202
	Whale Cloud Technology Co., Ltd.	131,852	152,139
	Shenzhen Zhongxing Information Company Limited	10,969	2,105
	Shenzhen Zhongxingxin Cloud Service Company Limited	241	241
	Shenzhen Zhongxin New Energy Technology Company Limited	—	687
	鐵建聯和(北京)科技有限公司	7,560	—
	西安中興和泰酒店管理有限公司	518	—
	160,974	172,865	
Other receivables	南京中興和泰酒店管理有限公司	8,369	10,438
	深圳市星楷通訊設備有限公司	22,060	—
	Shenzhen Zhongxing Information Company Limited	14	14
	Zhongxing Feiliu Information Technology Company Limited	20	—
	Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	17,821	17,821
	西安中興和泰酒店管理有限公司	29,935	24,340
	山東興濟置業有限公司	20,591	20,591
	上海市和而泰酒店投資管理有限公司	42,406	45,024
	Whale Cloud Technology Co., Ltd	640	—
	上海中興思秸通訊有限公司	208	77
	Shenzhen Zhongxin New Energy Technology Company Limited	—	760
	142,064	119,065	
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd	11,503	312
	Sindi Technologies Co., Ltd.	45,883	59,822
	深圳市中興新力精密機電技術有限公司	50,587	57,225
	廣東歐科空調製冷有限公司	9,346	—
	Pylon Technologies Co., Ltd.	24,972	—
	142,291	117,359	

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2021	31 December 2020
Trade payables	Shenzhen Xinyu Tengyue Electronics Co., Ltd	4,183	1,778
	Sindi Technologies Co., Ltd.	24,528	1,116
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	—	183
	Shenzhen Zhongxing WXT Equipment Company Limited	483	327
	Shenzhen Zhongxing Information Company Limited	13,120	1,729
	Xi'an Microelectronics Technology Research Institute	—	192
	ZTE Software Technology (Nanchang) Company Limited	—	135
	廣東歐科空調製冷有限公司	20,888	94
	Pylon Technologies Co., Ltd.	19,081	9,051
	Whale Cloud Technology Co., Ltd.	541,896	907,612
	Puxing Mobile Tech Company Limited	217	217
	深圳市中興新力精密機電技術有限公司	20,731	17,996
	安徽中興聚力精密機電技術有限公司	557	305
	Shenzhen Zhongxin New Energy Technology Company Limited	—	1,908
	玄雀數據科技(南京)有限公司	—	47,264
		645,684	989,907

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2021	31 December 2020	
Contract liabilities	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327	
	Puxing Mobile Tech Company Limited	—	2,002	
	Xi'an Microelectronics Technology Research Institute	1,620	1,628	
	北京中興協力科技有限公司	155	155	
	航天歐華信息技術有限公	65,761	19,112	
	ZTE Software Technology (Shenyang) Company Limited	4	13	
	江西國投信息科技有限公司	328	—	
	Whale Cloud Technology Co., Ltd.	—	24,717	
	Huanggang Education Valley Investment Holdings Co., Ltd.	—	20	
	深圳市中興宜和投資發展有限公司	—	40	
		73,195	53,014	
	Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	12	12
		Zhongxingxin Telecom Company Limited	318	308
深圳中興新源環保股份有限公司		4	4	
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED		4,933	4,970	
中山優順置業有限公司		2,000	2,000	
Huanggang Education Valley Investment Holdings Co., Ltd.		178	158	
Hengyang ICT Real Estate Co., Ltd		198	198	
山東興濟置業有限公司		272	272	
Lishan Microelectronics Corporation		—	65	
Whale Cloud Technology Co., Ltd.		2,354	70,767	
深圳市中興宜和投資發展有限公司		—	1,680	
深圳市星楷通訊設備有限公司		—	2,597	
ZTE Software Technology (Nanchang) Company Limited		50	50	
Zhongxing Software Technology (Shenyang) Company Limited		200	—	
南京中興和泰酒店管理有限公司		2,062	2,062	
Shenzhen Zhongxin New Energy Technology Company Limited		—	300	
西安中興和泰酒店管理有限公司		65	65	
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited		17	17	
Shenzhen Zhongxingxin Cloud Service Company Limited		28	186	
Zhongxing Feiliu Information Technology Company Limited	20	—		
	12,711	85,711		

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivable from related parties were interest-free and unsecured with an usual credit term of 0-90 days, which may be extended to up to 1 year.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Interest expenses

	Six months ended 30 June 2021	Six months ended 30 June 2020
Zhongxing Feiliu Information Technology Company Limited	—	1
Shenzhen Zhongxin New Energy Technology Company Limited	—	54
	—	55

XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Accumulated balance of equity-settled share-based payments credited to capital reserves	947,924	295,608
Transfer of equity-settled share-based payment cost to capital reserve share capital premium on exercise of share options	—	(46,910)
Total costs of equity-settled share-based payments in the period	468,770	52,162

2. Share option incentive scheme

2017 Share Option Incentive Scheme

Pursuant to the “Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017 and 149,601,200 share options were granted to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company’s business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

- (1) Rate of Return on Common Stockholders' Equity ("ROE");
- (2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options of each exercise period:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/3	2019.7.6-2020.7.5	ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million
Second exercise period ("Second Period")	1/3	2020.7.6-2021.7.5	ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million
Third exercise period ("Third Period")	1/3	2021.7.6-2022.7.5	ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825 million

The fair value of the share options granted amounted to RMB1,477,496,000. Due to the nonfulfillment of exercise conditions for the second vesting period, the Group recognised share option expenses of RMB47,171,000 for the first six months of 2021 based on the best estimates of expected number of exercisable options at the end of the period for the first vesting period and the third vesting period.

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

Share options issued and outstanding under the Scheme are as follows:

	30 June 2021		31 December 2020	
	Weighted average exercise price* RMB/share	Number of share options In '000	Weighted average exercise price* RMB/share	Number of share options In '000
At the beginning of the period	16.86	39,726	17.06	44,532
Exercised during the period		—		(4,806)
Lapsed		—		—
At the end of the period	16.86	39,726	16.86	39,726

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2021

Number of share options In '000	Exercise price* RMB/share	Valid exercise period
39,726	16.86	6 July 2021 to 5 July 2022
39,726		

31 December 2020

Number of share options In '000	Exercise price RMB/share	Valid exercise period
39,726	16.86	6 July 2021 to 5 July 2022
39,726		

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second	Third
Estimated dividend payment (RMB)	0.18	0.18	0.18
Volatility (%)	43.35	42.2	42.9
Risk-free interest rate (%)	3.498	3.506	3.517
Demission rate	Directors & senior management	5%	5%
	Key staff of the Company	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

2020 Share Option Incentive Scheme

Pursuant to the “Resolution on matters pertaining to the grant of shares options under the 2020 Share Option Incentive Scheme” considered and passed at the Twenty-seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 6 November 2020, it was confirmed that 158,472,000 A shares options would be granted to 6,123 participants. According to ASBE 11 – Share-based Payments, the date of grant shall be the date of approval of the share-based payment agreement. Therefore, the grant date of the initial grant under the share option scheme was set for 6 November 2020. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company’s business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 4 years. The exercise period shall commence after a 1-year vesting period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the performance conditions or those currently not exercised after the end of the exercise period shall forthwith become null and void and be repurchased without consideration and cancelled by the Company.

Business performance indicator for the exercise of the share options: net profit attributable to holders of ordinary shares of the listed company.

The detailed conditions for the exercise of the share options:

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2020 Share Option Incentive Scheme (continued)

The conditions for the exercise of the granted share options of each exercise period:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/3	2021.11.6-2022.11.5	Net Profit for 2020 shall be no less than RMB3 billion
Second exercise period ("Second Period")	1/3	2022.11.6-2023.11.5	Cumulative net Profit for 2020 and 2021 shall be no less than RMB6.47 billion
Third exercise period ("Third Period")	1/3	2023.11.6-2024.11.5	Cumulative net Profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

The fair value of the share options under the initial grant was RMB1,444,549,000. The Group recognised share option expenses of RMB385,009,000 for the first six months of 2021 based on the best estimates of expected number of exercisable options at the end of the period.

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2021

Number of share options In '000	Exercise price RMB/share	Valid exercise period
52,824	34.47	6 November 2021 to 5 November 2022
52,824	34.47	6 November 2022 to 5 November 2023
52,824	34.47	6 November 2023 to 5 November 2024
158,472		

31 December 2020

Number of share options In '000	Exercise price RMB/share	Valid exercise period
52,824	34.47	6 November 2021 to 5 November 2022
52,824	34.47	6 November 2022 to 5 November 2023
52,824	34.47	6 November 2023 to 5 November 2024
158,472		

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2020 Share Option Incentive Scheme (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second	Third
Estimated dividend payment (RMB)	0.20	0.20	0.20
Volatility (%)	34.40	33.57	30.33
Risk-free interest rate (%)	2.775	2.846	2.909
Demission rate	Directors & senior management		
	5%	5%	5%
	Key staff of the Company		
	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

3. MANAGEMENT STOCK OWNERSHIP SCHEME OF THE COMPANY 2020

Pursuant to the “Resolution on the Management Stock Ownership Scheme (Draft) and its Summary” considered and passed at the Twenty-fifth Meeting of the Eighth Session of the Board of Directors and Eighteenth Meeting of the Eighth Session of the Supervisory Committee on 12 October 2020 and the Second Extraordinary General Meeting of 2020 held on 6 November 2020, the total number of participants in this plan does not exceed 27, the share of this plan does not exceed 114,766,000 (including 114,766,000), and the price of each share is RMB1.00. Among them, there are a total of 8 directors, supervisors and senior executives of the company, and the total shares do not exceed 62,606,000, accounting for 54.55% of the total amount of the scheme. The total shares of other participants do not exceed 52,160,000, accounting for 45.45% of the total amount of the scheme. This management shareholding incentive scheme is the company’s medium and long-term incentive policy, and the source of the stock is company’s A shares in the company’s repurchase securities account.

As at 30 June 2021, the Company had repurchased 2,973,900 A shares, accounting for 0.06% of its total share capital, for traded prices ranging from a maximum of RMB38.85/share to a minimum of RMB38.40/share. Total amount paid was RMB114,766,000 (excluding transaction fees).

On 17 December 2020, the Company received a Securities Transfer Registration Confirmation from China Securities Depository and Clearing Corporation Shenzhen Branch, confirming that the Company’s stock held in the Company’s special securities account for repurchase had been transferred to the securities account of the “ZTE Corporation-Phase I Employee Stock Ownership Plan” (securities account number: 089925****) on a non-trading basis on 16 December 2020. The number of transferred shares is 2,973,900 shares, accounting for 0.06% of the company’s current total share capital. In accordance with the requirements of the ZTE Corporation Management Stock Ownership Scheme (Draft), a lock up period of not less than 12 months shall apply from the date of announcement of the completion of transfer of subject shares from the designated repurchase account. The lock up period for the shares under the Management Stock Ownership Scheme shall be from 18 December 2020 to 17 December 2021.

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XI. SHARE-BASED PAYMENT (CONTINUED)

3. MANAGEMENT STOCK OWNERSHIP SCHEME OF THE COMPANY 2020 (continued)

The Management Stock Ownership Scheme shall be valid for 3 years from the date of approval of the Management Stock Ownership Scheme at the general meeting. The scheme will terminate automatically upon maturity, or it may be extended upon approval by the Board at the request of the management committee.

The lock-up period of the target stocks obtained in this Management Stock Ownership Scheme is 12 months, calculated from the date when the company announces the completion of the transfer of the company's stock from the company's special securities account. Shares derived from share capital increase by conversion of capital reserves shall also be subject to the aforesaid lock up.

The performance indicator for the Management Stock Ownership Scheme is a net profit attributable to ordinary shareholders of the listed company for 2020 of not less than RMB3.0 billion. The number of share options to be granted is based on the operating results of the business segment which the management personnel is in charge of and his/her personal appraisal, and the confirmed number of options will be vested in the holder in two periods separated by an interval of 12 months, with 50% vested in each period.

The share option expense recognised by the Group in January to June 2021 amounted to RMB36,590,000 based on the best estimates of expected number of exercisable shares at the end of the period.

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	30 June 2021	31 December 2020
Contracted but not provided of		
Capital commitments	2,669,929	2,837,222
Investment commitments	154,690	28,272
	2,824,619	2,865,494

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events

- 2.1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB40,509,300). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB40,342,100), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB107 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Company is currently not able to make reliable estimates on outcome of the litigation.

Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2021 where BRL amounts are translated at the exchange rate of BRL1: RMB1.2920.

- 2.2. On 31 October 2018, a natural person filed a litigation with the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") against the Company as defendant and ZTE Integration Telecom Limited ("ZTE Integration") and Nubia Technology Limited as third parties without independent rights of claim, on the grounds that the Company had infringed upon his interests as a shareholder of ZTE Integration, demanding (1) a RMB200 million compensation payable to him by the Company; and (2) the assumption by the Company of all costs of the litigation (including but not limited to litigation costs and legal fees amounting to RMB200,000).

On 9 April 2019, the Company received judiciary documents from the Guangdong Higher Court, including a notice of response to action, summons for exchange of evidence and a notice requiring the provision of evidence, among others. The Company has appointed an attorney for active response to the case.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.2. (continued)

On 28 December 2020, the Guangdong Higher Court made a ruling on the case to reject the aforesaid natural person's petition for litigation and to require the aforesaid natural person to pay the case admission fees.

On 25 January 2021, the aforesaid natural person filed an appeal demanding the Guangdong Higher Court to withdraw the first trial judgement and rule in support of all the claims of the aforesaid natural person instead.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

- 2.3. In August 2020, China MCC20 Group Corporation ("MCC20") filed a litigation with the People's Court of Jinwan District, Zhuhai, Guangdong Province demanding progress payment together with outstanding interests in the amount of RMB12,307,000 in aggregate from ZTE Smart Auto Company Limited ("ZTE Smart Auto"). The People's Court of Jinwan District, Zhuhai, Guangdong Province ruled to freeze ZTE Smart Auto's cash at bank amounting to RMB12,307,000. ZTE Smart Auto has appointed an attorney for active response to the case.

In September 2020, ZTE Smart Auto filed a counter-claim for a total amount of RMB17,958,000 and application for preservation with the court on the grounds that the work project involved in the case had been grossly overdue, the construction process had been subject to numerous penalties and a number of work items had required repair because of quality issues.

In October 2020, MCC20 applied for change of its litigation claim, demanding ZTE Smart Auto to settle project work payment and related outstanding interests amounting in aggregate to RMB188 million, and the case was referred to Zhuhai Intermediate People's Court ("Zhuhai Intermediate Court").

In December 2020, Zhuhai Intermediate Court ruled to freeze funds in ZTE Smart Auto's account with an amount of RMB15,865,000 and seize the land use rights of two sites under the name of ZTE Smart Auto. ZTE Smart Auto has filed an objection to the court ruling.

In January 2021, ZTE Smart Auto filed an application to increase the amount of counter-claim to RMB72,548,000 on the grounds that MCC20 had not applied for relevant certificates in a timely manner and the project work under the case had not passed the delivery inspection in one instance. Application was also made to the court for property preservation in relation to the additional amount of counter-claim.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

- 2.4. On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) ("ZTE") from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644) on 23 April 2018.

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017 ("2017 Settlement Agreement"). The 2018 Superseding Settlement Agreement came into effect via a superseding order relating to ZTE on 8 June 2018 (the "8 June 2018 Order"). In accordance with the 2018 Superseding Settlement Agreement, the Company had paid civil monetary penalties totalling USD1.4 billion, including a lump sum payment of USD1 billion and an additional penalty of USD0.4 billion placed in an escrow account with a U.S. bank suspended during a period of 10 years from the issue of the 8 June 2018 Order (the "Probationary Period") (The USD0.4 billion penalty will be waived after the end of Probation Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR to be imposed by BIS, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the superseding settlement agreement of 2018 and the 2017 Settlement Agreement, the Company is required to provide and implement a comprehensive and updated export control compliance programme that covers all levels of ZTE.

In the event of the Company's violation of obligations under the 2018 Superseding Settlement Agreement or 2017 Settlement Agreement, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; (ii) the USD0.4 billion placed in an escrow account with a U.S. bank shall become payable immediately and shall be paid in full or in part.

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(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.4. (continued)

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and an export control compliance team with global coverage and engaged a number of counsels and consultants; established and optimised the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System (GTS) to automate key areas in export compliance management; carried out ECCN Publication Project, made available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the EAR via the Company's official website; continued to provide online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring and compliance audit; and made continuous investment on the work on export control compliance.

In 2021, the Company will endeavour to comply with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses. Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as foundation to the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually create value for its customers, shareholders, and employees, and build a compliant and healthy business environment with customers and partners through the dedication and vigilance to export compliance of every employee.

During the period from 1 January 2021 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent events will not have any material adverse impact on the current financial conditions and operating results of the Group.

- 2.5. As at 30 June 2021, an amount of RMB12,753,362,000 (31 December 2020: RMB12,832,332,000) was outstanding under the bank guarantee letters issued by the Group.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
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XIII. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee

	Six months ended 30 June 2021	Six months ended 30 June 2020
Interest expense on lease liabilities	34,490	44,961
Short-term leases through current profit or loss using simplified approach	144,575	98,266
Total cash outflow relating to leases	220,584	142,740

Lease assets rented by the Group included houses and buildings, transportation equipment and other equipment required in the course of business. Houses and buildings are typically leased for terms of 1 year to 10 years, transportation equipment and other equipment are typically leased for terms of 1 to 5 years, and other equipment are typically leased for terms of 1 to 2 years. Some lease contracts provide for options of renewal and termination.

As lessor

Finance leasing:

Profit or loss relating to finance leases is set out as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Interest income from finance leases	33,574	32,897

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(Prepared in accordance with PRC ASBEs)
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XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

1. Leases (continued)

As lessor (continued)

As at 30 June 2021, the balance of unrealised finance income amounting to RMB176,369,000 was amortised over the respective periods in the lease period using the effective interest rate method. According to the lease contract signed with the lessees, minimum lease payments under non-cancellable operating leases falling due are as follows:

	30 June 2021	30 June 2020
In the second to third years (including third year)	1,824,100	—
In the third to fourth years (including fourth year)	—	1,824,100
Less: unrealised finance income	176,369	209,608
Lease investment, net	1,647,731	1,614,492

Operating lease:

Profit or loss relating to operating leases is set out as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
Lease income	59,971	68,782

Operating lease: according to the lease contract signed with lessee, minimum lease payments under non-cancellable operating leases falling due are as follows:

	30 June 2021	30 June 2021
Within 1 year (including 1 year)	87,145	135,704
1 to 2 years (including 2 years)	54,695	94,154
2 to 3 years (including 3 years)	50,227	54,695
3 to 4 years (including 4 years)	52,302	50,227
4 to 5 years (including 5 years)	52,738	52,302
More than 5 years	137,866	193,635
	434,973	580,717

The Group entered into operating property leasing contracts with terms ranging from 1 year to 15 years with certain lessees, as shown in Note V.12. The leased properties were accounted for as investment properties.

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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' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, telecommunication software systems and services and other innovative technologies and product solutions;
- (2) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, as well as the provision of related software application and value-added services;
- (3) The Government and Corporate Business is focused on meeting requirements of government and corporate clients, providing informatisation solutions for the government and corporations through the application of products such as "communications networks, IOT, Big Data and cloud computing".

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profit from continuing operations, which is consistent with the Group's total profit from continuing operations, except for the exclusion of finance costs, research and development costs, impairment losses, fair value gains from financial instruments, investment income as well as head office and corporate expenses.

Segment assets exclude derivative financial instruments, deferred tax assets, cash and cash equivalents, long-term equity investments, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, borrowings, other payables, short-term bonds payable, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segment (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
Six months ended 30 June 2021				
Revenue from external transactions	35,051,703	12,352,332	5,606,964	53,010,999
Rental income	—	—	59,971	59,971
Sub-total	35,051,703	12,352,332	5,666,935	53,070,970
Segment results	12,004,790	1,512,075	1,105,848	14,622,713
Unallocated revenue				1,410,880
Unallocated cost				(10,829,799)
Finance costs				(480,702)
Gain from changes in fair values				874,661
Investment gain from associates and joint ventures				(70,777)
Total profit				5,526,976
Total assets				
30 June 2021				
Segment assets	44,496,643	14,581,238	7,193,932	66,271,813
Unallocated assets				99,630,304
Sub-total				165,902,117
Total liabilities				
Segment liabilities	12,895,204	3,553,002	2,084,815	18,533,021
Unallocated liabilities				97,202,879
Sub-total				115,735,900
Supplemental information				
Six months ended 30 June 2021				
Depreciation and amortisation expenses	1,463,506	515,745	236,611	2,215,862
Capital expenditure	1,762,295	621,038	284,916	2,668,249
Asset impairment losses	27,032	9,526	4,370	40,928
Credit impairment loss	(82,723)	(29,152)	(13,374)	(125,249)

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segment (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
Six months ended 30 June 2020				
Revenue from external transactions	34,969,589	7,413,186	4,747,816	47,130,591
Rental income			68,782	68,782
Sub-total	34,969,589	7,413,186	4,816,598	47,199,373
Segment results	9,558,202	1,042,922	927,505	11,528,629
Unallocated revenue				915,830
Unallocated cost				(9,284,563)
Finance costs				(632,833)
Gain from changes in fair values				377,724
Investment gain from associates and joint ventures				(63,816)
Total profit				2,840,971
Total assets				
31 December 2020				
Segment assets	47,217,457	9,296,544	7,190,730	63,704,731
Unallocated assets				86,930,175
Sub-total				150,634,906
Total liabilities				
Segment liabilities	11,852,008	1,896,156	1,804,938	15,553,102
Unallocated liabilities				88,959,298
Sub-total				104,512,400
Supplemental information				
Six months ended 30 June 2020				
Depreciation and amortisation expenses	1,263,094	267,763	450,140	1,980,997
Capital expenditure	2,213,218	469,179	454,903	3,137,300
Asset impairment losses	(108,232)	(22,944)	(14,909)	(146,085)
Credit impairment loss	(203,569)	(43,154)	(28,038)	(274,761)

Notes to Financial Statements

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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 2021	Six months ended 30 June 2020
The PRC	35,954,824	31,751,164
Asia (excluding the PRC)	7,140,276	6,923,102
Africa	2,351,270	2,522,750
Europe, America and Oceania	7,624,600	6,002,357
	53,070,970	47,199,373

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	30 June 2021	31 December 2020
The PRC	23,628,811	23,868,451
Asia (excluding the PRC)	1,704,581	1,903,610
Africa	506,218	543,826
Europe, America and Oceania	405,770	113,328
	26,245,380	26,429,215

Non-current assets, excluding long-term receivables, factored long-term receivables, long-term equity investments, other non-current financial assets, deferred tax assets, goodwill and other non-current assets, are analysed by geographic locations where the assets are located.

Information of major customers

Operating revenue of RMB16,602,146,000 was derived from Carriers' network and consumer business revenue from one major customer (first half of 2020: RMB14,884,180,000 from one major customer).

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XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. # Net current assets/(liabilities)

	30 June 2021 Group	31 December 2020 Group	30 June 2021 Company	31 December 2020 Company
Current assets	123,609,938	106,977,275	127,956,916	112,656,042
Less: current liabilities	83,815,615	74,394,975	108,688,749	98,071,551
Net current assets/(liabilities)	39,794,323	32,582,300	19,268,167	14,584,491

4. # Total assets less current liabilities

	30 June 2021 Group	31 December 2020 Group	30 June 2021 Company	31 December 2020 Company
Total assets	165,902,117	150,634,906	167,837,148	152,675,237
Less: current liabilities	83,815,615	74,394,975	108,688,749	98,071,551
Total assets less current liabilities	82,086,502	76,239,931	59,148,399	54,603,686

5. # Reconciliation of differences of consolidated cash flow statements prepared under PRC ASBEs and HKFRSs

Six months ended 30 June 2021

	Net cash flow from operating activities	Net cash flow from investing activities	Net cash flow from financing activities
Net cash flow under PRC ASBEs	7,028,435	(6,681,437)	8,789,184
(1) bank loan interest and other finance cost and dividend paid	(756,904)	—	756,904
(2) Change in pledged bank deposit	(342,382)	342,382	—
(3) Others	—	—	—
Net cash flow under HKFRSs	5,929,149	(6,339,055)	9,546,088

Six months ended 30 June 2020

	Net cash flow from operating activities	Net cash flow from investing activities	Net cash flow from financing activities
Net cash flow under PRC ASBEs	2,040,770	(7,647,922)	13,930,337
(1) bank loan interest and other finance cost and dividend paid	(1,157,063)	—	1,157,063
(2) Change in pledged bank deposit	(1,047,242)	1,047,242	—
(3) Others	(500,000)	500,000	—
Net cash flow under HKFRSs	(663,535)	(6,100,680)	15,087,400

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
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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 2021	31 December 2020
Within 1 year	12,434,687	12,342,423
1-2 years	2,371,504	2,519,343
2- 3 years	1,432,122	1,837,180
Over 3 years	10,976,573	11,273,053
	27,214,886	27,971,999
Less: bad debt provision for trade receivables	7,980,929	8,192,867
	19,233,957	19,779,132

	30 June 2021				31 December 2020			
	Book balance		Expected credit loss for the entire subsisting period		Book balance		Expected credit loss for the entire subsisting period	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	3,542,535	13	3,542,535	100	3,737,658	13	3,737,658	100
For which bad debt provision has been collectively made								
0-6 months	8,965,247	34	137,524	1	9,221,426	34	129,412	1
6-12 months	2,767,367	10	70,649	3	2,340,710	8	71,040	3
12-18 months	1,183,107	4	62,210	5	1,507,580	5	124,598	8
18-24 months	1,091,871	4	87,191	8	808,692	3	93,918	12
2-3 years	1,193,148	4	431,433	36	1,517,661	5	484,827	32
Over 3 years	8,471,611	31	3,649,387	43	8,838,272	32	3,551,414	40
	23,672,351	87	4,438,394	19	24,234,341	87	4,455,209	18
	27,214,886	100	7,980,929	29	27,971,999	100	8,192,867	29

Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision/ (reversal) for the period	Write off for the period	Effect of exchange rate movement	Closing balance
30 June 2021	8,192,867	54,564	(210,750)	(55,752)	7,980,929
31 December 2020	10,974,675	(319,383)	(2,462,425)	—	8,192,867

As at 30 June 2021, RMB101,358,000 (2020: RMB118,758,000) was reversed in respect of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately. There was a write-off in the amount of RMB91,839,000 (31 December 2020: RMB2,048,437,000) in respect of bad-debt provision for trade receivables.

Transfer of trade receivables that did not qualify for derecognition was separately classified as “Factored trade receivables” and “Bank advances on factored trade receivables”.

Notes to Financial Statements

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

	30 June 2021	31 December 2020
Interest receivable	155,308	62,806
Dividend receivable	1,232,846	1,752,847
Other receivables	45,201,768	38,456,207
	46,589,922	40,271,860

Other receivables

The aging analysis of other receivables:

	30 June 2021	31 December 2020
Within 1 year	36,109,515	30,724,995
1-2 years	4,045,826	3,442,527
2-3 years	3,349,599	2,850,118
Over 3 years	1,713,158	1,457,698
	45,218,098	38,475,338
Bad debt provision	(16,330)	(19,131)
Total	45,201,768	38,456,207

Other receivables are analysed as follows:

	30 June 2021	31 December 2020
Staff loans	50,615	282,353
Transactions with third parties	45,151,153	38,173,854
Total	45,201,768	38,456,207

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

3. Long-term trade receivables

	30 June 2021	31 December 2020
Loans granted to subsidiaries (Note 1)	4,128,198	4,073,135
Installment payments for the provision of telecommunication system construction projects	2,310,951	2,393,718
Less: Bad debt provision for long-term receivables	22,497	27,841
	6,416,652	6,439,012

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the period are as follows:

	Opening balance	Provision for the period	Closing balance
30 June 2021	27,841	(5,344)	22,497
31 December 2020	29,594	(1,753)	27,841

The interest rate of long-term trade receivables ranged from 4.50%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as “Factored long-term trade receivables” and “Bank advances on factored long-term trade receivables”.

4. Long-term equity investments

	30 June 2021	31 December 2020
Equity method		
Joint Ventures (1)	306,824	158,022
Associates (2)	1,102,778	1,155,088
Less: Provision for impairment in long-term equity Investments	—	7,241
	1,409,602	1,305,869
Cost method		
Subsidiaries (3)	13,503,017	12,571,262
Less: Provision for impairment in long-term equity investments (4)	385,757	401,859
	13,117,260	12,169,403
	14,526,862	13,475,272

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2021

(1) Joint Ventures

	Movements during the period									
	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses undue equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the period
Puxing Mobile Tech Company Limited	31,343	—	—	(20,592)	—	—	—	—	10,751	—
德特賽維技術有限公司	26,768	—	—	(5,265)	—	—	—	—	21,503	—
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	99,911	180,000	—	(5,341)	—	—	—	—	274,570	—
	158,022	180,000	—	(31,198)	—	—	—	—	306,824	—

(2) Associates

	Movements during the period										
	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses undue equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Other	Closing book balance	Impairment provision at the end of the period
KAZNURTEL Limited Liability Company*	—	—	(2,477)	—	—	—	—	2,477	—	—	—
ZTE Energy Limited	447,009	—	—	36,251	—	—	(9,188)	—	—	474,072	—
ZTE Software Technology (Nanchang) Company Limited*	—	—	—	—	—	—	—	—	—	—	—
北京億科三友科技發展有限公司*	—	—	(4,764)	—	—	—	—	4,764	—	—	—
上海中興思積通訊有限公司*	—	—	—	—	—	—	—	—	—	—	—
中興羅維科技江蘇有限公司	1,492	—	—	(354)	—	—	—	—	—	1,138	—
廣東中城信息技術有限公司	4,687	—	—	—	—	—	—	—	—	4,687	—
上海博色信息技術有限公司	4,137	—	—	(739)	—	—	—	—	—	3,398	—
南京寧網科技有限公司	3,811	—	—	(1,729)	—	—	—	—	—	2,082	—
Whale Cloud Technology Co., Ltd.	652,476	—	—	(59,824)	—	—	—	—	—	592,652	—
Shijiazhuang Smart Industries Company Limited	16,172	—	—	(6,456)	—	—	—	—	—	9,716	—
Zhongxing Feliu Information Technology Company Limited	18,063	—	—	(3,030)	—	—	—	—	—	15,033	—
	1,147,847	—	(7,241)	(35,881)	—	—	(9,188)	7,241	—	1,102,778	—

* KAZNURTEL Limited Liability Company, ZTE Software Technology (Nanchang) Company Limited, 北京億科三友科技發展有限公司 and 上海中興思積通訊有限公司 were no longer accounted for as associates owing to the loss of significant influence.

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2021 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	—	263,293	100.0%	100.0%	—
Shanghai ZXELINK Co., Ltd.	37,382	37,382	—	37,382	90.0%	90.0%	—
ZTE Kangxun Telecom Company Limited	580,000	580,000	—	580,000	100.0%	100.0%	—
ZTE Microelectronics Technology Company Limited	91,957	91,957	—	91,957	68.4%	68.4%	—
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	—	179,767	90.0%	90.0%	7,200
ZTE Integration Telecom Limited	41,250	41,250	—	41,250	75.0%	75.0%	—
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	—	40,500	83.0%	83.0%	4,565
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	—	13,110	90.0%	90.0%	—
深圳市興意達通訊技術有限公司	5,000	5,000	—	5,000	100.0%	100.0%	—
Xi'an Zhongxing New Software Company Limited	600,000	600,000	—	600,000	100.0%	100.0%	—
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	—	157,019	90.0%	90.0%	—
中興國通通訊裝備技術(北京)有限公司	22,160	22,160	—	22,160	100.0%	100.0%	—
PT. ZTE Indonesia	—	15,275	(15,275)	—	***	—	—
ZTE Wistron Telecom AB (European research institute)	2,137	2,137	—	2,137	100.0%	100.0%	—
ZTE Holdings (Thailand) Co., Ltd****	10	10	—	10	49.0%	95.05%	—
ZTE (Thailand) Co., Ltd.	5,253	5,253	—	5,253	49.0%	49.0%	—
ZTE (USA) Inc.	190,133	190,133	—	190,133	100.0%	100.0%	—
ZTE Do Brasil LTDA	18,573	18,573	—	18,573	100.0%	100.0%	—
ZTE Romania S.R.L	—	827	(827)	—	***	—	—
ZTE Telecom India Private Ltd.	335,759	335,759	—	335,759	100.0%	100.0%	—
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	—	6,582	100.0%	100.0%	—
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	—	5,279	93.0%	93.0%	—
ZTE (H.K.) Limited	853,800	853,800	—	853,800	100.0%	100.0%	—
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	—	16,500	55.0%	55.0%	23,100
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100.0%	100.0%	—
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	—	—	—	—	—	**	10,800
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
深圳市百維技術有限公司	16,000	16,000	—	16,000	100.0%	100.0%	—
北京中興網捷技術有限公司	289,341	289,341	—	289,341	100.0%	100.0%	—
Caltta Technologies Co., Ltd.	—	42,750	(42,750)	—	***	—	—
Shenzhen Zhongxing Cloud Service Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—
Shenzhen Zhongxing SI Technology Company Limited	27,000	27,000	—	27,000	90.0%	90.0%	—
福建海絲路科技有限公司	47,500	47,500	—	47,500	95.0%	95.0%	—
Zhongxing New Energy Automobile Company Limited	232,360	232,360	—	232,360	100.0%	100.0%	—
Xi'an ZTE Terminal Technology Company Limited	300,000	300,000	—	300,000	100.0%	100.0%	—
Zhongxing Health Technology Company Limited	15,000	15,000	—	15,000	50.0%	50.0%	—
Shenzhen Zhongxing Smart Valley Technology Company Limited	15,000	15,000	—	15,000	100.0%	100.0%	—
Jiaxing Xinghe Equity Investment Partnership	45,000	45,000	—	45,000	28.9%	**	6,400
中興捷維通訊技術有限責任公司	51,530	51,530	—	51,530	100.0%	100.0%	—
西安中興精誠科技有限公司	—	9,393	(9,393)	—	100.0%	100.0%	—
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	—	19,500	65.0%	65.0%	—

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2021 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Changsha Zhongxing Smart Technologies Company Limited	350,000	350,000	—	350,000	100.0%	100.0%	—
Shenzhen Zhongxing Videocom Technologies Company Limited	31,400	31,400	—	31,400	44.0%	*	—
ZTE (Wenzhou) Railway Communication Technology Limited	25,500	25,500	—	25,500	51.0%	51.0%	—
Zhongxing (Shenyang) Financial Technology Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	—	2,000	100.0%	100.0%	—
ZTE Gaoneng Technology Company Limited	400,000	400,000	—	400,000	100.0%	100.0%	—
ZTE Smart Auto Company Limited	790,500	790,500	—	790,500	86.4%	86.4%	—
Zhongxing Opto-electronic Technology Company Limited	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	21,000	21,000	—	21,000	25.0%	**	—
ZTE Kela Technology (Suzhou) Co., Ltd.	41,650	41,650	—	41,650	85.0%	85.0%	—
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	—	49,000	100.0%	100.0%	—
ZTE (Xi'an) Co., Ltd.	500,000	500,000	—	500,000	100.0%	100.0%	—
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	52,270	52,270	—	52,270	100.0%	100.0%	—
Xi'an Zhongxing Electronic Technology Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	—	3,000	100.0%	100.0%	—
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	10,000	10,000	—	10,000	100.0%	100.0%	—
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
Nanjing Yingbo Super Computer Technology Company Limited	23,600	23,600	—	23,600	56.4%	56.4%	—
Nubia Technology Limited	1,124,402	1,124,402	—	1,124,402	78.33%	78.33%	—
深圳市仁興科技有限責任公司	720,000	720,000	—	720,000	100.0%	100.0%	—
Zhongxing Terminal Co., Ltd.	100,000	100,000	—	100,000	100.0%	100.0%	—
中興智能科技南京有限公司	1,000,000	—	1,000,000	1,000,000	100.0%	100.0%	—
		12,571,262	931,755	13,503,017			52,065

* This subsidiary is a company with limited liability in which the Company had a shareholding of less than 50%. It is accounted for as a subsidiary mainly for the reason that the articles of association of this company stipulate that its board of directors should comprise 5 members, all of which shall be appointed by the Company. As board resolutions are approved by a majority vote of the directors, the Company is in a position to control the company.

** This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

*** The company was disposed of prior to 30 June 2021 and the Company has ceased to be in control of the company.

**** The articles of association of ZTE Holdings (Thailand) Co., Ltd provide that ZTE Corporation's shareholding percentage is different from its percentage of voting rights in the company.

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2021 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
ZTE DoBrasil LT DA	18,572	—	18,572
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (European research institute)	2,030	—	2,030
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE(Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	335,759	—	335,759
ZTE Romania S.R.L	827	(827)	—
PT ZTE Indonesia	15,275	(15,275)	—
ZTE-Communication Technologies, Ltd. (Russia)	6,582	—	6,582
	401,859	(16,102)	385,757

31 December 2020

(1) Joint Ventures

	Movements during the year									
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	45,706	—	—	(14,363)	—	—	—	—	31,343	—
德特賽維技術有限公司	21,809	—	—	4,959	—	—	—	—	26,768	—
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	—	100,000	—	(89)	—	—	—	—	99,911	—
	67,515	100,000	—	(9,493)	—	—	—	—	158,022	—

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(2) Associates

	Movements during the year									Closing book balance	Impairment provision at the end of the year
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Others		
KAZNURTEL Limited Liability Company	-	-	-	-	-	-	-	-	-	-	(2,477)
ZTE Software Technology (Nanchang) Company Limited	3,763	-	-	(3,763)	-	-	-	-	-	-	-
ZTE Energy Limited	426,768	-	-	25,264	-	-	(5,023)	-	-	447,009	-
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	1,324	-	-	(1,324)	-	-	-	-	-	-	-
北京億科三友科技發展有限公司	-	-	-	-	-	-	-	-	-	-	(4,764)
上海中興思絡通訊有限公司	2,181	-	-	(2,181)	-	-	-	-	-	-	-
中興江蘇羅維科技	2,862	-	-	(1,370)	-	-	-	-	-	1,492	-
廣東中城信息技術有限公司	4,862	-	-	(175)	-	-	-	-	-	4,687	-
上海博色信息技術有限公司	26,782	-	(20,700)	(1,945)	-	-	-	-	-	4,137	-
南京華網科技有限公司	2,860	-	-	951	-	-	-	-	-	3,811	-
Nubia Technology Limited	665,048	553,700	-	(94,347)	-	-	-	-	(1,124,401)	-	-
Whale Cloud Technology Co., Ltd.	679,373	-	-	(301,363)	-	274,466	-	-	-	652,476	-
Shijiazhuang Smart Industries Company Limited	32,080	-	-	(15,908)	-	-	-	-	-	16,172	-
Zhongxing Feliu Information Technology Company Limited	20,849	-	-	(2,786)	-	-	-	-	-	18,063	-
	1,868,752	553,700	(20,700)	(398,947)	-	274,466	(5,023)	-	(1,124,401)	1,147,847	(7,241)

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	—	263,293	100.0%	100.0%	1,060,000
Shanghai ZXELINK Co., Ltd	37,382	37,382	—	37,382	90.0%	90.0%	—
ZTE Kangxun Telecom Company Limited	580,000	580,000	—	580,000	100.0%	100.0%	—
ZTE Microelectronics Technology Company Limited	91,957	91,957	—	91,957	68.4%	68.4%	—
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	—	179,767	90.0%	90.0%	5,400
ZTE Integration Telecom Limited	41,250	41,250	—	41,250	75.0%	75.0%	—
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	—	40,500	83.0%	83.0%	—
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	—	13,110	90.0%	90.0%	—
深圳市興意達通訊技術有限公司	5,000	5,000	—	5,000	100.0%	100.0%	—
Xi'an Zhongxing New Software Company Limited	600,000	600,000	—	600,000	100.0%	100.0%	500,000
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	—	157,019	90.0%	90.0%	—
中興國通通訊裝備技術(北京)有限公司	22,160	22,160	—	22,160	100.0%	100.0%	—
Shenzhen Guoxin Electronics Development Company Limited	—	29,700	(29,700)	—	***	—	—
PT. ZTE Indonesia	15,275	15,275	—	15,275	100.0%	100.0%	—
ZTE Wistron Telecom AB (European research institute)	2,137	2,137	—	2,137	100.0%	100.0%	—
ZTE Holdings (Thailand) Co., Ltd	10	10	—	10	49.0%	95.05%	—
ZTE (Thailand) Co., Ltd.	5,253	5,253	—	5,253	49.0%	49.0%	—
ZTE (USA) Inc.	190,133	190,133	—	190,133	100.0%	100.0%	—
ZTE Corporation Mexico S.DER.LDEC.V.	—	42	(42)	—	***	—	—
ZTE Do Brasil LTDA	18,573	18,573	—	18,573	100.0%	100.0%	—
ZTE Romania S.R.L	827	827	—	827	100.0%	100.0%	—
ZTE Telecom India Private Ltd.	335,759	335,759	—	335,759	100.0%	100.0%	—
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	—	6,582	100.0%	100.0%	—
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	—	5,279	93.0%	93.0%	—
ZTE (H.K.) Limited	853,800	853,800	—	853,800	100.0%	100.0%	—
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	—	16,500	55.0%	55.0%	41,250
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100.0%	100.0%	—
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	—	—	—	—	—	**	19,200
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
深圳市百維技術有限公司	16,000	16,000	—	16,000	100.0%	100.0%	—
北京中興網捷科技有限責任公司	289,341	289,341	—	289,341	100.0%	100.0%	—
Caltta Technologies Co., Ltd.	42,750	42,750	—	42,750	90.0%	90.0%	—
Shenzhen Zhongxing Cloud Service Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—
Shenzhen Zhongxing SI Technology Company Limited	27,000	30,000	(3,000)	27,000	90.0%	90.0%	—
福建海絲路科技有限責任公司	47,500	47,500	—	47,500	95.0%	95.0%	—
Zhongxing New Energy Automobile Company Limited	232,360	232,360	—	232,360	100.0%	100.0%	—
Xi'an ZTE Terminal Technology Company Limited	300,000	300,000	—	300,000	100.0%	100.0%	—
Zhongxing Health Technology Company Limited	15,000	15,000	—	15,000	50.0%	50.0%	—
Shenzhen Zhongxing Smart Valley Technology Company Limited	15,000	15,000	—	15,000	100.0%	100.0%	—
Jiaxing Xinghe Equity Investment Partnership	45,000	56,800	(11,800)	45,000	28.9%	**	18,400
中興捷維通訊技術有限責任公司	51,530	51,530	—	51,530	100.0%	100.0%	—
西安中興精誠科技有限責任公司	9,393	9,393	—	9,393	100.0%	100.0%	—
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	—	19,500	65.0%	65.0%	—

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Changsha Zhongxing Smart Technologies Company Limited	350,000	350,000	—	350,000	100.0%	100.0%	—
Shenzhen Zhongxing Videocom Technologies Company Limited	31,400	35,400	(4,000)	31,400	44.0%	*	—
ZTE (Wenzhou) Railway Communication Technology Limited	25,500	25,500	—	25,500	51.0%	51.0%	5,400
Zhongxing (Shenyang) Financial Technology Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	—	2,000	100.0%	100.0%	—
ZTE Gaoneng Technology Company Limited	400,000	400,000	—	400,000	100.0%	100.0%	—
ZTE Smart Auto Company Limited	790,500	790,500	—	790,500	86.4%	86.4%	—
Zhongxing Opto-electronic Technology Company Limited	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	21,000	120,000	(99,000)	21,000	25.0%	**	36,000
Shenzhen Zhongrui Detection Technology Co., Ltd.	—	10,000	(10,000)	—	—	—	—
ZTE Kela Technology (Suzhou) Co., Ltd.	41,650	44,100	(2,450)	41,650	85.0%	85.0%	—
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	—	49,000	100.0%	100.0%	—
ZTE (Xi'an) Co., Ltd.	500,000	500,000	—	500,000	100.0%	100.0%	—
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	52,270	36,000	16,270	52,270	100.0%	100.0%	—
Xi'an Zhongxing Electronic Technology Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	—	3,000	100.0%	100.0%	—
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	10,000	10,000	—	10,000	100.0%	100.0%	—
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	400,000
Nanjing Yingbo Super Computer Technology Company Limited	23,600	13,000	10,600	23,600	56.4%	56.4%	—
Nubia Technology Limited	1,124,402	—	1,124,402	1,124,402	78.3%	78.3%	—
深圳市仁興科技有限責任公司	720,000	—	720,000	720,000	100%	100%	—
Zhongxing Terminal Co., Ltd.	100,000	—	100,000	100,000	100%	100%	—
		10,759,982	1,811,280	12,571,262			2,085,650

* This subsidiary is a company with limited liability in which the Company had a shareholding of less than 50%. It was accounted for as a subsidiary mainly owing to the fact that the board of directors of such subsidiary comprises 5 members in accordance with its articles of association and all of them were nominated by the Company. As board resolutions are passed by a majority vote of the directors, the Company was in a position to exercise control over this subsidiary.

** This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

*** The Company has ceased to exercise control over this company following its disposal in 2020.

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	(23,767)	—
ZTE DoBrasil LT DA	18,572	—	18,572
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (European research institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	(41)	—
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE(Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	335,759	—	335,759
ZTE Romania S.R.L	827	—	827
PT ZTE Indonesia	15,275	—	15,275
ZTE-Communication Technologies Ltd. (Russia)	6,582	—	6,582
	425,667	(23,808)	401,859

5. Operating revenue and costs

	Six months ended 30 June 2021		Six months ended 30 June 2020	
	Revenue	Cost	Revenue	Cost
Principal operations	44,147,330	42,492,324	36,601,236	37,445,605
Other businesses	6,743,304	212,791	6,708,198	31,984
	50,890,634	42,705,115	43,309,434	37,477,589

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Investment income

	Six months ended 30 June 2021	Six months ended 30 June 2020
Investment loss from long-term equity investment under equity method	(67,079)	(56,186)
Investment income from long-term equity investment under cost method	52,065	89,650
Investment (loss)/income from the disposal of derivative investment	(65,597)	49,538
Investment gain earned during the period of holding other non-current financial assets	1,634	1,289
Investment income from the disposal of long-term equity investment	1,019,491	3,431
Loss on derecognition of financial assets at amortised cost	(46,752)	(7,504)
	893,762	80,218

7. Gain from asset disposal

	Six months ended 30 June 2021	Six months ended 30 June 2020
Gain from disposal of fixed assets	47,494	—

Supplementary Information to the Financial Statements

(Prepared in accordance with PRC ASBEs)
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1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2021
Gain from the disposal of non-current assets	47,494
Investment gain from the disposal of long-term equity investments	862,666
Gain/loss from fair-value change in derivative financial assets and derivative financial liabilities, and investment gain from disposal of derivative financial assets and derivative financial liabilities	194,668
Reversal of impairment provision for individually tested receivables	205,296
Gain/loss from change in fair value of investment properties	878
Other income (other than software VAT refund and refund of tax handing fees)	444,250
Net amount of other non-operating income and expenses and others other than the above	(18,739)
Other profit or loss items meeting the criteria for extraordinary profit or loss	575,036
	2,311,549
Effect of income tax	(346,732)
Effect of non-controlling interests (net of tax)	1,367
	1,966,184

Note 1: The Group recognises extraordinary items in accordance with “Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items” (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Six months ended 30 June 2021	Reason
Refund of VAT on software products	801,562	In line with national policies and received on an ongoing basis
Return of tax refund fee	21,893	In line with national policies and received on an ongoing basis
Investment income from venture capital firm	75,275	Within the scope of business
Gain/loss from fair-value change of venture companies	668,455	Within the scope of business

Supplementary Information to the Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
(All amounts in RMB'000 unless otherwise stated)

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 2021

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	9.04%	0.88	0.88
Net profit after extraordinary items attributable to ordinary shareholders of the Company	4.68%	0.46	0.46

30 June 2020

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	5.28%	0.40	0.40
Net profit after extraordinary items attributable to ordinary shareholders of the Company	2.56%	0.20	0.19

Documents Available for Inspection

- (I) Text of the 2021 interim report signed by the Chairman of the Board of Directors;
- (II) Original copies of the Group's unaudited financial reports and consolidated financial statements for the six months ended 30 June 2021 duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;
- (III) Original copies of all documents and announcements of the Company published in China Securities Journal, Securities Times and Shanghai Securities News and on <http://www.cninfo.com.cn>; and
- (IV) Articles of Association.

By order of the Board
Li Zixue
Chairman
28 August 2021



ZTE 中兴通讯股份有限公司
ZTE CORPORATION

The image features a dark blue background with a futuristic, digital aesthetic. In the foreground, there are glowing white and light blue lines that resemble a circuit board or a network diagram, with small circular nodes at various points. The lines extend from the bottom left towards the center and right. In the background, there are vertical streaks of light and some faint, glowing rectangular shapes, creating a sense of depth and data flow. The overall effect is that of a high-tech, digital environment.