ZTE 中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

INTERIM REPORT 2022

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 Fourth Meeting of the Ninth Session of the Board of Directors of the Company. Mr. Gu Junying, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Li Zixue, Chairman, to vote on his behalf; Ms. Fang Rong, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Zhu Weimin, Director, to vote on her behalf.

The interim financial reports of the Group for the six months ended 30 June 2022 were prepared in accordance with PRC Accounting Standards for Business Enterprises and 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 2022.

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 2022 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, http://www.cninfo.com.cn and http://www.hkexnews.hk are media for the Company's information disclosure. Investors should beware of investment risks.

Contents

Definitions

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

Company or ZTE	ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
Articles of Association	The Articles of Association of ZTE Corporation (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
CSRC	China Securities Regulatory Commission
Shenzhen Stock Exchange	The Shenzhen Stock Exchange
Shenzhen Listing Rules	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Companies Ordinance	Companies Ordinance (Chapter 622 of the laws of Hong Kong)
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.

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.
UBR product	Ultra Broadband Radio, the most complete dual-band/tri-band UBR series products in the industry launched by ZTE catered to integrated multiple frequencies and multiple modes of wireless mobile networks, with one base station simultaneously supporting work over multiple frequency bands and supporting coverage of multiple modes including GSM/UMTS/LTE/NR.
AAU	Active Antenna Unit, the principal equipment at a 5G base station mainly responsible for receiving and transmitting 5G radio frequency signals.
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.
Definitive network	A network with large bandwidth, low latency, low jitters and definitive capability created with the use of network resources, which is capable of providing definitive service experience in response to different industry requirements.
TSN	Time Sensitive Networking, as defined by the Institute of Electrical and Electronics Engineers Association (IEEE), is a solution for the provision of definitive service based on standard ethernet technology which facilitates the completion of data packet transmission within a definite time latency to meet the rigid transmission requirements of the industrial sector.
uRLLC	Ultra-Reliable Low-Latency Communications is one of the three major application scenarios of 5G, supporting services that are highly sensitive to time latency and stability and protected through network chip technology. Examples include applications which are extremely sensitive to time latency, such as the Internet of Vehicles, remote controls in smart factory and remote operation in smart medicine.
Integrated core network	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility. An integrated core network supports multi-modal core network functions on a simultaneous basis.
5G NSA	The Non-Standalone network architecture model as defined under 3GPP, where the 4G base station is used in conjunction with the 5G base station on the wireless side, while the core network could be a 4G core network or 5G core network. As a transitional network architecture model, NSA allows full utilisation of existing 4G network resources.
5G SA	The Standalone network architecture model as defined under 3GPP, where the 5G base station is used on the wireless side and 5G core network is used. SA is the target infrastructure of 5G network evolution.

Glossary

Integrated cloud-net cabinet	Integrated deployment of equipment such as edge cloud, wireline access and private wireless net through a centralised cabinet with default typical applications, supporting feature functions such as integrated wireline and wireless access, private net voice and news and capable of flexibly submerged to the access server rooms of corporate business zones or carriers.
Cloud-net integration	A base resource layer oriented towards the cloud and the network that ultimately achieves succinct, swift, open, integrated, safe and intelligent resource supply for novel information infrastructure by implementing virtualised/cloudified technical structures.
NGN	Next Generation Network is a network based on soft switch capable of providing a wide array of services such as integrated multimedia services including voice, video and data using an open and standardised architecture.
Single carrier	In a dense wavelength-division multiplexing (DWDM) system that facilitates the use of multiple wavelengths on one optical fibre, each wavelength is known as a single-carrier, the speed of which has been increasing with the evolution of optical technology such as single carrier 2.5G, 10G, 100G, 200G, 400G, 800G and 1.2T.
C+L bands	Conventional band and long-wavelength band, the two commonly used wavelength-division frequency bands in the usable wavelengths of optical fibre. In the DWDM system, the C band has already been put to wide applications, while with the increasing demand for bandwidth, the L band has now also been put to trial runs for commercial applications.
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.
OTN	Optical Transmission Net, a next-generation backbone transmission network within the optical zone organisational network based on WDM technology.
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.

FTTR	FTTR (Fiber to The Room) is a networking mode connecting different indoor AP with the indoor all-optical node through optical fibre to achieve a 1000M+ coverage throughout the house.
MEC	Mobile Edge Computing, through which services and cloud computing functions required by telecom users IT can be provided from a nearby point using wireless access networks to create a telecom service environment featuring high performance, low latency and high bandwidth, accelerating the fast download of contents, services and applications in the network to allow uninterrupted premium network experience on the part of consumers.
vSTB	Virtual Set Top Box, the upshifting of services traditionally processed in a physical set-top box to the cloud and the transmission of the processed data back to the set-top box by way of video stream, thereby reducing the requirement for set-top box upgrade and software compatibility.
Algorithmic network	A novel information infrastructure that allocates and flexibly modulates computing resources, storage resources and network resources among the cloud, the network and the edge on an as-needed basis according to business requirements.
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.
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.
VR	Virtual Reality, a simulated environment that allows the creation and experience of a virtual world. VR technology is the technology that expresses the environment and objects in real life through a 3D model, which is a reality simulated by computer technology.
AR	Augmented Reality, a technology that integrates virtual information and the real world by applying virtual information such as text, graphic, 3D model, music and video to the real world, thereby augmenting the real world.
CPE	Customer Premise(s) Equipment, equipment responsible for connecting and handling at the customer's location when the service is provided to users.
Cloud base	Provision of basic virtual singular or hybrid resource services for virtual machine, bare machine and container based on the cloud infrastructure, operating on standardised hardware facilities or enhanced and customised hardware equipment. It provides technical components and network and business services on an integrated basis and is expandable as required to provide cloud-native technology stack for a range of products.
Heterogeneous acceleration	The technology of allocating processing tasks to accelerated hardware to reduce the workload of the CPU with the application of hardware modules in place of software algorithm to achieve performance enhancement and cost optimisation. A computing structure applying hardware structure is also known as heterogenous computing.

Glossary

sPV	Smart Photovoltaic is a direct-current overlay solution deployed at the station point. Its power conversion unit allows the application of maximum power tracking technology on the solar battery panel unit component to maximise the power generation efficiency of solar components while increasing the flexibility of photovoltaic deployment at station points.
5G private network	Corporate or industry wireless private network built according to 5G standards and separated from the 5G public network operated by carriers.
Intrinsic safety base station	Mine intrinsic safety base station is an Internet access device that facilitates communication at critical locations in a coal mine well. It is suitable for use at a corrosive gas scene in coal mine wells where explosive mixtures such as methane and coal dust are present but where insulation is uncompromised by corrosive gases. It does not require the addition of metal cases or fillings to avoid explosion, and the level of energy generated from sparks or thermal effect occurring during normal use or breakdown complies with national standards applicable to mines. The device is characterised by its small size, light weight and high safety level.
High-precision time protocol	Time protocol refers to the process of disseminating standard time information to synchronise local clocks with the standard time. High-precision time protocol means time protocol with a higher level of accuracy and progress.
Smart integrated coal exploitation	An integrated mechanical coal exploitation work surface for coal mines applying intelligent technological upgrades, characterised mainly by automation and unmanned operation through the use of remote control and video monitor for operations at the extraction work surface such as coal exploitation, support and conveyance, in order to enhance operational efficiency and safety.
Private chip	An approach to form a network on an as-need basis by segregating multiple virtual end-to-end networks from uniform basic network facilities to cater to the safety, separation and protection requirements of different services.
Differential protection	Protection for power transmission circuits and electrical equipment. In normal operation, the electric current entering the protected equipment is equivalent to that exiting the equipment, and the differential current equals to zero. When the differential current is higher than the default value set in the differential protection device, the circuit breaker on the sides of the protected equipment will be activated and power will be cut off from the malfunctioning equipment.

I. Corporate Information

1.	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2.	Legal representative	Li Zixue
3.	Secretary to the Board of Directors/Company Secretary	Ding Jianzhong
	Securities affairs representatives	Qian Yu
	Correspondence address	No. 55, Keji Road South, Shenzhen, Guangdong Province, The People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	IR@zte.com.cn
4.	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China
	Postal code	518057
	Website	http://www.zte.com.cn
	E-mail	IR@zte.com.cn
	Principal place of business in Hong Kong	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
5.	Authorised representatives	Gu Junying Ding Jianzhong
6.	Media designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews.hk
	Place where this report is available for inspection	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 registered address of the Company and other relevant information	☐ Applicable ✓ N/A

II. Highlights of Accounting Data and Financial Indicators

(I) STATEMENT OF 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

☐ Applicable ✓ N/A

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

Unit: RMB in thousands

Item	End of the reporting period (30 June 2022)	End of last year (31 December 2021)	Changes as at the end of the reporting period compared with the end of last year
Total assets	**179,724,762**	168,763,425	6.50%
Owners' equity attributable to holders of ordinary shares of the listed company	**54,954,923**	51,482,089	6.75%
Share capital (thousand shares)[Note 1]	**4,735,829**	4,730,796	0.11%
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	**11.60**	10.88	6.62%
Gearing ratio	**68.44%**	68.42%	Increased by 0.02 percentage point

Unit: RMB in thousands

Item	Reporting period (Six months ended 30 June 2022)	Same period of last year (Six months ended 30 June 2021)	Changes compared with the same period of last year
Operating revenue	**59,818,300**	53,070,970	12.71%
Net profit attributable to holders of ordinary shares of the listed company	**4,565,826**	4,078,613	11.95%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	**3,725,359**	2,246,454	65.83%
Basic earnings per share (RMB/share)[Note 2]	**0.96**	0.88	9.09%
Diluted earnings per share (RMB/share)[Note 3]	**0.96**	0.88	9.09%
Basic earnings per share after extraordinary items (RMB/share)[Note 2]	**0.79**	0.49	61.22%
Weighted average return on net assets	**8.56%**	9.04%	Decreased by 0.48 percentage point
Weighted average return on net assets after extraordinary items	**6.98%**	4.98%	Increased by 2.0 percentage points
Net cash flows from operating activities	**3,499,634**	7,028,435	(50.21%)
Net cash flows from operating activities per share (RMB/share)	**0.74**	1.52	(51.32%)

Note 1: The total share capital of the Company increased from 4,730,795,972 shares to 4,735,828,580 shares following the exercise of a total of 4,971,974 A share options by the participants under the 2017 Share Option Incentive Scheme and 60,634 A share options by the participants under the initial grant of the 2020 Share Option Incentive Scheme during the reporting period;

Note 2: Basic earnings per share and basic earnings per share after extraordinary items for the reporting period and for the same period last year have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

Note 3: As the 2017 share options granted by the Company have given rise to 108,000 and 17,177,000 potentially dilutive ordinary shares for the six months ended 30 June 2022 and six months ended 30 June 2021, respectively, dilutive earnings per share have 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 gains or losses items	Amounts
Gain from disposal of non-current assets	7,602
Investment gain from disposal of long-term equity investment	7,445
Gain/loss from fair-value change of derivative financial assets and derivative financial liabilities held and investment gain from disposal of derivative financial assets and derivative financial liabilities, excluding the effective value protection hedge business relating to the Company's ordinary business Note 2	55,259
Write-back of provision for individually tested receivable impairment	72,905
Gain/loss from fair-value change of investment properties	(1,484)
Other gains other than income from software VAT rebate and income from handling charge for withholding personal tax	163,823
Net of other non-operating income and expenditure other than the above	(55,295)
Other gains/losses falling under the definition of extraordinary gain/loss	739,772
Less: Effect of income tax	148,504
Effect of non-controlling interest (after tax)	1,056
Total	**840,467**

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

Item	Amount for the six months ended 30 June 2022 (RMB in thousands)	Reasons
Income from VAT rebate for software products	714,735	In compliance with national policies and occurring on an ongoing basis
Income from handling charge for withholding personal tax	23,028	In compliance with national policies and occurring on an ongoing basis
Investment gain and gain/loss from fair-value change of Shenzhen ZTE Capital Management Company Limited ("ZTE Capital")	91,371	Business with the scope of operation of ZTE Capital

Note 2: The Company has entered into a series of forward exchange contracts. Subject to compliance with conditions for hedge accounting, the Company has elected not to apply hedge accounting. The gain/loss of hedging instruments was included in recurring gain/loss to the extent of the exchange gain/loss of the hedged items. The effective value protection hedge relating to the Company's ordinary business operations included in recurring gain/loss for the reporting period amounted to RMB328,019 thousand, while RMB134,025 thousand for the same period last year.

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

☐ Applicable ✓ N/A

III. Summary of the Company's Business

I. PRINCIPAL BUSINESSES

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

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

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

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

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 technologies and product solutions to customers in numerous countries and regions around the world.

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

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

III. TECHNOLOGICAL INNOVATION

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

According to data published by IDC, the volume of global data flow in the past decade was growing at an average compound annual growth rate (CAGR) of close to 50%. With the dawning of the era of Internet of Everything, the growth curve is expected to get steeper. Meanwhile, the Moore's Law and Nielsen's Law remain relevant, though heading in opposition directions. In other words, the growth rate for Internet bandwidth has exceeded that of CPU speed. The overwhelming impact of data on terminal, edge and cloud has given rise to the distributed computing and heterogeneous computing. Under this technological trend, algorithm is more closely associated with network and software with hardware, with boundaries more blurred than ever. The integration and evolution of multiple technologies will be critical to the enhancement of service quality and efficiency for the overall optimisation of benefits.

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

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

In the chip sector, the Group has continued to increase investment in fields such as advanced process design, core IP, architecture and seal packaging design and digitalised efficient development platform on the back of more than 26 years’ R&D build-up. We are an industry leader in terms of the ability to design the whole process of chip production. As the digital transformation of industries continues to advance, the complementary development of chips, algorithms and architectures has become a fundamental requirement which will effectively underpin the competitiveness and leading position of its products.

In connection with database, GoldenDB (distributed database), the Group’s proprietary innovative product commanding long-term investment and offering sophisticated commercial applications, has further consolidated its leading position in key industries. In the finance sector, GoldenDB became the first domestically developed database to be commissioned for the core business systems of major State-owned banks and sustaining stable operation. It also assisted in the commissioning of China Development Bank’s “new core project” to guide the transformation of core financial business system. In the carrier market, it teamed up with Hebei Mobile to create autonomous controllable template points for core database, and was selected as an “Exemplary Trustworthy and Innovative Solution” named by the Ministry of Industry and Information Technology of the PRC (“MIIT”). In active promotion of the development of industry standards and ecology for domestic-made database, GoldenDB played a leading role in the drafting of nine industry standards, eight issues and white papers and seven industry test conventions to assist in the sound and sustainable development of domestic-made database.

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 and their commercial applications, on the back of close to 21 years of proprietary R&D effort. Systems developed by us are at the forefront of the industry in terms of real-time performance, reliability and security, with solutions for a complete range of operating systems of equipment types such as built-in device, server, desk-top system and terminal. The products have been extensively used in the communication, automobile, electricity and railway transportation sectors, as more than 200 million sets have been delivered by far, providing solid and reliable base software platforms with robust functions to global customers. Our products have won the Class I Science and Technology Award of China Institute of Communications and the Fourth China Industry Award.

III. Summary of the Company's Business

In connection with wireless products, the Group is committed to creating high-performance, intelligent and minimal and green and low-carbon mobile communication networks catered to carrier customers and industry customers. On the back of strong base-level capabilities in chip, algorithm and architecture, we have launched the new-generation minimal station UniSite NEO solution, including innovative products such as the integrated OmniUBR product with three frequencies and three fans, large power output UBR products and the new Generation 5 series AAU. While supporting multiple frequencies and modes, large power output and large bandwidth, the equipment is an industry leader in terms of its significantly reduced size, weight and power consumption. The Group has been engaged in intensive cooperation with carriers to create "5G pilot cities" in Beijing, Guangzhou, Chengdu and Dalian, where a number of premium network benchmark featuring consecutive coverage, outstanding performance and advanced technologies have been formed. PowerPilot, the Group's network energy conservation scheme built upon AI technology, has further enabled energy conservation through precise coverage and identification, precision service navigation and in-depth coordination of networks of multiple frequencies and protocols, offering energy conservation effects twice as much as those offered by the usual smart power conservation schemes currently adopted. It has been put to large-scale commercial application on 30 networks around the world and has won the "Mobile Technology Innovation and Breakthrough Award" at the GTI Forum. Our definitive network solution safeguards definitive latency and jitters through 5G TSN+ uRLLC enhancement. Meanwhile, the Group worked with China Mobile and NR Electric to launch the first end-to-end 5G TSN based on the green power of the industry to accelerate the commercial application of 5G in key industries, and the product received the "Market Development Award" at the 2022 GTI Forum. The Common Core fully integrated core network solution launched by the Group supporting 2G/3G/4G/5G NSA/5G SA full access serves to simplify network complexities to the maximum extent and helps to reduce network construction cost by more than 40% and increase delivery speed by 30% while supporting smooth evolution. The iCube serialised 5G private network solution developed by the Group provides multi-purpose, fast, high-quality and cost-efficient one-stop private network services through the i5GC lightweight ultra-minimal private core network for industries, one-stop integrated cloud-net cabinet and base station edge computing engine solutions to meet the requirements of different industries. The iCube private network solution is the first product in the industry featuring three integrations: 4G/5G integration, voice/data integration and cloud/net integration, in a bid to simplify the mesh and maximise resource sharing.

In the IP segment, the Group has provided inter-cloud as well as intra-cloud end-to-end SRv6 programmable solutions to assist carriers' creation of ultra-wide, minimal and intelligent IP networks for ongoing evolution from basic connection to the integration of algorithm and network. T8000, our flagship core router, has served the super core nodes of the 163 backbone network of China Telecom for large-scale deployment in the CN2-DC1 network and also successfully facilitated the online connection and commercial application of China Mobile's IDC. We have assisted in the official commencement of the NGN IP CORE network built by Telekom Malaysia which is the first high-speed mobile service transmission backbone bearer network in Malaysia.

In connection with optical transmission, the new optical network with intelligent features and wide bandwidth has provided an ultra-wide, flexible and intelligent high-speed information passage for the inter-connection among clouds. The Group has garnered the "Best Data Centre Connection Equipment Supplier Award" presented by NGON&DCI World. The single carrier 1.2T system solution, the first of its kind among peers, allows the doubling of single-fibre capacity to 96T+ when applied in connection with C+L bands, which would meet the business requirement for optical network bandwidth in the next 5–8 years. We have assisted Turkcell in its deployment of the world's first commercial C+L wave division system. Our exclusive Flex Shaping technology has facilitated a 30% improvement in 100G+ transmission distance, making 100G+ deployment substantially easier and upgrade substantially cheaper. Our new-generation compact, metropolitan edge OTN product has been named for the 2022 Lightwave Optical Transmission Core Sector Award. We ranked second globally in terms of annual market shares for OTN cross connection products and among global top two for 200G port dispatch. Our OXC products has been put to large-scale deployment in the provincial backbone and local networks of more than twenty provinces, including Guangdong, Shandong, Zhejiang, Jiangsu others.

In fixed-line access, ZTE PON OLT ranked first in global dispatch, while its optical access technology twice won the Class II National Science and Technology Progress Award. We have launched the world's first precision 50G PON template and the first ONU prototype supporting 50G PON and Wi-Fi 7, marking a milestone in the development of 50G PON technologies and products. Our OLT (Optical Line Terminal) features the first high-end router platform based on CLOS distributed architecture. TITAN, our flagship product in optical access, has been given a Leader rating by GlobalData, as it claims the largest capacity and highest level of integration among peers providing a level of integration twice as much as its peers. 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. We completed trial operation and started commercial application of our FTTR (Home Optical LAN) in more than 20 provinces across the country.

In connection with algorithm infrastructure, the Group has continued to enhance the research and development of basic software and hardware for cloud platform infrastructure. In connection with server and storage products, serialised products have been launched to provide strong algorithmic support for the digital transformation of sectors across the board. Global dispatch in the first half of 2022 exceeded 110,000 units, increasing by close to 140%, year-on-year. TCF, the distributed precision cloud base designed for ICT integration, supports deployment in a full range of scenarios and fulfils the requirement for centralised cloud management and edge operation and maintenance. Through heterogeneous hardware acceleration and software and hardware coordination, diversified algorithm resource services offering low latency, high bandwidth and high algorithmic capacity have been provided to match the requirements of customers' differentiated businesses with precision. In connection with switch products, a new generation of large-capacity, high-performance and highly-reliable core switch products have been launched, offering ultra-large switch capacity and high-density, large-capacity ports to support the operation of a comprehensive data centre and assist the construction of a large-scale, highly flexible data centre network catered to cloud computation. In connection with data centre, as a leader in full module data centre, we have creatively constructed a solution for prefabricated data centres which shortens the turnover period for delivery by 40% and reduces initial investment by 30%, heralding the construction of novel data centre infrastructure facilities which are eco-friendly, reliable, fast and intelligent. We have won an exclusive tender for Tencent's MDC centralised procurement in 2022. We have also won the bids for a number of carriers' integration projects, while making breakthroughs in the centralised procurement tenders of China Telecom Group for high-voltage direct-current products in an ongoing attempt to develop the domestic market for data centre. In the overseas market, we have made a breakthrough in the data centre overlapping solution for multi-level containers that enables lower civil engineering requirement and lessens the turnover period by 50%. We have also won the tender for the DITO 2022 edge data centre project in the Philippines with the largest share.

In the video business, the Group has developed general competitiveness in video through ongoing investment in multiple aspects such as innovative terminal, platform, CDN and VR/AR new technologies to enhance our competence in servicing technology. The Group has launched W600D, a notebook-size cloud computer product, and has commercially dispatched W100D, a name card-size cloud computer product in a pioneering move for revolution in computer products. Our vSTB (cloudified set-top box) solution, the first of its kind in the industry which enhances user experience through the cloudification of end services, has received the BBWF "Annual Home Customer Experience Award". The video middle office has successfully commenced online operation at China Mobile to provide video services with ultra-low latency and high reliability at low cost in a move to build a leading video algorithmic network; our video conferencing product has won the tender for a project of the emergency management authorities in a breakthrough for provincial-level projects. Our integrated CDN product has continued to stay ahead in terms of competitiveness and progress in commercial application, deployed at more than 150 bureau outlets globally with over 200 million users for the Big Video system and a CDN capacity in excess of 270T as market shares has continued to rise. Our XR platform which supports ultra-HD AR live cast with ultra-low latency and HD real-time cloud render and which is capable of AR spatial computation for an ultra-large scenario of up to one million square metres, has provided full AR/VR technical support for the major theme stories "Cultural Gem in Hong Kong" and "The Story Behind the Hong Kong Palace Museum" produced by Xinhua News Agency in celebration of the 25th anniversary of Hong Kong's return to China. We have also collaborated with Zhejiang Mobile and Jinhua Guzi City Scenic Area in metaverse cultural tourism.

III. Summary of the Company's Business

In the smart home segment, leaping growth has been reported for our home information terminal which has ranked first globally in terms of PON CPE dispatch volume and sales, sustaining a leading position in market share for set-top box and ranking first globally for IP set-top box. Our Wi-Fi6 product has been put to large-scale commercial application in Italy, Spain, Japan and Thailand. In the international market, we have completed large-scale dispatch of Android TV set-top box products to carriers of major nations in the Asia Pacific, Europe and South America while negotiating breakthroughs in South America and Africa. The new-generation cloud AI home guard camera Pro has been launched, which is capable of AI application expansion on an as-needed basis to enhance the efficiency of scenario analysis on the back of innovative applications of cloud-end coordination technologies, has received the 2022 GLOMO Best Internet Consumer Equipment Award. Active investigations into the new business of household-wide video have been made, underpinned by the full-scenario retiree platform created in a joint effort with carriers, communities and institutions which has become a new highlight in the smart home business in addition to IPTV and handset TV.

In connection with terminals, the Group continued to improve the "1+2+N" full-scenario ecosystem built around the handset, emphasising users' experience of seamless connection for multiple ends and creating a mega-ecosystem for terminals through strong interactive sensory capability and cloud-end computational capability. In connection with handsets, we heralded innovation in the industry through anchored image and screen as two major pivots. Nubia Z40 Pro was crowned the Best Smart Phone at MWC 2022 for its exclusive 35mm customised optical computational camera technology designed for the capture of human images and advanced starlight photography. ZTE Axon 40 Ultra third-generation under-screen camera featured the one-on-one device-independent pixel technology, the first of its kind in the industry, which allows users to experience an authentic, flawless and full screen, while the 64MP triple main camera represented a brand new upgrade in computational camera. In the mobile Internet business, we continued to lead in the global carrier market on the back of our strengths in 5G products, as more than 2 million units of 5G FWA and CPE were dispatched worldwide. The AX3000 Pro and AX5400 ZTE Qiji routers won the iF Design Award 2022. We completed the global debut of the high gain antenna CPE. In the vehicle IoT sector, we entered into strategic cooperation with a number of automobile manufacturers and commenced commercial projects.

In connection with vehicular electronics, the Group is committed to becoming a provider of digital infrastructure capabilities for vehicles and a partner for domestically manufactured proprietary high-performance products on the back of its strong base-level technology and innovative ability in chip, algorithm, architecture and operating systems to assist in the development of Internet-based interconnection and intelligentisation for vehicles. The Group was actively engaged in the deployment and development of products such as chip, vehicle operating systems and vehicle modules to solve the domestic industry's deficiency in chips and software in association with leading domestic automobile manufacturers. The Group's automobile operating system products received the management and product double certification of ISO 26262 ASIL-D, the highest level of accreditation for automobile electronic functional safety. On this basis, an integrated solution for vehicular operating systems has been formed covering scenarios such as smart vehicle control, smart driving and smart driving cabins, for which we have garnered the 2021 Automobile Electronics Science and Technology Award. Comprehensive end-to-end solutions have been developed covering the 5G+C-V2X chip module, TBOX/OBU vehicle end, roadside RSU equipment, edge computing MEC equipment and V2X infrastructure cloud control platform. In future, the Group will continue to build on its core base-level technologies and implement the "chip + software" paradigm in association with its partners to assist in the technological innovation of automobile manufacturers and work with them to provide end-customers with premium experiences.

In connection with the energy sector, the Group has established a Digital Energy Operations Department in a major effort to develop business in the new energy sector, aiming to provide green power generation, smart power storage, smart power consumption and energy management products and solutions to governments and corporate customers around the world. As a world-leading supplier of communications energy, the Group has completed large-scale deployment of 5G power source and minimal station point solutions to safeguard power supply for 450,000 5G base stations around the world. We have also launched the sPV solar energy power supply solution that enables smooth overlay at station points to facilitate low-carbon or zero-carbon development of carriers' networks. In recent years, the Group has continued to make intensive efforts in the development of communication energy storage and proposed the new idea of "tiered intelligentisation of communication energy storage, as we have launched the world-leading L3 intelligent lithium battery products, which have been adopted for large-scale application.

In connection with industrial digitalisation, the Group launched the digital star cloud platform in 2022 to provide swift and flexible customised solutions for corporate digital transformation. The first batch of smart operation centre based on digital star cloud have 100% passed the corporate smart operation service competence assessment conducted by China Academy of Information and Communications Technology. The Group has provided top-level design for digital transformation to large companies such as CITIC Offshore Helicopter and Nanjing Port Group, while teaming up with 500+ partners in 15 sectors, including industrial manufacturing, steel and metallurgy, transport, mining, cultural tourism and media, to launch more than one hundred innovative applications for digital transformation, creating a series of benchmark projects that have garnered honours such as the MIIT Blooming Cup and the United Nations WSIS Champions Award. On the industrial front, the Group implemented the concept of "manufacturing 5G with 5G" and the intelligent manufacturing base in Binjiang, Nanjing has produced 16 types in online operation and more than 60 5G+ integrated industrial innovative applications, which have also been replicated at companies such as Gree, JA Solar, Sany Heavy Industry, Bosch, Chongqing Changan Automobile and Deli Group. In connection with metallurgical smelting, the Group has launched the 5G smart smelting independent private network 2.0 solution to assist in the application innovation and digital construction of industry giants such as Ansteel Group, Baosteel Zhanjiang Iron & Steel, Wuhan Iron and Steel and Yunnan Shenhuo. On the energy front, the Group has launched the "Tiangong" network solution and worked with China Coal Technology Engineering Group to present the world's first 700M intrinsically safe base station, while teaming up with carriers to help industry leaders such as Pingdingshan Coal Group, Shandong Energy Group, China Coal Group and Shaanxi Coal Group with the implementation of innovative applications such as 5G smart integrated coal exploitation and driving. The Group has also teamed up with Southern Power Grid and China Mobile to launch the industry's first 5G R16 high-precision time-protocol power distribution grid service, first commercial power grid private chip, and first 5G differential protection service. We have assisted State Grid Shandong Electric in the construction of China's first provincial 5G demonstration power grid. In connection with transportation, the Group collaborated with Guangzhou Railway Bureau to deploy 5G+ high-speed railway video boarding aid preview system to facilitate safe driving for railway transport. At Tianjin Port, four services, including 5G quayside gantry remote control, 5G smart cargo handling, 5G smart unmanned container truck and the 5G smart locking and unlocking station, have been put to normalised commercial application. In connection with cybersecurity, the Group's quantum integrated encryption management system, the first of its kind in the industry, has been officially put to commercial application in the Bishan Quantum Trustworthy Cloud Project in Chongqing, while the innovative 5G private network terminal and asset security management solution has been launched to facilitate the 5G asset security service of China Telecom Tianyi Security Company. We have also launched the government affairs cloud scenario data security solution to create in Hunan the nation's first provincial government affair cloud covering three locations and four centres regions, while providing cross-level, cross-region and inter-departmental data service.

III. Summary of the Company's Business

The Group is positioned within the first quadrant in terms of global patents as a major contributor and participant in the technology research and standard formulation for global 5G. As at 30 June 2022, the Group had filed applications for approximately 85,000 patents globally, among which approximately 43,000 patents had been licensed over the years. According to the report published by internationally renowned patent data company IPlytics in November 2021, ZTE ranked fourth globally in terms of the number of declared 5G SEP (standard essential patents) disclosed to ETSI. In 2022, the Group won a gold award in the 23rd China Patent Award. The Group has by far garnered 10 gold awards, 2 silver awards and 36 excellence awards in the China Patent Awards and 27 awards in the Guangdong Provincial Patent Awards.

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

IV. Report of the Board of Directors

FINANCIAL RESULTS

Please refer to page 79 to 80 of this report for the income statement of the Group for the six months ended 30 June 2022.

(I) REVIEW OF BUSINESS FOR THE FIRST HALF OF 2022

1. Overview of the domestic telecommunications industry for the first half of 2022

During the first half of 2022, the domestic telecommunication industry was generally stable in operation. According to the data published by MIIT, the domestic telecommunications sector reported revenue of RMB815.8 billion for January to June 2022, representing year-on-year growth of 8.3%. Domestic carriers were actively engaged in the development of novel businesses such as Internet data centre, Big Data, Cloud Computing and Internet of Things, reporting revenue from related businesses of RMB162.4 billion, representing year-on-year growth of 36.3%.

Accelerated progress in the construction of 5G base stations was noted. As at the end of June 2022, there were a total of 1,854 thousand 5G base stations, accounting for 17.9% of the total number mobile base stations which as 3.6 percentage points higher compared to that as at the end of 2021. During January to June 2022, 429 thousand new 5G stations were built. The 512 “5G+ Industrial Internet” project reported extensive, in-depth advancement with more than 3,100 projects constructed. In the intelligent manufacturing sector, the digitalisation rate for key processes at large-scale industrial enterprises and general utilisation rate for digitalised R&D design tools were 55.7% and 75.1%, respectively, underpinning further acceleration of the process of digitalised transformation and upgrade for traditional industries.

The coverage and servicing ability of our GB-grade optical broadband network has been enhanced. As at the end of June 2022, we had 11.03 million 10G PON ports capable of GB-grade network servicing, an increase by 3.18 million compared to the end of 2021.

Source: PRC Ministry of Industrial and Information Technology (“MIIT”)

2. Overview of the global telecommunications industry for the first half of 2022

Global telecommunication carriers’ investment was generally stable during the first half of 2022, as telecom carriers resumed their investment in the wake of the gradually easing pandemic. Ongoing advancement of 5G construction was underpinned by intensive 5G network construction in developed countries and successive issuance of 5G frequencies in developing countries. According to the statistics of Global mobile Suppliers Association (GSA), 218 carriers in 87 countries or regions across the globe had launched 5G services as at June 2022, an addition of 9 nations and 18 carriers compared to December 2021. In the meantime, the modernisation conversion of 4G networks was still developing at a rapid pace, as the pandemic had changed the people’s mode of work and lifestyle, prompting rapid development of the home broadband market and generating the demand for optical fibre installation and home information terminal.

IV. Report of the Board of Directors

3. Operating results of the Group for the first half of 2022

During the first half of 2022, the Group reported operating revenue of RMB59.818 billion, representing a year-on-year increase of 12.71%, as it persisted in strengthening its principal businesses and expanding into new areas as well as reinforcing its operational stability to achieve continuous optimisation in its market profile, amidst challenges posed by the COVID-19 pandemic and other external conditions. Year-on-year growth in operating revenue was reported in both the domestic market and the international market, as well as the three principal business segments of carriers' network, government and corporate business and consumer business. The Group's net profit attributable to holders of ordinary shares of the listed company for the first half of 2022 amounted to RMB4.566 billion, increasing by 11.95%, year-on-year. Basic earnings per share amounted to RMB0.96.

(1) By market

The domestic market

For the reporting period, the Group's operating revenue from the domestic market amounted to RMB40.602 billion, accounting for 67.88% of the Group's overall operating revenue. During the first half of 2022, the Group was deeply involved in large-scale 5G construction in China and the construction of double-GB cities. Meanwhile, we seized opportunities for development in 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 RMB19.216 billion, accounting for 32.12% of the Group's overall operating revenue. During the first half of 2022, the Group persisted in the focus of efficiency enhancement as it reported ongoing optimisation in the market profile of its premium products and improvements in operating quality, riding on market opportunities presented by new 5G construction, 4G modernisation conversion, optical conversion of fixed-line networks and upgrades and generational replacement of home broadband products.

(2) By business segment

For the reporting period, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB38.721 billion, RMB6.705 billion and RMB14.392 billion, respectively.

Carriers' networks

The Group has been focused on customer value with ongoing effort in innovative breakthrough to optimise its market profile.

For the traditional networks of carriers in connection with wireless products, the Group was actively involved in global 5G construction and committed to creating premium customer experience and network efficiency and building the most cost-efficient 5G networks with its serialised innovative products and solutions. Currently, we have entered into 5G cooperation with more than 110 carriers worldwide, covering major markets such as China, Europe, Asia Pacific and the Middle East. In connection with wireline products, the Group continued to drive the construction of global GB-grade optical network and 5G bearer. In connection with optical access, we have launched the industry's first precision 50G PON template in an ongoing effort to drive global fiberisation. In connection with optical network, we have launched the first single carrier 1.2T system solution of the industry for the construction of the new smart broadband optical network as an ultrawide, flexible and smart high-speed information highway, for which we have been honoured with the 2022 Lightwave Optical Transmission Award. In connection with 5G bearer network, large-scale deployment of the full range of end-to-end products has been achieved with more than 400 5G bearer networks having been built by far.

For the cloud network of carriers, the Group has been selected for the centralised server procurement of domestic carriers for consecutive years as it has been providing compatible products and solutions to seize business opportunities. During the first half of 2022, the Group has ranked among the top two in a number of centralised server procurement tenders of domestic carriers.

Government and corporate business

Focusing on the Internet, finance, electricity, transport, government affairs and industrial sectors, based on the high efficient digital infrastructure and cloud native transaction architecture "digital star cloud", the Group has deeply engaged in the digital transformation of the industry, and has fully participated in major national engineering projects such as East-to-West Data Computing. Our core products and solutions such as server and storage device, data centre, corporate network, video conference, cloud computer and distributed database were put to extensive applications in the government and corporate market to form a sound cloud network ecology. We achieved breakthroughs in the scale of the server and storage and data centre businesses with leading enterprises in the Internet and finance sectors. Our distributed database GoldenDB has been providing stable operation at the core systems of large-scale commercial banks for more than three years and has been rated as the prime band in domestic distributed database for the finance industry. In connection with 5G industry applications, the Group has set up two sub-segment task forces for the mining sector and the metallurgical smelting sectors to assist in the digital transformation of industries with the aid of 5G applications, IT and Big Data.

Consumer business

The Company has forged a "1+2+N" pattern for development comprising personal data, home data and intelligent peripheral products on the basis of the core handset product. In connection with the handset product, the Group has enhanced the prime role of handsets in the mobile Internet ecology to realise sales of personal and home products and facilitate the development of peripheral sectors, sustaining rapid growth in operating revenue against the run of the market. In connection with home information terminal, the Group continued to lead in market shares for its existing products, while making vigorous efforts to expand in consumer-oriented home intelligent products.

In conclusion, the Group has continued to consolidate its primary-curve business represented by wireless and wireline products, while rapidly expanded and made sound progress in the secondary-curve business represented by server and storage, terminal (including handset, mobile Internet and smart home), vehicle electronics, digital energy (including power source, data centre and new energy) and 5G industry application. For the first half of 2022, we reported year-on-year growth of close to 40% in revenue from the secondary curve.

IV. Report of the Board of Directors

(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	59,818,300	100%	37,662,894	37.04%	12.71%	11.12%	0.90
Total	**59,818,300**	**100%**	**37,662,894**	**37.04%**	**12.71%**	**11.12%**	**0.90**
II. By business							
Carriers' networks	38,720,841	64.73%	21,175,717	45.31%	10.47%	5.68%	2.48
Government and corporate business	6,705,277	11.21%	4,870,571	27.36%	18.32%	19.53%	(0.74)
Consumer business	14,392,182	24.06%	11,616,606	19.29%	16.51%	18.78%	(1.53)
Total	**59,818,300**	**100.00%**	**37,662,894**	**37.04%**	**12.71%**	**11.12%**	**0.90**
III. By region							
The PRC	40,602,370	67.88%	24,666,315	39.25%	12.93%	8.88%	2.26
Asia (excluding the PRC)	7,899,366	13.21%	5,104,649	35.38%	10.63%	14.11%	(1.97)
Africa	2,510,729	4.20%	1,272,074	49.33%	6.78%	9.65%	(1.33)
Europe, Americas and Oceania	8,805,835	14.71%	6,619,856	24.82%	15.49%	18.09%	(1.66)
Total	**59,818,300**	**100.00%**	**37,662,894**	**37.04%**	**12.71%**	**11.12%**	**0.90**

(1) Analysis of change in operating revenue

The Group reported RMB59,818,300 thousand in operating revenue for the first half of 2022, increasing by 12.71% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB40,602,370 thousand, increasing by 12.93% as compared with the same period last year. Operating revenue generated from the international business amounted to RMB19,215,930 thousand, increasing by 12.27% as compared with the same period last year.

Analysed by business segment, the Group reported year-on-year growth in operating revenue for the first half of 2022, reflecting mainly year-on-year growth in revenue from carriers' networks, government and corporate business and consumer business. Operating revenue from carriers' networks increased by 10.47% compared to the same period last year, reflecting mainly year-on-year growth in operating revenue from products such as fixed-line network, core network and servers. The government and corporate business reported 18.32% year-on-year increase in operating revenue, reflecting mainly year-on-year growth in operating revenue from domestic government and corporate business. The consumer business reported 16.51% year-on-year increase in operating revenue, reflecting mainly year-on-year growth in operating revenue from products such as home information terminal and handset.

(2) Analysis of operating cost and gross profit

Operating cost of the Group for the first half of 2022 increased by 11.12%, year-on-year, to RMB37,662,894 thousand, reflecting mainly year-on-year increase in the cost of carriers' networks, government and corporate business and consumer business.

The Group's overall gross profit margin increased by 0.90 percentage point, year-on-year, to 37.04% for the first half of 2022, which was attributable mainly to higher gross profit margin for carriers' networks. The gross profit margin for carriers' networks increased by 2.48 percentage points to 45.31%, compared to 42.83% for the same period last year, reflecting mainly the Group's change in revenue structure and ongoing optimization of cost. The gross profit margin for government and corporate business was 27.36%, decreasing by 0.74 percentage point compared to 28.10% for the same period last year, reflecting mainly the decrease in gross profit margin for government and corporate business in the domestic market. The gross profit margin for consumer business was 19.29%, decreasing by 1.53 percentage points compared to 20.82% for the same period last year, attributable mainly to the decrease in gross profit margin for handset products and home information terminal in the international market.

2. Research and development expense of the Group

Unit: RMB in thousands

Item	**Six months ended 30 June 2022**	Six months ended 30 June 2021	Year-on-year increase/ decrease
Amount of R&D expense	**10,151,500**	8,861,406	14.56%
R&D expense as a percentage of operating revenue	**16.97%**	16.70%	Increased by 0.27 percentage point
Amount of capitalised R&D expense	**840,025**	1,059,622	(20.72%)
Capitalised R&D expense as a percentage of R&D expense	**8.27%**	11.96%	Decreased by 3.69 percentage points

The Group's research and development costs for the first half of 2022 increased as compared to the same period last year, which was attributable mainly to ongoing investments in technologies for 5G-related products, chip, server and storage, and innovative business. Research and development costs as a percentage of operating revenue increased by 0.27 percentage point to 16.97% as compared to 16.70% 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 2022**	Six months ended 30 June 2021	Year-on-year increase/ decrease
Selling and distribution expenses	**4,423,548**	4,169,804	6.09%
Administrative expenses	**2,532,696**	2,543,538	(0.43%)
Finance expenses	**303,745**	480,702	(36.81%)
Income tax	**665,057**	976,350	(31.88%)

The year-on-year increase in the Group's selling and distribution expenses for the first half of 2022 was mainly attributable to the increase in advertising expenses for the period. Selling and distribution expenses accounted for 7.39% of operating revenue, a decrease by 0.47 percentage point compared to 7.86% for the same period last year.

IV. Report of the Board of Directors

The Group's administrative expenses for the first half of 2022 remained generally flat compared to the same period last year, accounting for 4.23% of operating revenue, a decrease by 0.56 percentage point compared to 4.79% for the same period last year.

The year-on-year decrease in the Group's finance expenses for the first half of 2022 was mainly attributable to the decrease in the Group's net interest expense for the period.

The year-on-year decrease in the Group's income tax for the first half of 2022 was mainly attributable to the increase in the Group's deferred tax assets for the period.

4. **Other components in the Company's profit mix**

Unit: RMB in thousands

Item	**Six months ended 30 June 2022**	Six months ended 30 June 2021	Year-on-year increase/ decrease
Other income	**901,586**	1,267,706	(28.88%)
Investment income	**671,223**	703,109	(4.54%)
Gains and losses from changes in fair value	**(392,234)**	874,661	(144.84%)
Credit impairment losses (loss indicated as a negative value)	**(116,912)**	(125,249)	(6.66%)
Asset impairment losses (loss indicated as a negative value)	**(160,771)**	40,928	492.81%

The year-on-year decrease in the Group's other income for the first half of 2022 was mainly attributable to the increase in the Group's deferred income received but yet to qualify for recognition for the period.

The year-on-year decrease in the Group's investment income for the first half of 2022 was attributable to investment income arising from the Group's disposal of equity interests held by a subsidiary fund partnership of ZTE Capital and investment income arising from settlement of derivative contracts for the period versus investment income from the transfer of equity interest in Caltta Technologies Company Limited for the same period last year.

The year-on-year decrease in the Group's gains and losses from changes in fair value for the first half of 2022 was mainly attributable to the transfer of disposal of listed equity interests held by subsidiary fund partnership enterprises of ZTE Capital from fair-value gain/loss to investment gain for the period versus gains from changes in fair value of equity interests held was recorded for the same period last year.

The year-on-year decrease in the Group's credit impairment losses for the first half of 2022 was mainly attributable to the decrease in impairment of the Group's receivables for the period.

The year-on-year increase in the Group's asset impairment losses for the first half of 2022 was mainly attributable to the charge of the Group's dispatch of goods impairment provision for the period versus reversal for the same period last year.

5. **Breakdown of the Group's cash flow**

Unit: RMB in thousands

Item	Six months ended 30 June 2022	Six months ended 30 June 2021	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**74,376,587**	63,326,655	17.45%
Sub-total of cash outflows from operating activities	**70,876,953**	56,298,220	25.90%
Net cash flows from operating activities	**3,499,634**	7,028,435	(50.21%)
Sub-total of cash inflows from investing activities	**6,481,556**	5,077,686	27.65%
Sub-total of cash outflows from investing activities	**7,443,826**	11,759,123	(36.70%)
Net cash flows from investing activities	**(962,270)**	(6,681,437)	85.60%
Sub-total of cash inflows from financing activities	**61,062,615**	20,796,602	193.62%
Sub-total of cash outflows from financing activities	**58,870,046**	12,007,418	390.28%
Net cash flows from financing activities	**2,192,569**	8,789,184	(75.05%)
Net increase in cash and cash equivalents	**5,010,582**	8,981,054	(44.21%)
Closing balance of cash and cash equivalents	**44,081,165**	40,384,110	9.15%

For the reasons underlying the difference between the net cash flow and net profit generated by the Group's operating activities for the reporting period, please refer to the section headed 55. Supplemental information on cash flow statement under Note V to the financial statements.

The year-on-year decrease in the Group's net cash flows from operating activities for the first half of 2022 was attributable mainly to the increase in cash paid for purchase of goods and labour services by the Group for the period.

The year-on-year increase in the Group's net cash flows from investing activities for the first half of 2022 was attributable mainly to the combined effect of decrease in cash paid for investment and increase in cash received on disposal of investment by the Group for the period.

The year-on-year decrease in the Group's net cash flows from financing activities for the first half of 2022 was attributable mainly to the decrease in the cash inflow received from external net borrowings by the Group for the period.

Cash and cash equivalents of the Group as of 30 June 2022 amounted to RMB44,081,165 thousand held mainly in RMB, with the remaining held in USD, EUR, JPY and other currencies.

6. **Analysis of non-principal businesses**

☐ Applicable ✓ N/A

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7. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in thousands

Item	As at 30 June 2022 Amount	As at 30 June 2022 As a percentage of total assets	As at 31 December 2021 Amount	As at 31 December 2021 As a percentage of total assets	Year-on-year increase/decrease in percentage of total assets (percentage points)
Total assets	**179,724,762**	**100.00%**	168,763,425	100.00%	—
Cash	**54,926,295**	**30.56%**	50,713,310	30.05%	0.51
Trade receivables	**17,936,988**	**9.98%**	17,509,059	10.37%	(0.39)
Contract assets	**5,738,542**	**3.19%**	6,585,307	3.90%	(0.71)
Inventories	**41,848,316**	**23.28%**	36,316,753	21.52%	1.76
Investment properties	**2,012,443**	**1.12%**	2,013,927	1.19%	(0.07)
Long-term equity investments	**1,619,616**	**0.90%**	1,684,909	1.00%	(0.10)
Fixed assets	**11,456,642**	**6.37%**	11,437,011	6.78%	(0.41)
Construction in progress	**1,666,168**	**0.93%**	1,372,869	0.81%	0.12
Right-of-use assets	**691,916**	**0.38%**	815,346	0.48%	(0.10)
Short-term loans	**9,815,823**	**5.46%**	8,946,935	5.30%	0.16
Contract liabilities	**20,166,471**	**11.22%**	16,101,652	9.54%	1.68
Long-term loans due within one year	**4,295,660**	**2.39%**	977,336	0.58%	1.81
Long-term loans	**30,703,014**	**17.08%**	29,908,441	17.72%	(0.64)
Lease liabilities	**465,825**	**0.26%**	531,983	0.32%	(0.06)

(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	Other movements	Closing balance
Financial assets								
Including: 1. Trading financial assets (excluding derivative financial assets)	1,360,697	(457,042)	–	–	–	585,196	22,011	897,389
2. Derivative financial assets	209,352	41,614	–	–	–	–	196	251,162
3. Receivable financing	5,196,458	–	–	4,644	10,083,574	7,657,921	–	7,617,467
4. Other non-current financial assets	1,175,249	11,689	–	–	–	13,506	(21,147)	1,152,720
Sub-total of financial assets	7,941,756	(403,739)	–	4,644	10,083,574	8,256,623	1,060	9,918,738
Investment properties	2,013,927	(1,484)	–	–	–	–	–	2,012,443
Productive living assets	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	**9,955,683**	**(405,223)**	**–**	**4,644**	**10,083,574**	**8,256,623**	**1,060**	**11,931,181**
Financial liabilities	27,729	(12,989)	–	–	–	–	24,853	39,593

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. 56 "Assets subject to restrictions in ownership or use" to the financial statements.

8. Analysis of investments

(1) Overview

The Company's long-term equity investments at the end of the reporting period amounted to approximately RMB1,619,620 thousand, decreasing by 7.85% compared to approximately RMB1,757,500 thousand as at 30 June 2021. Other third-party investments amounted to approximately RMB2,050,110 thousand, decreasing by 21.73% compared to approximately RMB2,619,240 thousand as at 30 June 2021.

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

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(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	Gain/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	Shareholding at the end of the period (10,000 shares)	Shareholding percentage at the end of the period	Accounting classification	Source of funds
Stock	002579	China Eagle Electronic[Note 1]	1,151.94	Fair-value measurement	936.71	(206.29)	–	–	–	(198.63)	730.42	95.73	0.16%	Trading financial assets	Issue funds
Stock	688639	Huaheng Biotech[Note 1]	2,396.88		69,929.88	(32,294.92)	–	–	39,783.22	4,147.08	36,338.35	275.96	2.55%		
Stock	688019	Anji Technology[Note 2]	1,490.59		21,667.49	(12,271.86)	–	–	15,585.19	1,569.44	8,437.00	39.63	0.53%		
Stock	688630	Circuit Fabology[Note 2]	2,000.00		31,963.38	(171.93)	–	–	563.27	427.67	31,754.64	490.79	4.06%		
Stock	301160	Xianglou New Material[Note 2]	1,350.00		2,201.06	1,822.19	–	–	–	1,822.19	4,023.25	100	1.34%		
Stock	301000	Hajime[Note 3]	3,037.50		11,572.20	(2,581.37)	–	–	2,587.96	(213.71)	8,455.23	275.59	2.87%		
Stock	ENA: TSV	Enablence Technologies[Note 4]	3,583.26	Fair-value measurement	414.00	327.09	–	–	–	327.09	741.09	79.17	4.26%	Other non-current financial assets	Internal funds
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–	–	–	–	–
Total			15,010.17	–	138,684.72	(45,377.09)	–	–	58,519.64	7,881.13	90,479.98	–	–	–	–

Note 1: The Company and Jiaxing Xinghe Venture Investment Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 31.79% equity interests in Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) ("Jiaxing Fund"), a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Huizhou China Eagle Electronic Technology Inc. ("China Eagle Electronic") and Anhui Huaheng Biotechnology Co., Ltd. ("Huaheng Biotech") are provided with Jiaxing 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 Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership) ("Zhonghe Chunsheng Fund III"), a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Anji Microelectronics Technology (Shanghai) Co., Ltd. ("Anji Technology"), Circuit Fabology Microelectronics Equipment Co., Ltd. ("Circuit Fabology") and Suzhou Xianglou New Material Co., Ltd. ("Xianglou New Material", listed on GEM of Shenzhen Stock Exchange on 6 June 2022) are provided with Zhonghe Chunsheng Fund III as the accounting subject.

Note 3: Figures corresponding to Shanghai Hajime Advanced Material Technology Co., Ltd ("Hajime") are provided with Jiaxing Fund and Zhonghe Chunsheng Fund III as the accounting subject.

Note 4: ZTE (H.K.) Limited ("ZTE HK"), a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies Inc. ("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, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. 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, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. In 2021, Enablence Technologies underwent an asset reorganisation, including share consolidation (120 shares into 1 share), debt-to-share conversion, additional share issue and issue of options. As at the end of the reporting period, ZTE HK held 791,700 shares (following share consolidation under the asset reorganisation of Enablence Technologies) in Enablence Technologies, accounting for 4.26% of its total share capital with a book value of approximately HKD8,683,000, equivalent to approximately RMB7,410,900 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.85349) on 30 June 2022.

B. 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*

☐ 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	Forward exchange forwards	–	2021/7/8	2023/5/30	743,286.78	1,309,824.94	1,332,894.15	–	720,217.57	13.11%	38,320.98
Financial institution	N/A	No	interest rate derivatives	–	2022/6/26	2022/12/26	1,531.77	–	765.89	–	765.88	0.01%	6.78
Total				**–**	**–**	**–**	**744,818.55**	**1,309,824.94**	**1,333,660.04**	**–**	**720,983.45**	**13.12%**	**38,327.76**

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 Thirty-third Meeting of the Eighth Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2021," both dated 16 March 2021, and "Announcement Resolutions of the Forty-fifth Meeting of the Eighth Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2022", both dated 8 March 2022.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement on Resolutions of the 2020 Annual General Meeting" dated 25 June 2021 and "Announcement on Resolutions of the 2021 Annual General Meeting" dated 21 April 2022.
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	1. Analysis of major risks: (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;

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(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 were matched with the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant;

(3) Credit risks: The counterparties of the derivative investment trades of the Company are financial institution 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.

2. Control measures adopted to counter risks:

The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty financial institution 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 RMB383 million, comprising gain from fair-value change of RMB54 million and recognised investment gain of RMB329 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	The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedures performance have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association.

Note 1: Derivative investments are classified according to the types of derivative investments. Foreign exchange derivatives included forward exchange and exchange swaps. Interest rate derivatives 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.

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

☐ Applicable ✓ N/A

The Group was not engaged in any material acquisitions and disposals related to subsidiaries, associates and joint ventures during the reporting period.

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10. **Analysis of principal subsidiaries and investee companies**

(1) ***For the reporting period, Shenzhen Zhongxing Software Company Limited ("Zhongxing Software"), ZTE Microelectronics Technology Company Limited ("ZTE Microelectronics") accounted for more than 10% of the net profit reported in the Group's consolidated statements and reported year-on-year change in net profit of more than 30%: Zhongxing Software reported a year-on-year growth in net profit by 48.27% reflecting mainly the increase in gross profit; ZTE Microelectronics reported a year-on-year growth in net profit by 241.83%, attributable mainly to enhanced profitability.***

Unit: RMB in thousands

Name of company	Corporate type	Principal operations	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Shenzhen Zhongxing Software Company Limited	Subsidiary	Software development	RMB51.08 million	16,346,357	3,006,706	10,985,209	1,229,451	1,223,368
ZTE Microelectronics Technology Company Limited	Subsidiary	Design, manufacturing and sales of integrated circuits	RMB131,578,947	9,204,097	6,793,140	4,255,226	939,387	937,613

(2) ***For information of other subsidiaries and principal investee companies (including associates and joint ventures), please refer to Note VII. Interests in Other Entities and Note XIV.4 Long-term Equity Investments to the financial statement.***

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

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

12. **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 2022 was 44.6%, increasing by 1.2 percentage points as compared to 43.4% for 2021, attributable mainly to the increase in interest-bearing liabilities for the reporting period.

(2) ***Source and application of capital***

In the first half of 2022, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements. The Group has adopted a prudent capital management policy and sufficient funds are in place to meet its debt repayment obligations as due, capital expenditure and the requirements of normal production operations.

(3) Capital expenditure

The Group's capital expenditure for the first half of 2022 was amounted to RMB2,488,136 thousand, compared to RMB2,668,249 thousand for the first half of 2021, which was mainly applied in the Nanjing Project, Shanghai R&D Phase III, purchase of equipment assets and internal R&D investment, among others.

(4) Indebtedness

The Group's bank loans were mainly settled in RMB, USD and EUR. As at 30 June 2022, the Group's bank loans amounted to RMB44,502,601 thousand in aggregate, and were applied mainly as working capital. Bank loans subject to interests at fixed rates amounted to approximately RMB7,436,810 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 2022	31 December 2021
Short-term bank loans	**13,799,587**	9,535,075
Long-term bank loans	**30,703,014**	29,908,441
Total	**44,502,601**	39,443,516

② Analysed by security

Unit: RMB in thousands

Item	30 June 2022	31 December 2021
Secured bank loans	**92,824**	75,515
Unsecured bank loans	**44,409,777**	39,368,001
Total	**44,502,601**	39,443,516

(5) Foreign exchange risks and related hedging

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates. Based on end-to-end exchange risk management throughout its business processes, the Group seeks to reduce the impact of exchange rate volatility through the use of measures such as business strategic guidance, internal settlement management, financing mix design and value-protected derivative products on exchange rates. The Group also strengthens 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) 8. Analysis of investment — Derivative investments" in this report.

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(6) Contractual obligations

Unit: RMB in thousands

Item	30 June 2022			
	Total	Less than 1 year	2–5 years	More than 5 years
Bank loans	**44,502,601**	**13,799,587**	**30,703,014**	**–**

(7) Capital commitments

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

Unit: RMB in thousands

Item	30 June 2022	31 December 2021
Land and buildings: Contracted, but not provided for	**2,446,852**	2,534,033
Investment in associates: Contracted, but not provided for	**126,500**	13,000

(8) Contingent liabilities

For details of the Group's contingent liabilities as at 30 June 2022, please refer to Note XII.2 Contingent Liabilities to the financial statements.

(9) Charges on Assets

For details of the Group's charges on assets as at 30 June 2022, please refer to Note V.21 Short-term loans and V.30 Long-term loans to the financial statements.

(10) Plans for investment in or acquisition of capital assets

For details of the Group's investments, performance and prospects as at 30 June 2022, please refer to the sections headed "Report of the Board of Directors (II) 8. "Analysis of Investment" and "Material Matters" in this report.

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

(11) Employees of the Group

As at 30 June 2022, the Group had 73,191 employees, including 68,658 employees at the parent company. The total amount of staff remuneration for the reporting period was about RMB14.7 billion. Details of staff training programmes, remuneration policy and share option schemes are set out in the sections headed "Directors, Supervisors, Senior Management and Employees" in the 2021 Annual Report and "Corporate Governance Report (VII) Implementation and Impact of the Company's Share Option Incentive Scheme and Management Stock Ownership Scheme" in this report.

(12) Others

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

(13) *Save as disclosed herein, there has been no material change in information disclosed in the interim report from the information disclosed in the 2021 Annual Report of the Company in relation to matters set out in Appendix 16 of the Hong Kong Listing Rules. And there are no other matters that need to be disclosed in this report.*

(14) *There are no post-balance sheet date events by the Group.*

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

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
Results presentation	April 2022	Shenzhen	Live Internet video broadcast + in-person meeting	Investors and securities houses including Guotai Fund, Southern Fund, Credit Suisse, Guangdong Hengjian, China Merchants Securities, Tianfeng Securities, Zheshang Securities and Morgan Stanley.	Day-to-day operations of the Company	Published announcements and regular reports
External meeting	January to June 2022	Shenzhen	Morgan Stanley investors' telephone conference	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
		Shenzhen	Guosheng Securities investors' telephone conference	Customers of Guosheng Securities		
		Shenzhen	USB investors' telephone conference	Customers of USB		
		Shenzhen	Huatai Securities investors' telephone conference	Customers of Huatai Securities		
		Shenzhen	Tianfeng Securities investors' telephone conference	Customers of Tianfeng Securities		
		Shenzhen	Credit Suisse investors' telephone conference	Customers of Credit Suisse		
		Shenzhen	Western Securities investors' telephone conference	Customers of Western Securities		
		Shenzhen	CICC investors' telephone conference	Customers of CICC		
		Shenzhen	Citi investors' telephone conference	Customers of Citi		
		Shenzhen	China Securities investors' telephone conference	Customers of China Securities		
		Shenzhen	CMB International investors' telephone conference	Customers of CMB International		
		Shenzhen	Guotai Junan investors' telephone conference	Customers of Guotai Junan Securities		
		Shenzhen	Haitong Securities investors' telephone conference	Customers of Haitong Securities		
		Shenzhen	Guosen Securities investors' telephone conference	Customers of Guosen Securities		
		Shenzhen	Essence Securities investors' telephone conference	Customers of Essence Securities		

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(IV) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2022 AND RISK EXPOSURES

1. Business outlook for the second half of 2022

China's digital economy has ranked second in the world for consecutive years. In 2021, the size of the digital commercialisation business reached RMB8.35 trillion, accounting for 7.3% of the nation's GDP, while the size of the industrial digitalisation business amounted to RMB37.18 trillion, accounting for 32.5% of the nation's GDP. (source: "Report on the Development of China's Digital Economy (2022)"). Since early 2022, the domestic digital economy has maintained sound growth momentum, showing an increasing effect as a driving force for economic growth. The Group has long been committed to the role of a path-builder for the digital economy, as it actively contributes to the rapid development of the nation's digital economy. In 2022, the Group has entered the stage of strategic overtaking, as it steps up with the growth of the secondary-curve business while maintaining stable progress for the primary-curve business in a bid to consolidate its existing businesses and expand into new frontiers, in order to achieve the strategic overtaking goal.

In connection with carriers' networks, in the domestic market, the Group will devote its effort towards transformation from a mainstream supplier to a core supplier. In the overseas market, we will continue to optimise the market profile of our dominant products to focus on efficiency enhancement and compliant operation. In the meantime, we will persist in technological innovation in key areas and increase investment in core technologies such as chip, algorithm and network architecture to assure our technological edge, while helping carriers to build minimal, excellent and green premium networks in a speedy manner.

In connection with the government and corporate business, increased investment in New Infrastructure, acceleration of digital transformation and advances of key national projects such as the East-to-West Data Computing have resulted in new development opportunities in the domestic government and corporate market. The Group will continue to invest in resources for the government and corporate business and consistently enhance its basic competitiveness for key products such as server and storage and data centre, expediting development in the Internet and finance sectors while enhancing our general competitiveness in channels to seize opportunities for rapid growth.

In connection with the consumer business, the Group will forge a "1+2+N" pattern for development comprising personal data, home data and intelligent peripheral products on the basis of the core handset product to gradually expand the consumer channel and strive to turn it into another robust driver for the Company's sales growth. Meanwhile, the Group will further leverage the advantage afforded by its current home information terminal products to construct a matrix of connect and video products and gradually grow into a mainstream industry player.

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

2. Risk exposures

(1) Country risks

Given the complex nature of international economic and political conditions and the presence of the Group's business and branch organisations in over 100 countries with differences in macro-economy, policy and regulation and political and social backgrounds, the Group will continue to be exposed to risks relating to legal compliance, taxation, exchange rates and political developments (such as war and domestic unrest), which might affect the operations of the Group. For the possible impact of risks relating to compliance on the operation of the Group, please refer to Note XII.2.5 to the financial statements. The Group ensures compliance primarily through the establishment of a complete compliance management regime to identify and comply with trade and taxation policy requirements in these countries (including export control and GDPR (General Data Protection Regulation)); we also work with independent professional organisations to analyse and address country risks. We take out necessary export insurance for businesses in regions with higher evaluated risks, and we also resort to financing to avoid possible losses.

(2) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. Trademarks of the Group's products and services, "ZTE" or "ZTE中興", 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 the impact of exchange rate volatility 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.

IV. Report of the Board of Directors

(4) Interest rate risk

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

(5) Customer credit risk

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

V. Corporate Governance

(I) COMPLIANCE OF THE COMPANY'S CORPORATE GOVERNANCE STATUS 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 2022:

(1) The conclusion and assessment of the internal control work for 2021 was completed, on which basis the 2021 Internal Control Audit Work Report and 2021 Internal Control Assessment Report were published; the internal control work plans for 2022 was formulated and internal control assessment for 2022 was commenced with stronger effort in pre-emptive supervision and inspection as well as supervision and inspection during the process.

(2) Ongoing advancement of the development of our risk management-oriented internal control regime to strengthen the development of professional competence in internal control and deepen the development of internal control organisation at primary level; institutional development was strengthened and the internal control system 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) The risk categorisation framework was 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 consistently optimise the management 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 2022, 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.

V. Corporate Governance

(III) INFORMATION ON THE CONVENING OF GENERAL MEETING

On 30 March 2022, the Company convened the First Extraordinary General Meeting of 2022 by way of a combination of on-site and online voting. Shareholders (proxies) representing 32.21% of the total number of shares of the Company entitled to vote at the meeting attended the meeting. A total of 6 resolutions including Resolution on the Re-election of the Board of Directors and the Election of Non-independent Directors for the Ninth Session of the Board of Directors, Resolution on the Re-election of the Board of Directors and the Election of Independent Non-executive Directors for the Ninth Session of the Board of Directors; Resolution on the Re-election of the Supervisory Committee and the Election of Shareholders' Representative Supervisors for the Ninth Session of the Supervisory Committee were considered and approved at the meeting. For details, please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2022" published by the Company on 30 March 2022.

On 21 April 2022, the Company convened the 2021 Annual General Meeting by way of a combination of on-site and online voting. Shareholders (proxies) representing 31.49% of the total number of shares of the Company entitled to vote at the meeting attended the meeting. A total of 12 resolutions including 2021 Annual Report; 2021 Report of the Board of Directors; 2021 Report of the Supervisory Committee and Proposal for Profit Distribution for 2021 were considered and approved at the meeting. For details, please refer to the "Announcement on Resolutions of the 2021 Annual General Meeting" published by the Company on 21 April 2022.

(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 to the Hong Kong Listing Rules. Having made due enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements in the Model Code during the reporting period.

(V) THE AUDIT COMMITTEE

According to the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, the Company established Audit Committee and formulated the Working Rules of the Audit Committee. The Audit Committee comprised 5 members, including three Independent Non-executive Directors of the Company, Ms. Cai Manli, Mr. Gordon Ng, Mr. Zhuang Jiansheng, and two Non-executive Directors, Mr. Li Buqing and Mr. Zu Weimin. Ms. Cai Manli served as the convener of 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 2022.

(VI) PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE

According to pertinent provisions of the Articles of Association, the "Profit Distribution Proposal for 2021" was considered and approved at the 2021 Annual General Meeting of the Company held on 21 April 2022. A dividend of RMB3 in cash (before tax) for every 10 shares was distributed based on the total share capital in issue of 4,734,044,778 shares (comprising 3,978,542,244 A shares and 755,502,534 H shares) as at the record date, equivalent to a total distribution amount of RMB1,420,213,433.4 (before tax). The A share dividend payment date was 10 May 2022 and the H share dividend payment date was 20 May 2022.

The aggregate profit distribution of the Company in the form of cash in 2019–2021 accounted for 62.61% 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 conduct 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 2022.

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

1. Progress of the 2017 Share Option Incentive Scheme during the reporting period

(1) General information on the 2017 Share Option Incentive Scheme

① Objective

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

② Participants and maximum share options granted to scheme participants

Under the 2017 Share Option Incentive Scheme, the date of grant was 6 July 2017 and 149,601,200 share options was granted to 1,996 participants (including Directors, senior management and key employees of the Company) at an initial exercise price of RMB17.06 per A share. Participants were not required to pay any consideration to the Company on application or acceptance of the share options. Under the 2017 Share Option Incentive Scheme, to the extent that the offer to grant an option is not accepted within 7 days from the date upon which it is made, it shall be deemed to have been irrevocably declined and lapsed automatically.

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

V. Corporate Governance

③ *Adjustments to exercise price*

The exercise price of share options was adjusted to RMB16.66 per A share with the approval of the Board following the implementation of the 2019 and 2020 profit distribution plans. As considered and approved at the Second Meeting of the Ninth Session of the Board of Directors of the Company held on 25 April 2022, the exercise price of share options would be adjusted to RMB16.36 per A share following the implementation of the 2021 A share profit distribution plan.

④ *Validity period, vesting period, exercise period*

The 2017 Share Option Incentive Scheme shall remain in force for 5 years from the date of grant (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 per A share. There shall be a vesting period of 2 years from the date of grant, after which share options can be exercised in 3 exercise periods.

Prior to the commencement of the first exercise period, due to participants who were no longer qualified as such or share options for which exercise conditions under the first exercise period had not been fulfilled, and the exercise conditions under the second exercise period had not been fulfilled, the Company cancelled 70,210,561 share options in total in July 2019.

The first exercise period comprised the exercise dates within the period from 16 July 2019 to 5 July 2020, during which 39,664,087 share options were exercised out of a total of 39,664,153 share options exercisable by 1,684 participants. The 66 unexercised options as at the end of the exercisable period under the first exercise period were cancelled in September 2020.

Prior to the commencement of the third exercise period, due to participants who were no longer qualified as such or share options for which exercise conditions under the third exercise period had not been fulfilled, the Company cancelled 2,437,430 share options in July 2021.

The third exercise period comprised the exercise dates within the period from 14 July 2021 to 5 July 2022, during which 37,289,056 share options exercisable by 1,573 participants were exercised in full.

(2) Details of share options held and exercised by scheme participants during the reporting period

The share options under the 2017 Share Option Incentive Scheme of the Company shall be exercised on a voluntary basis. During the reporting period, a total of 4,971,974 share options were exercised and the number of the Company's A shares increased by 4,971,974 shares accordingly. The exercise prices prior to and after the implementation of 2021 profit distribution were RMB16.66 and RMB16.36, respectively. Funds required for the exercise of options were paid on the date on which the participants exercise the share options and were financed by the participants on their own. The Company did not provide any loans or any other forms of financial assistance to the participants for exercising the options. The proceeds were deposited in the Company's dedicated account. The closing price of the A shares as at the end of the reporting period was RMB25.53. Details of the holding and exercise of share options by participants during the reporting period are set out in the table below:

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 unexercised options at the end of the reporting period	Weighted average closing price (RMB/share) Note 1
Xu Ziyang	Director and President	84,000	0	84,000	84,000	0	0	0	23.63
Sub-total of Directors Note 2		**84,000**	**0**	**84,000**	**84,000**	**0**	**0**	**0**	**23.63**
Wang Xiyu	Executive Vice President	87,468	0	87,468	87,468	0	0	0	23.63
Li Ying	Executive Vice President and Chief Financial Officer	52,800	0	52,800	52,800	0	0	0	23.63
Xie Junshi	Executive Vice President	82,468	0	82,468	82,468	0	0	0	23.63
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	33,160	0	33,160	33,160	0	0	0	23.63
Sub-total of senior management		**255,896**	**0**	**255,896**	**255,896**	**0**	**0**	**0**	**23.63**
Other key employees of the Company		4,916,006	0	4,916,006	4,632,078	0	0	283,928	26.05
Total		**5,255,902**	**0**	**5,255,902**	**4,971,974**	**0**	**0**	**283,928**	**25.88**

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

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

During the period after the end of the reporting period up to the date of the publication of this report, a total of 283,928 share options were exercised in the third exercise period under the 2017 Share Option Incentive Scheme of the Company. As at the date of publication of this report, A share options for the third exercise period under the 2017 Share Option Incentive Scheme of the Company had been exercised in full and implementation of the 2017 Share Option Incentive Scheme was completed. Accordingly, the total number of shares available for issue under the 2017 Share Option Scheme was 0 as at the date of publication of this report.

V. Corporate Governance

(3) Share option value, accounting treatment and impact on the financial conditions and operating results of the Company

① *Valuation of the share options*

The Company has adopted the Binomial Tree model to calculate the value of the 2017 share options, the estimated value of the 2017 share options is RMB10.40 per A share. For the data used in and results of the calculation, please refer to the section headed "Corporate Governance Report — (X) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME AND MANAGEMENT STOCK OWNERSHIP SCHEME" in the Company's 2021 Annual Report.

② *Accounting policies, Accounting treatment and impact on the financial conditions and operating results of the Company*

Specific accounting policies are set out in Note III.18 Share-based Payment to the financial statements, accounting treatments of share options and the impact on the Company's financial conditions and operating results for the reporting period are set out in Note XI Share-based Payments to the financial statements.

2. Progress of the 2020 Share Option Incentive Scheme during the reporting period

(1) General information on the 2020 Share Option Incentive Scheme

① *Objective*

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

② *Participants and maximum share options granted to scheme participants*

Under the 2020 Share Option Incentive Scheme, the date of grant for the initial grant was 6 November 2020 and 158,472,000 share options were granted to 6,123 participants (including Directors, senior management and key employees of the Company) under the initial grant at an exercise price of RMB34.47 per A share. The date of grant of the reserved grant was 23 September 2021 and 5,000,000 share options were granted to 410 participants (all are key employees of the Company) under the reserved grant at an exercise price of RMB34.92 per A share. Participants were not required to pay any consideration to the Company on application or acceptance of the share options. Under the 2020 Share Option Incentive Scheme, to the extent that the offer to grant an option is not accepted within 7 days from the date upon which it is made, it shall be deemed to have been irrevocably declined and lapsed automatically.

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

③ *Validity period, vesting period, exercise period*

A. Share options under the initial grant

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 per A share. There shall be a vesting period of 1 year from the date of grant, after which share options can be exercised according to the following proportion, subject to the fulfillment of the exercise conditions:

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

Prior to the commencement of the first exercise period for share options under the initial grant of the 2020 Share Option Incentive Scheme, the Company cancelled 3,796,661 share options previously granted to participants who were no longer qualified as such or share options for which exercise conditions under the first exercise period had not been fulfilled. The first exercise period for the share options under the initial grant shall comprise the exercise dates within the period from 17 November 2021 to 5 November 2022 and a total of 51,442,763 share options exercisable by 5,956 participants.

V. Corporate Governance

B. Reserved share options

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

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

As at the end of the reporting period, the exercise period for the reserved grant of the 2020 Share Option Incentive Scheme had yet to commence.

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

The share options under the 2020 Share Option Incentive Scheme of the Company shall be exercised on a voluntary basis. As at the end of the reporting period, 67,411 share options under the first exercise period for the share options under the initial grant of the 2020 Share Option Incentive Scheme had been exercised. During the reporting period, a total of 60,634 share options were exercised and the number of the Company's A shares increased by 60,634 shares. The exercise price was RMB34.47 per A share. Funds required for the exercise of options were paid on the date on which the participants exercise the share options and were financed by the participants on their own. The Company did not provide any loans or any other forms of financial assistance to the participants for exercising the options. The proceeds received were placed in a designated account of the Company. The closing price of the Company's A shares as at the end of the reporting period was RMB25.53 per share. Details of the holding and exercise of share options by participants during the reporting period are set out in the table below:

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 unexercised options at the end of the reporting period	Weighted average closing price (RMB/share) Note 1
1. Share options under the initial grant									
Li Zixue	Chairman	180,000	0	60,000	0	0	0	180,000	N/A
Xu Ziyang	Director and President	180,000	0	60,000	0	0	0	180,000	N/A
Li Buqing	Director	50,000	0	16,666	0	0	0	50,000	N/A
Gu Junying	Director and Executive Vice President	180,000	0	60,000	0	0	0	180,000	N/A
Zhu Weimin	Director	50,000	0	16,666	0	0	0	50,000	N/A
Fang Rong	Director	50,000	0	16,666	0	0	0	50,000	N/A
Sub-total of Directors Note 2		**690,000**	**0**	**229,998**	**0**	**0**	**0**	**690,000**	**N/A**
Wang Xiyu	Executive Vice President	180,000	0	60,000	0	0	0	180,000	N/A
Li Ying	Executive Vice President and Chief Financial Officer	180,000	0	60,000	0	0	0	180,000	N/A
Xie Junshi	Executive Vice President	180,000	0	60,000	0	0	0	180,000	N/A
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	120,000	0	40,000	0	0	0	120,000	N/A
Sub-total of senior management		**660,000**	**0**	**220,000**	**0**	**0**	**0**	**660,000**	**N/A**
Other key employees of the Company		153,318,562	0	50,985,988	60,634	0	0	153,257,928	34.10
Total		**154,668,562**	**0**	**51,435,986**	**60,634**	**0**	**0**	**154,607,928**	**34.10**
2. Reserved share options									
Other key employees of the Company		5,000,000	0	0	0	0	0	5,000,000	N/A
Total		**5,000,000**	**0**	**0**	**0**	**0**	**0**	**5,000,000**	**N/A**

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

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

V. Corporate Governance

As at the date of publication of this report, a total of 154,607,928 A share options were unexercised under the initial grant of the 2020 Share Option Incentive Scheme of the Company, accounting for approximately 3.26% of the Company's total share capital in issue and 3.88% of the Company's A shares in issue. A total of 5,000,000 A share options were unexercised under the reserved grant, accounting for approximately 0.11% of the Company's total share capital in issue and 0.13% of the Company's A shares in issue. As at the date of the publication of this report, the Company had no outstanding share options pending to be granted. Accordingly, the total number of shares available for issue under the 2020 Share Option Scheme was 159,607,928, which represented approximately 3.37% of the total issued shares and 4.01% of issued A shares of the Company as at the date of publication of this report.

(3) Share option value, accounting treatment and impact on the financial conditions and operating results of the Company

① *Valuation of the share options*

The Company has adopted the Binomial Tree model to calculate the value of the 2020 share options, the estimated value of the share options under the initial grant of the 2020 Share Option Incentive Scheme is RMB9.12 per A share, the estimated value of the share options under the reserved grant of the 2020 Share Option Incentive Scheme is RMB7.22 per A share. For the data used in and results of the aforesaid calculation, please refer to the section headed "Corporate Governance Report — (X) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME AND MANAGEMENT STOCK OWNERSHIP SCHEME" in the Company's 2021 Annual Report.

② *Accounting policies, accounting treatment and impact on the financial conditions and operating results of the Company*

Specific accounting policies are set out in Note III.18 Share-based Payment to the financial statements, accounting treatments of share options and the impact on the Company's financial conditions and operating results for the reporting period are set out in Note XI Share-based Payments to the financial statements.

3. For other information on the Company's 2017 Share Option Incentive Scheme and 2020 Share Option Incentive Scheme, such as basis of determination of the exercise price, please refer to the section headed "Corporate Governance Report (X) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME AND MANAGEMENT STOCK OWNERSHIP SCHEME" in the Company's 2021 Annual Report. References are also made to the annual report of the Company for the year ended 31 December 2021 and published on 11 March 2022, participants of the 2017 Share Option Incentive Scheme and the 2020 Share Option Incentive Scheme include Directors, senior management and other key personnel of the Company (all are employees of the Company), participants shall not be required to pay any consideration to the Company on application or acceptance of the share options. Funds required for the exercise of options shall be paid on the date on which the participants exercise the share options and it shall be financed by the participants on their own. The Company shall not provide any loans or any other forms of financial assistance to the participants for exercising the options. Furthermore, under the 2017 Share Option Incentive Scheme and 2020 Share Option Incentive Scheme, to the extent that the offer to grant an option is not accepted within 7 days from the date upon which it is made, it shall be deemed to have been irrevocably declined and lapsed automatically.

4. 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 Second Extraordinary General Meeting of 2020 of the Company. The source of funds is 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 is 2,973,900 repurchased A shares of the Company, accounting for 0.06% of the total share capital of the Company. There were 27 participants, including Directors, Supervisors, senior management and other core management personnel of the Company.

The total amount of funds paid for the Management Stock Ownership Scheme was RMB114,765,557.00, divided into 114,766 thousand units at RMB1.00 each, The Directors, Supervisors and senior management of the Company subscribed for a total of 62,606 thousand units, while other participants of the Company subscribed for a total of 52,160 thousand units. For details, please refer to the "Proposed Adoption of the Management Stock Ownership Scheme" published by the Company on 12 October 2020 and the circular dated 20 October 2020 of the Company.

The lock-up period for Company shares transferred to the Management Stock Ownership Scheme was from 18 December 2020 to 17 December 2021. On 18 December 2021, the lock-up period for shares under the Management Stock Ownership Scheme expired. Pursuant to the "ZTE Corporation Management Stock Ownership Scheme (Draft)", 50% of the units under the Management Stock Ownership Scheme were vested during the reporting period.

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

VI. Environmental and Social Responsibility

(I) ENVIRONMENTAL INFORMATION OF THE GROUP

1 **During the reporting period, ZTE and ZTE Smart Auto Company Limited ("ZTE Smart Auto"), a subsidiary of the Company, are major pollutant discharging units in the atmospheric announced by environmental protection authorities. ZTE (Nanjing) Company Limited ("ZTE Nanjing"), a wholly-owned subsidiary of the Company, is a major pollutant discharging unit in the soil (hazardous waste) environment category announced by environmental protection authorities.**

ZTE, ZTE Smart Auto and ZTE Nanjing have adopted effective measures to ensure compliance of production operations with pertinent environmental laws and regulations, the details of which are as follows.

(1) Pollution discharge

Name of company	Name of major pollutants and typical pollutants	Mode of discharge	Number of discharge outlets	Distribution of discharge outlets	Concentration of discharge	Applicable pollutant discharge standards	Total volume of discharge	Approved total discharge volume	Excessive discharge
ZTE	Total VOCs	Organised discharge	1	Plant rooftop	1.08 mg/m³	"Atmospheric Pollutant Emission Limits" (DB44/27–2001) Second Time Period Grade II Standards	0.042705t	/	Compliant
	Particulates	Organised discharge	1	Plant rooftop	<20 mg/m³	"Atmospheric Pollutant Emission Limits" (DB44/27–2001) Second Time Period Grade II Standards	0.4015t	/	Compliant
	NMHC	Organised discharge	1	Plant rooftop	1.19 mg/m³	"Atmospheric Pollutant Emission Limits" (DB44/27–2001) Second Time Period Grade II Standards	0.047085t	/	Compliant
ZTE Smart Auto	Total VOCs	Organised discharge	8	Coating workshop, completion inspection workshop	0.56–30.9mg/m³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816–2010)	0.000023t	9.44t/a	Compliant
	Particulates	Organised discharge	21	Coating workshop	<20mg/m³	"Atmospheric Pollutant Emission Limits" (DB44/27–2001) Second Time Period Grade II Standards	0.00007t	/	Compliant
					4.9–6.7mg/m³	"Atmospheric Pollutant Emission Limits for Boilers" (DB44/765–2019)			
	Benzene	Organised discharge	3	Coating workshop, completion inspection workshop	0.02–0.03mg/m³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816–2010)	0.000001t	/	Compliant
	Toluene + xylene	Organised discharge	3	Coating workshop, completion inspection workshop	0.13–0.25mg/m³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816–2010)	0.000003t	/	Compliant
	Nitrogen oxides	Organised discharge	13	Coating workshop, completion inspection workshop	9–83mg/m³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816–2010)	0.000012t	/	Compliant

Name of company	Name of major pollutants and typical pollutants	Mode of discharge	Number of discharge outlets	Distribution of discharge outlets	Concentration of discharge	Applicable pollutant discharge standards	Total volume of discharge	Approved total discharge volume	Excessive discharge
				Coating workshop	53–58mg/m³	"Atmospheric Pollutant Emission Limits for Boilers" (DB44/765–2019)			
	Sulphur dioxide	Organised discharge	13	Coating workshop	N/D	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816–2010)	/	/	Compliant
ZTE Nanjing	Waste box containing lead and tin	Entrusted treatment	/	Production line	/	/	2.599t	8t/a	Compliant
	Waste empty container	Entrusted treatment	/	Production line	/	/	9.113t	20t/a	Compliant
	Waste circuit board	Entrusted treatment	/	Production line	/	/	17.1025t	45t/a	Compliant
	Waste bonding agent and sealant	Entrusted treatment	/	Production line	/	/	16.3955t	25t/a	Compliant
	Waste liquid containing solvent	Entrusted treatment	/	Production line	/	/	13.3075t	66t/a	Compliant

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

ZTE has installed VOC exhaust gas processing equipment at the outlet of exhaust gas discharge and the exhaust gas is processed through the internal adsorption unit of equipment, UV photolysis, water spraying system and discharged after meeting relevant standards in accordance with environmental protection requirements. The Company has formulated administrative systems and contingency plans and conducted regular safety inspections. All equipment have been operating in good conditions.

ZTE Smart Auto 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.

ZTE Nanjing has installed independent hazardous waste warehouse handled by duly qualified suppliers, formulated administrative systems and contingency plans, and conducted regular safety inspections in accordance with environmental protection requirements. All systems and facilities have been operating in good conditions.

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

ZTE, ZTE Smart Auto and ZTE Nanjing have conducted environmental impact assessment in respect of their 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 respective "Contingency Plans for Environmental Emergencies" formulated by ZTE, ZTE Smart Auto and ZTE Nanjing have passed the assessment by experts and completed filing with the environmental authorities.

VI. Environmental and Social Responsibility

(5) Environmental self-monitoring plan

ZTE, ZTE Smart Auto and ZTE Nanjing have appointed a qualified third party to conduct environmental monitoring.

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

The Group was not subjected to any administrative punishment relating environmental issues during the reporting period.

(7) Measures adopted for the reduction of carbon emission during the reporting period and effectiveness

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 on a normalised basis. In active fulfillment of our environmental duties, we give full consideration to the environmental effect of all operating segments. We emphasise environmental protection at all steps throughout the life-cycle of the product from the choice of materials, R&D, manufacturing, sales, maintenance to retirement and recycling, endeavouring to minimise the full-cycle environmental impact of our products, such that a green strategy is underpinning all business segments of the Company.

Meanwhile, as a path-builder for the digital economy, the Group seeks to enhance technological innovation with incessant effort to improve the energy efficiency of products and actively empower various industries to practice energy conservation and carbon reduction, laying a broad pathway for the digital and smart economy to facilitate green, low-carbon and sustainable development for the global community and contribute to the fulfilment of the "Double Carbon" goal through four dimensions: green enterprise operation, green supply chain, green digital base and green industry empowerment.

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

In adherence to its fundamental objectives of "championing the spirit of community welfare, fulfilling corporate responsibility and promoting public welfare development", ZTE Charity Foundation is engaged in 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 projects in areas such as educational assistance, industrial aid and infrastructure in Guizhou, Heilongjiang, Gansu and other places to contribute to rural revitalisation. Specifically: (1) In connection with educational assistance, a ZTE Community Welfare Service Group was established at Panzhou No. 1 Secondary School in Panzhou, Guizhou Province to provide three-year ongoing financial aid and comprehensive growth support for 50 financially underprivileged senior students. (2) In connection with industrial aid, we supported the agricultural produce processing business in Zhuqing Village in Taipingchuan Rural Area of Tangyuan County, Heilongjiang Province by helping with the purchase of oil extraction machines and filling machines. (3) In connection with infrastructure construction, we commenced the building of "Safe Rural Villages" in 13 rural townships and 34 natural villages in the two counties of Weiyuan and Jishishan in Gansu Province, which were key areas designated for aid under the nation's rural revitalisation initiative, with a view to expediting digitalisation and modernisation in these rural villages.

Based on the actual needs of society, the Company will continue to implement public welfare projects and support rural revitalisation initiatives with a special focus on key areas designated for aid. Meanwhile, the Company will continue to promote the participation of employees in voluntary services and create a culture of charity to convey ZTE's love and warmth to the society with solid actions.

VII. Material Matters

(I) MATERIAL LITIGATION AND ARBITRATION

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

1. In November 2012, ZTE 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 RMB44,293,400). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB44,110,600) together with accrued interests and legal fees payable immediately by the Brazilian company (the "Primary Case"). 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 RMB44,110,600) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB44,110,600) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

   On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court (the "Sued Case") 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 RMB117 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

   On 18 March 2022, the presiding judge of the Primary Case ruled that the valid period for the execution of the credit rights ruled in favour of ZTE Brazil expired on 13 June 2022. On 1 April 2022, ZTE Brazil filed an appeal against such ruling. Pursuant to Brazilian law, the valid period for an execution will not be suspended because of an appeal. Therefore, on 8 June 2022, ZTE Brazil applied to the Court of Brasilia, the court for the Primary Case, to request deliberation between the Court of Brasilia and Civil Court No. 15 of Sao Paulo City, Brazil, the court for the Sued Case, in support of the Brazilian subsidiary's application for the set-off of the credit rights ruled in favour in the Primary Case against any liabilities that may materialise in the event of an unfavourable ruling under the Sued Case. On 18 June 2022, the Court of Brasilia ruled in favour of the aforesaid application for set-off, confirming that, in the event of an unfavourable ruling against ZTE Brazil under the Sued Case, ZTE Brazil will be allowed to set off a compensation amount of BRL176,997,100 (equivalent to approximately RMB250 million as at the date of ruling, subject to inflationary adjustments as at the date of actual set-off).

   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.

   Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2022 where BRL amounts are translated at the exchange rate of BRL1:RMB1.4127.

VII. Material Matters

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

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

   On 21 March 2022, the Company received the retrial ruling from the Guangdong Higher Court which rejected the natural person's application for retrial, upon which the litigation proceedings of the case were closed in full.

   Based on the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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. 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.

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

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

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

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

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

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

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

5. On 21 February 2022, 山東興濟置業有限公司 ("興濟置業") filed an litigation with Jining City Rencheng District People's Court ("Rencheng Court") against Shenzhen Zhongxing ICT Company Limited ("Shenzhen ICT") and Shandong Zhongxing ICT Company Limited ("Shandong ICT") on the grounds that the latter two had not fulfilled contractual agreements, demanding: (1) compensation for loss caused by default with a provisional amount of RMB90,499,085.06 to be paid by Shenzhen ICT and Shandong ICT in accordance with the law; (2) the assumption by Shenzhen ICT and Shandong ICT of agency fees, litigation fees and preservation fees incurred by 興濟置業 in connection with the case.

   On 29 April 2022, Shandong ICT received the civil case verdict for property preservation from Rencheng Court and civil litigation petition of 興濟置業. Rencheng Court ruled to freeze in aggregate RMB95 million bank deposits or seal properties with the corresponding value of Shenzhen ICT and Shandong ICT.

   On 26 May 2022, Shandong ICT received a writ of summons from Rencheng Court and an application for modification of litigation petition from 興濟置業, who had modified the litigation claim amount from RMB90,499,085.06 to RMB94,148,627.01.

   On 18 July 2022, the first trial commenced at Rencheng Court.

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

(II) THE TERM OF PROBATION AND THE TERM OF THE MONITOR END

According to the announcement issued by the Company in 8 March 2017, the Company has reached agreements (collectively the "2017 Agreements") with the Bureau of Industry and Security of the United States Department of Commerce, the United States Department of Justice ("DOJ") and the Office of Foreign Assets Control of the United States Department of Treasury in relation to investigations regarding the Company's compliance with U.S. Export Administration Regulations and U.S. sanctions laws. The 2017 Agreements include that a three-year monitor term shall be set up pursuant to the agreement between the Company and DOJ, to prepare annual reports during his/her term of office in order to monitor the Company's compliance with U.S. export control laws and performance of its obligations under the agreement. On 22 March 2017 (United States time), the agreement with DOJ has become effective upon approval by the United States District Court for the Northern District of Texas ("Court"). For details, please refer to "INSIDE INFORMATION — UPDATED INFORMATION IN RELATION TO THE EXPORT RESTRICTIONS BY THE UNITED STATES DEPARTMENT OF COMMERCE" published by the Company on 8 March 2017 and 23 March 2017, respectively.

Due to the conduct described in the superseding settlement agreement entered into amongst the Company, Shenzhen ZTE Kangxun Telecom Company Limited (a wholly-owned subsidiary of the Company) and United States Department of Commerce's Bureau of Industry and Security in June 2018, the Court issued an order on 3 October 2018 (United States time) modifying the conditions of the Company's corporate probation as described in the Agreement which became effective on 22 March 2017 (United States time) upon approval by the Court. According to the modification of probation conditions by the Court, extending the term of the Court-appointed Monitor (the "Monitor") to 22 March 2022 (United States time). For details, please refer to "INSIDE INFORMATION ANNOUNCEMENT ON ORDER MODIFYING CONDITIONS OF PROBATION" published by the Company on 4 October 2018.

The Company has received an order from a court of the United States of America on 3 March 2022 (United States time) to notify the Company that it shall participate in a revocation of probation hearing, scheduled for 14 March 2022 (United States time). On 22 March 2022 (United States time), the Company received an order from the Court declining to revoke probation or impose any penalties upon ZTE, and confirming that the term of probation and the term of the Monitor end as scheduled on 22 March 2022 (United States time). For details, please refer to "INSIDE INFORMATION ANNOUNCEMENT" and "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 4 March 2022 and 23 March 2022, respectively.

(III) SUBSCRIPTION FOR SHARES IN HONGTU ZHANLU FUND TRANCHE II

The Company subscribed for shares in Shenzhen Hongtu Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership) (tentative title subject to the final approval of the industrial and commercial registration authorities) as limited partner with a capital contribution of not more than RMB400 million. The aforesaid matter was considered and approved at the Second Meeting of the Ninth Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Second Meeting of the Ninth Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Subscription for Shares in Hongtu Zhanlu Fund Tranche II" published by the Company on 25 April 2022.

(IV) APPROPRIATION OF NON-OPERATING CAPITAL BY THE CONTROLLING SHAREHOLDER AND OTHER RELATED PARTIES

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

(VI) SIGNIFICANT CONNECTED TRANSACTIONS AS DEFINED UNDER PRC LAWS AND REGULATIONS

1. Connected transactions related to 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)	Transaction amount during the reporting period (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin Telecom Company Limited ("Zhongxingxin") and its subsidiaries and companies in which it held equity interests of 30% or above	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components and LiFePO4 battery and accessories, industrial cameras, auxiliary installation device for image-forming systems, industrial lens, industrial light source, industrial robots, graphic processing controllers, graphic capture systems, software algorithms, motion control systems, video monitoring systems, temperature control systems, industrial light source controllers, wiring equipment, optical fibre patch cords and optical cable components 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;, shelters: RMB1,000-RMB100,000 per unit; railings: RMB1,000–50,000 per piece; antenna poles: RMB200–2,000 per piece; Optical products: RMB1.3–30,000 per unit; refined-processing products: RMB0.5–50,000 per unit; packaging materials: RMB0.01–5,000 per piece; FPC, R-FPC and components: RMB0.5–100 per piece; LiFePO4 battery: RMB600–8,000 per unit; battery accessories: RMB100–600 per unit; industrial cameras: RMB5,000–150,000 per unit; auxiliary installation device for image-forming systems: RMB1,000–50,000 per set; industrial lens: RMB1,000–15,000 per unit; industrial light source: RMB1,000–50,000 per set; industrial robots: RMB100,000–280,000 per set; graphic processing controllers: RMB500–50,000 per set; graphic capture systems: RMB2,000–100,000 per set; software algorithms: RMB20,000–400,000 per set; motion control systems: RMB2,000–200,000 per set; video monitoring systems: RMB20,000–100,000 per set; temperature control systems: RMB200–2,000 per set; industrial light source controllers: RMB500–20,000 per set; wiring equipment: RMB0–40,000 per unit; optical fibre patch cords: RMB0–3,000 per piece; optical cable components: 0–500 per piece, depending on measurement, level of sophistication, materials used and functional features.	17,860.17	0.47%	No	Commercial acceptance bill	N/A	2021–12–17	Announcement No. 2021128 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Special-grade engineer at a price ranging from RMB970–1,800 per head/day; Supervisory engineer at a price ranging from RMB830–1,300 per head/day; Senior engineer at a price ranging from RMB520–1,150 per head/day; Common engineer at a price ranging from RMB440–750 per head/day; Assistant engineer at a price ranging from RMB350–550 per head/day; Technician at a price ranging from RMB320–500 per head/day.	1,993.97	0.05%	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		Special-grade engineer at a price ranging from RMB970–1,800 per head/day; Supervisory engineer at a price ranging from RMB830–1,300 per head/day; Senior engineer at a price ranging from RMB520–1,150 per head/day; Common engineer at a price ranging from RMB440–750 per head/day; Assistant engineer at a price ranging from RMB350–550 per head/day; Technician at a price ranging from RMB320–500 per head/day.	1,783.10	0.05%	No	Tele-transfer	N/A	2020–1–17	Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		Purchase price not higher than prices at which Zhongxing Hetai sells products (or services) to other customers purchasing similar products (or services) in similar amounts, subject to the actual agreement signed by the two parties. Hotel services purchased by the Group from Zhongxing Hetai included mainly hotel accommodation and conference and training venue. The purchase price of hotel accommodation ranged from RMB350–800/room/day, with variation depending on factors such as room type, seasonality and the number of breakfast included. The purchase price for conference and training venue ranged from RMB1,100–10,000/room/day, depending on factors such as size and capacity of the conference room.	1,667.58	0.04%	No	Tele-transfer	N/A	2021–12–17	Announcement No. 2021128 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities by the Company to the connected party		In 2022–2023, the rental fee was RMB60/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB53/sq.m./month for hotel properties in Nanjing; RMB72/sq.m./month for hotel properties in Shanghai; RMB41/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 1,050,000/year.	2,736.94	18.06%	No	Tele-transfer	N/A	2021–12–17	Announcement No. 2021129 Announcement – Connected Transaction in relation to the 2022–2023 Property and Equipment and Facilities Lease Framework Agreement with Zhongxing Hetai, a Connected Party"
航天歐華信息技術有限公司 ("航天歐華")	Subsidiary of a company for which a connected natural person of the Company acted as senior management	Sale of products	The sale of the full range of government and enterprise products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	40,160.35	0.67%	No	Tele-transfer or bank acceptance bill	N/A	2021–12–17	Announcement No. 2021128 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				–	–	66,202.11	N/A	–	–	–	–	–

VII. Material Matters

Detailed information of substantial sales return	None
Approved Cap	At the Forty-third Meeting of the Eighth Session of the Board of Directors of the Company held on 16 December 2021, 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 2022 be capped at RMB550 million (before VAT); At the Thirteen Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, in 2022 be capped at RMB98.38 million and RMB66.00 million (before VAT), respectively; At the Forty-third Meeting of the Eighth Session of the Board of Directors of the Company held on 16 December 2021, 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 2022 be capped at RMB46.00 million (before VAT); At the Forty-third Meeting of the Eighth Session of the Board of Directors of the Company held on 16 December 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 2022 be capped at RMB57.54 million/year; At the Forty-third Meeting of the Eighth Session of the Board of Directors of the Company held on 16 December 2021, it was considered and approved that the estimated sales of products to 航天歐華, a connected party, by the Group in 2022 be capped at RMB1,200 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

2. Connected transactions arising from acquisitions or disposals of assets or 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 have any creditors or debtors with connected parties during the reporting period.

5. The Company did not have any connected financial companies. 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 significant connected transactions

☐ Applicable ✓ N/A

(VII) 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.	Yes	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)			–		

Guarantees provided by the Company on behalf of subsidiaries and vice versa

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
ZTE (H.K.) Limited[Note 3]	16 March 2018 201822	Not more than USD600 million	1 June 2020	USD280 million	Joint liability assurance	N/A	N/A	From 1 June 2020 to (1) six months after 1 June 2023, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
			13 August 2020	USD50 million	Joint liability assurance	N/A	N/A	From 13 August 2020 to (1) 13 August 2025, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	Yes	No
			2 March 2021	USD150 million	Joint liability assurance	N/A	N/A	A period from 2 March 2021 to six months after 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[Note4]	19 February 2021 202118	USD40 million	30 June 2021	USD40 million	Joint liability guarantee	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
		IDR400 billion	30 June 2021	IDR400 billion	Joint liability guarantee	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[Note5]	17 March 2021 202128	USD160 million	N/A	–	Joint liability guarantee	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
		USD16 million	N/A	–	Joint liability guarantee	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
Xi'an Cris Semiconductor Technology Company Limited[Note 6]	25 June 2022 202257	USD500 million	27 June 2022	–	Joint liability assurance	N/A	N/A	Commencing on the date on which the letter of guarantee comes into effect and ending upon on the conclusion of a consecutive 2-year period during which Cris has not ordered any manufacturing service from the supplier provided that no debt payment is due and outstanding	No	No
Total amount of guarantee approved during the reporting period (B1)			RMB5,361,200,000[Note 7]		Total amount of guarantee actually incurred during the reporting period (B2)			–		
Total amount of guarantee approved as at the end of the reporting period (B3)			RMB11,079,708,600[Note 7]		Total amount of balance of guarantee actually incurred as at the end of the reporting period (B4)			RMB3,329,828,600		

VII. Material Matters

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 8]	N/A	USD30 million	26 January 2017	USD19,647,200	Joint liability guarantee	N/A	N/A	Commencing on the date on which the "Guarantee Contract" comes into effect and ending upon on the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding.	No	No
Netas Bilişim Teknolojileri A.Ş.[Note 9]	N/A	USD2,153,300	14 November 2012	–	Joint liability guarantee	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 Bilisim under the "Systems Integration Agreement" is completed.	No	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş.[Note 9]	N/A	EUR10,753,800	5 May 2017	EUR10,753,800	Joint liability guarantee	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 10]	9 March 2022 202218	USD65 million	Note 10	USD25,123,600	Joint liability guarantee	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 10]	9 March 2022 202218	USD15 million	Note 10	USD702,800	Joint liability guarantee	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No
NETAŞ TELEKOMÜNŞKASYON A.Ş.[Note 10]	9 March 2022 202218	USD30 million	Note 10	USD7,323,800	Joint liability guarantee	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 10]	9 March 2022 202218	USD10 million	Note 10	USD1,701,900	Joint liability guarantee	N/A	N/A	Ending on the date on which the repayment of debt relating to the guarantee is completed	No	No

Total amount of guarantee for subsidiary approved during the reporting period (C1)	RMB804,180,000	Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)	RMB365,227,100
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)	RMB1,094,890,000	Total amount of balance of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)	RMB440,461,700

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)	RMB6,165,380,000	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)	RMB365,227,100
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)	RMB12,195,617,900	Total amount of balance of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)	RMB3,770,290,300
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company			6.86%
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)			RMB3,750,643,100
Amount of total guarantee exceeding 50% of net assets (F)			0
Aggregate amount of the three guarantee amounts stated above (D+E+F)			RMB3,750,643,100
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: The Technology Development (Entrustment) Contract came into effect on 1 April 2017 upon execution. Beijing Fuhua Yuqi Information Technology Co., Ltd. ("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, performance of the obligations under the Technology Development (Entrustment) Contract had been completed and the aforesaid guarantee had been released.

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: 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 guarantee agreement in relation to the USD50 million loan agreement with 3 banks including CITIC Bank London Branch was terminated in June 2022 following the repayment of the loan in full by ZTE HK in June 2022; in relation to the USD300 million loan agreement with 8 chinese/foreign banks including BOC Macau, the currently effective guarantee amount is USD280 million following the early repayment of USD20 million by ZTE HK in June 2022; other guarantees were under normal performance.

Note 4: 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 PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary, was approved. The aforementioned performance guarantee and bank letter of guarantee came into effect on 30 June 2021. As of the end of the reporting period, the aforementioned guarantees implement normally.

Note 5: As considered and passed at the Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of no more than USD160 million performance guarantee and the application to the relevant bank for the issuance of an USD16 million bank letter of guarantee by the Company for 11 overseas subsidiaries involved in MTN Group projects was approved. As of the end of the reporting period, the aforementioned guarantee has not yet become effective.

Note 6: As considered and passed at the Third Meeting of the Ninth Session of the Board of Directors of the Company, the provision of guarantee with an amount of not more than USD500 million guarantee in respect of the procurement business of Xi'an Cris Semiconductor Technology Company Limited ("Cris"), a subsidiary, by the Company was approved. On 27 June 2022, the Company issued a guarantee letter to the suppliers with a guarantee amount of USD500 million for a guarantee period commencing on the date on which the guarantee letter came into effect and ending on the date of conclusion of a consecutive two-year period during which Cris has not ordered any manufacturing service from the supplier provided that no debt payment is due and outstanding. As of the end of the reporting period, no transactions under the guarantee had occurred.

Note 7: As considered and passed at the Forty-fifth Meeting of the Eighth Session of the Board of Directors of the Company and the 2021 Annual General Meeting, the provision of performance guarantee line of no more than USD300 million in aggregate for 8 overseas subsidiaries. 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 USD300 million guarantee provided for the 8 overseas subsidiaries. As at the end of the reporting period, the aforesaid guarantee had yet to be applied.

Note 8: It was considered and approved at the board meeting of ZTE Microelectronics, a subsidiary of the Company, that ZTE Microelectronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between 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 USD19,647,200 had come into effect.

Note 9: The Company completed the acquisition of NETAŞ TELEKOMÜNŞKASYON A.Ş.（"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 Netas Bilişim Teknolojileri A.Ş ("Netas Bilişim") and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ("BDH"): (1) guarantee in respect of the performance obligations of Netas Bilişim under the "Systems Integration Agreement" for an amount of approximately USD2,153,300 for a term commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which the performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" are completed. As at the end of the reporting period, the actual amount of guarantee incurred by Netas Bilişim was 0; (2) guarantee in respect of the performance obligations of BDH under the "Procurement and Installation Agreement" for an amount of EUR10,753,800 for a term commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed. As at the end of the reporting period, the aforesaid guarantees were under normal performance.

Note 10: As considered and approved at the Forty-fifth Meeting of the Eighth Session of the Board of Directors of the Company, the 2021 Annual General Meeting 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 USD120 million. The facilities shall cover loans, letters of guarantee and reverse supply chain financing, among others. The effective period of the guarantee shall be from the date on which the guarantee was considered and approved at the general meeting to the date on which the next annual general meeting of the Company is convened. Netaş and BDH shall provide credit loan guarantee for Netaş Bilişim within the guarantee limit and as at the end of the reporting period, the balance of actual guarantee was USD25,123,600; Netaş and Netaş Bilişim shall provide credit loan guarantee for BDH within the guarantee limit and as at the end of the reporting period, the balance of actual guarantee was USD702,800; Netaş Bilişim shall provide credit loan guarantee for Netaş within the guarantee limit and as at the end of the reporting period, the balance of actual guarantee was USD7,323,800; Netaş shall provide credit loan guarantee for Netaş Telecom Limited Liability Partnership within the guarantee limit and as at the end of the reporting period, the balance of actual guarantee was USD1,701,900.

Note 11: The guarantee amounts were translated at the book exchange rates of the Company as at 30 June 2022: USD1: RMB6.7015; EUR1: RMB6.9961; IDR1: RMB0.000450309.

VII. Material Matters

3. **Statement on guarantees provided in violation of regulations**

☐ Applicable ✓ N/A

4. **For the special statement and independent opinion on the fund transfers between the Company and connected parties and third-party guarantees of the Company furnished by the Independent Non-Executive Directors of the Company, please refer to the "Overseas Regulatory Announcement" published by the Company on 26 August 2022.**

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

☐ Applicable ✓ N/A

(VIII) UNDERTAKINGS

1. **Undertaking given upon initial public offering**

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

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

2. **Undertaking by parties to share issuance for asset acquisition and raising ancillary funds**

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

The Company acquired 18.8219% equity interest in ZTE Microelectronics, a subsidiary, held in aggregate by Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership) ("Hengjian Xinxin") and Shenzhen Huitong Rongxin Investment Company Limited (renamed "Shenzhen Nanshan Strategic New Industry Investment Company Limited") ("Huitong Rongxin") by way of share issuance. The new shares were listed on Shenzhen Stock Exchange on 10 November 2021. For details, please refer to the "Announcement on the Completion of the Issuance of Consideration Shares under the Acquisition of Assets by Issuance of Shares and Ancillary Fund-raising" published by the Company on 8 November 2021. The undertaking of Hengjian Xinxin, Huitong Rongxin, ZTE Microelectronics, and the directors, supervisors and senior of management of ZTE Microelectronics regarding the provision of true, accurate and complete information, the undertaking of Hengjian Xinxin, Huitong Rongxin regarding the ownership status of the subject assets, and the undertaking of Zhongxingxin and the Directors and senior management of the Company regarding share sell-down plans were fulfilled and completed on 10 November 2021.

The Company resolved to terminate the Ancillary Fundraising Issuance, taking into consideration the interests of the Company's shareholders, capital market conditions and the Company's financial conditions. For details please refer to the "Announcement on the Termination of the Issuance of Share to Raise Ancillary Funds" published by the Company on 21 June 2022. The undertaking of Zhongxingxin, the Company and the Company's Directors, Supervisors and senior management on the provision of true, accurate and complete information has been completed in a normal manner. Meanwhile, as the Company reported RMB51.482 billion, RMB6.813 billion and RMB1.47/share in owners' equity attributable to holders of ordinary shares of the listed company, net profit attributable to holders of ordinary shares of the listed company and basic earnings per share, respectively, for 2021, which were in excess of the relevant requirements under the "Overseas Regulatory Announcement Analysis of dilution of return for the current period caused by the transaction and explanatory statement on remedial measures and related undertakings" published on 16 November 2020. Therefore, the undertaking of Zhongxingxin and the Company's Directors and senior management on the remedial measures against dilution of return for the current period caused by the reorganisation has been completed.

The undertaking of Hengjian Xinxin and Huitong Rongxin on share lock-up and the independence of the listed company was under normal performance and there was no instance of non-completion of the performance of undertaking after the end of the relevant period.

3. **Other undertaking given to minority shareholders of the Company**

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

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

(IX) EXPLANATORY STATEMENT FROM THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE OF THE COMPANY ON THE ACCOUNTANT'S "QUALIFIED AUDIT REPORT" FOR THE REPORTING PERIOD

☐ Applicable ✓ N/A

(X) EXPLANATORY STATEMENT FROM THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE OF THE COMPANY ON CHANGES AND HANDLING OF MATTERS RELATING TO THE ACCOUNTANT'S "QUALIFIED AUDIT REPORT" FOR THE PREVIOUS YEAR

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

VII. Material Matters

(XII) EXPLANATORY STATEMENT ON RECTIFICATION AND RETROSPECTIVE RESTATEMENT OWING TO SIGNIFICANT ACCOUNTING ERRORS FOR THE REPORTING PERIOD

☐ Applicable ✓ N/A

(XIII) REPLACEMENT OR DISMISSAL OF ACCOUNTING FIRM BY THE COMPANY DURING THE PERIOD

☐ Applicable ✓ N/A

(XIV) 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

(XV) CREDIBILITY OF COMPANY AND CONTROLLING SHAREHOLDER

☐ Applicable ✓ N/A

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

(XVI) OTHER SIGNIFICANT EVENTS

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

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

VIII. Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: share

	31 December 2021		Increase/decrease as a result of the change during the reporting period (+, -)					30 June 2022	
	Number of shares	Percentage	New issue[Note 1]	Bonus issue	Transfer from capital reserve	Others[Note 2]	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	**85,909,064**	**1.82%**	**+254,922**	**–**	**–**	**−110,600**	**+144,322**	**86,053,386**	**1.82%**
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned corporate shares	39,378,989	0.84%	–	–	–	–	–	39,378,989	0.83%
3. Other domestic shares	45,942,154	0.97%	–	–	–	–	–	45,942,154	0.97%
Comprising: domestic non-state-owned corporate shares	45,942,154	0.97%	–	–	–	–	–	45,942,154	0.97%
Domestic natural person shares	–	–	–	–	–	–	–	–	–
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: Foreign corporate shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
5. Shares held by Directors, Supervisors and senior management subject to lock-up	587,921	0.01%	+254,922	–	–	−110,600	+144,322	732,243	0.02%
II. Shares not subject to lock-up	**4,644,886,908**	**98.18%**	**+4,777,686**	**–**	**–**	**+110,600**	**+4,888,286**	**4,649,775,194**	**98.18%**
1. RMB ordinary shares	3,889,384,374	82.21%	+4,777,686	–	–	+110,600	+4,888,286	3,894,272,660	82.23%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	755,502,534	15.97%	–	–	–	–	–	755,502,534	15.95%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**4,730,795,972**	**100.00%**	**+5,032,608**	**–**	**–**	**–**	**+5,032,608**	**4,735,828,580**	**100.00%**

Note 1: The Company's A shares increased 5,032,608 shares following the exercise of a total of 4,971,974 A share options by the participants under the 2017 Share Option Incentive Scheme and the exercise of a total of 60,634 A share options by the participants under the initial grant of the 2020 Share Option Incentive Scheme during the reporting period;

Note 2: Lock-up or unlocking of shares of Directors, Supervisors and senior management on a pro-rata basis in accordance with pertinent 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 2021	Number of A shares unlocked during the reporting period	Increase in the number of A shares subject to lock-up during the reporting period	Number of A shares subject to lock-up as at 30 June 2022	Reason for lock-up	Date of unlocking
1	Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership)	45,942,154	–	–	45,942,154	Restricted shares under share issuance for asset acquisition	Note 1
2	Shenzhen Nanshan Strategic New Industry Investment Company Limited	39,378,989	–	–	39,378,989		
3	Xie Daxiong	371,852	92,925	–	278,927	Shares held by Directors, Supervisors and senior management subject to lock-up[Note 2]	–
4	Xu Ziyang	63,000	–	63,000	126,000		–
5	Wang Xiyu	51,424	12,750	65,601	104,275		–
6	Xie Junshi	22,500	–	61,851	84,351		–
7	Li Ying	40,950	8,925	39,600	71,625		–
8	Xia Xiaoyue	38,195	–	–	38,195		–
9	Ding Jianzhong	–	–	24,870	24,870		–
10	Li Quancai	–	–	4,000	4,000		–
	Total	**85,909,064**	**114,600**	**258,922**	**86,053,386**	**–**	

VIII. Changes in Shareholdings and Information of Shareholders

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

Note 2: In accordance with "the Company Law of the People's Republic of China", "Administrative Rules Governing the Holding of Shares in a Listed Company by Its Directors, Supervisors and Senior Management and Changes Thereof" and "Shenzhen Stock Exchange Self-Disciplinary and Regulatory Guide for Listed Companies No. 10 — Management of Shareholding Changes", China Securities Depository and Clearing Corporation Limited, Shenzhen Branch computes the number of shares held by the directors, supervisors and senior management of listed companies subject to selling restrictions for the year based on shares registered under their names as at the last trading date of the previous year. The new shares acquired by the Directors, Supervisors and senior management of the Company as a result of the exercise of 2017 A shares options shall be subject to a 75% automatic lock-up. Supervisor Mr. Li Quancai shall not transfer his holdings in the Company's shares within six months from the date of his departure.

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

1. During the reporting period, a total of 4,971,974 A share options were exercised by scheme participants under the 2017 Share Option Incentive Scheme of the Company, and a total of 60,634 A share options were exercised by scheme participants under the 2020 Share Option Incentive Scheme of the Company, and the total share capital of the Company was increased by 5,032,608 shares accordingly.

2. For details of the Company's issuance of Super and Short-term Commercial Paper ("SCP"), please refer to the section headed "Information on Bonds — (III) Non-financial corporate debt financing instruments" in this report.

3. The Company had no employees' shares.

(IV) SHAREHOLDERS 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 2022	There were 483,282 shareholders (comprising 482,977 holders of A shares and 305 holders of H shares)						
Shareholdings of shareholders holding 5% or above of the shares or top 10 shareholders							
Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Class of shares	Increase/decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged, marked or frozen (shares)
1. Zhongxingxin	Domestic general corporation	21.28%	1,005,840,400 2,038,000[Note 1]	A share H share	– –	–	Nil
2. HKSCC Nominees Limited[Note 2]	Foreign shareholders	15.89%	752,395,542	H share	+6,986	–	Unknown
3. Hong Kong Securities Clearing Company Limited[Note 3]	Overseas corporation	2.17%	102,561,995	A share	−7,594,633	–	Nil
4. Shenzhen Nanshan Strategic New Industry Investment Company Limited	State-owned corporation	1.44%	68,030,180	A share	−14,380,917	39,378,989	Nil
5. Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership)	Domestic general corporation	0.97%	45,942,154	A share	–	45,942,154	Nil
6. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-Win Equity Investment Fund Partnership (Limited)	Others	0.91%	43,032,108	A share	–	–	Nil
7. Central Huijin Asset Management Co. Ltd.	State-owned corporation	0.89%	42,171,534	A share	–	-	Nil
8. Hunan Nantian (Group) Co. Ltd.	State-owned corporation	0.88%	41,516,065	A share	–	-	Nil
9. NSF Portfolio #113	Others	0.87%	41,324,239	A share	+11,506,721	–	Nil
10. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	Others	0.74%	34,900,000	A share	–	-	Nil

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,005,840,400	A share
	2,038,000	H share
2. HKSCC Nominees Limited	752,395,542	H share
3. Hong Kong Securities Clearing Company Limited	102,561,995	A share
4. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-Win Equity Investment Fund Partnership (Limited)	43,032,108	A share
5. Central Huijin Asset Management Co. Ltd.	42,171,534	A share
6. Hunan Nantian (Group) Co. Ltd.	41,516,065	A share
7. NSF Portfolio #113	41,324,239	A share
8. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	34,900,000	A share
9. NSF Portfolio #111	33,025,385	A share
10. NSF Portfolio #112	31,887,971	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 (if any)	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, the Company had no strategic investor or general legal person who participated in the placing of new shares with a designated period of shareholding.

VIII. Changes in Shareholdings and Information of Shareholders

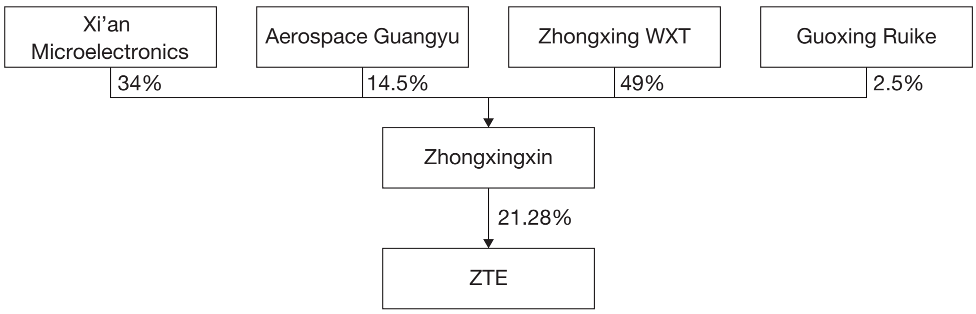
2. **Controlling shareholder of the Company**

   (1) During the reporting period, there was no change in the Company's controlling shareholder.

   (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 Technology Research Institute ("Xi'an Microelectronics"), Shenzhen Aerospace Guangyu Industrial Company Limited ("Aerospace Guangyu") and Shenzhen Zhongxing WXT Equipment Company Limited ("Zhongxing WXT"). In April 2017, Aerospace Guangyu transferred 2.5% equity interests in Zhongxingxin to Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership) ("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 forms of asset management.

   The following diagram shows the shareholding relationships between the aforesaid entities and the Company as at 30 June 2022:



   For details of Zhongxingxin and its four shareholders, please refer to the section headed "Changes in Shareholdings and Information of Shareholders — (IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE YEAR" in the 2021 Annual Report of the Company.

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

4. **Interests of substantial shareholders of the Company in shares and underlying shares required to be disclosed under the SFO and Hong Kong Listing Rules**

As at 30 June 2022, the following shareholders held interests or short positions in 5% or more in various classes of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shares held	Shareholding as an approximate percentage of Note: Total share capital	Relevant class of shares
Zhongxingxin	Beneficial owner	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
Zhongxing WXT	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
Xi'an Microelectronics	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
China Aerospace Electronics Technology Research Institute	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.24%(L)	25.27% (L)
China Aerospace Science and Technology Corporation	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
BlackRock, Inc.	Interests of corporate controlled by you	78,079,812 H shares (L) 714,400 H shares (S)	1.65% (L) 0.02% (S)	10.33% (L) 0.09% (S)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.81% (L)	5.08% (L)

(L) — long position, (S) — short position

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,735,828,580 shares, comprising 3,980,326,046 A shares and 755,502,534 H shares, as at 30 June 2022.

The interests in shares or debentures of the Company held by Directors, Supervisors and chief executive of the Company as at 30 June 2022 are set out in the section of this report headed "Directors, Supervisors and Senior Management".

Save as disclosed above, as at 30 June 2022, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

(V) REPURCHASE, SALE AND REDEMPTION OF SECURITIES

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

(VI) THE COMPANY HAD NO PREFERENTIAL SHARES

IX. Directors, Supervisors and Senior Management

(I) NEW SESSION OF THE BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE AND APPOINTMENT OF NEW SENIOR MANAGEMENT OF THE COMPANY

At the First Extraordinary General Meeting of 2022 and the First Meeting of the Ninth Session of the Board of Directors of the Company held on 30 March 2022, Mr. Li Zixue was elected as Chairman of the Ninth Session of the Board of Directors of the Company and Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying were elected as Executive Directors of the Ninth Session of the Board of Directors of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Ninth Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Gordon Ng and Mr. Zhuang Jiansheng were elected as Independent Non-executive Directors of the Ninth Session of the Board of Directors of the Company. The term of appointment of Independent Non-executive Directors Ms. Cai Manli and Mr. Gordon Ng commenced on 30 March 2022 and shall end on 28 June 2024. The term of appointment of other Directors commenced on 30 March 2022 and shall end on 29 March 2025.

At the First Extraordinary General Meeting of 2022 of the Company held on 30 March 2022, Ms. Jiang Mihua and Mr. Hao Bo were elected as Shareholders' Representative Supervisors of the Ninth Session of the Supervisory Committee of the Company. In addition, Mr. Xie Daxiong, Ms. Xia Xiaoyue and Ms. Li Miaona were elected as Staff Representative Supervisors of the Ninth Session of the Supervisory Committee of the Company through elections among staff representatives. At the First Meeting of the Ninth Session of the Supervisory Committee of the Company held on 30 March 2022, Mr. Xie Daxiong was elected as Chairman of the Ninth Session of the Supervisory Committee of the Company. The term of the Ninth Session of the Supervisory Committee of the Company commenced on 30 March 2022 and shall end on 29 March 2025.

Pursuant to the "Resolution on Appointment of New Senior Management of the Company" considered and approved at the First Meeting of the Ninth Session of the Board of Directors of the Company held on 30 March 2022, it was approved that Mr. Xu Ziyang be re-appointed as President of the Company, each of Mr. Wang Xiyu, Mr. Gu Junying, Ms. Li Ying and Mr. Xie Junshi be re-appointed Executive Vice President of the Company, Ms. Li Ying be concurrently re-appointed as Chief Financial Officer of the Company and Mr. Ding Jianzhong be re-appointed as the Secretary to the Board of the Company. The term of office of the new senior management commenced on 30 March 2022 and shall end on 29 March 2025.

For details of the aforesaid matters, please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2022", "Announcement of Resolutions of the First Meeting of the Ninth Session of the Board of Directors" and "Overseas Regulatory Announcement" published by the Company on 30 March 2022.

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

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on Note 1	Term of office ending on Note 1	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes
Directors of the Company												
1	Li Zixue	Male	58	Chairman	Incumbent	3/2022	3/2025	–	–	–	–	–
2	Xu Ziyang	Male	50	Director	Incumbent	3/2022	3/2025	84,000	84,000	–	168,000	Note 2
				President		3/2022	3/2025					
3	Li Buqing	Male	50	Director	Incumbent	3/2022	3/2025	–	–	–	–	–
4	Gu Junying	Male	55	Director	Incumbent	3/2022	3/2025	–	–	–	–	–
				Executive Vice President		3/2022	3/2025					
5	Zhu Weimin	Male	57	Director	Incumbent	3/2022	3/2025	–	–	–	–	–
6	Fang Rong	Female	58	Director	Incumbent	3/2022	3/2025	–	–	–	–	–
7	Cai Manli	Female	49	Independent Non-executive Director	Incumbent	3/2022	6/2024	–	–	–	–	–
8	Gordon Ng	Male	58	Independent Non-executive Director	Incumbent	3/2022	6/2024	–	–	–	–	–
9	Zhuang Jiansheng	Male	57	Independent Non-executive Director	Incumbent	3/2022	3/2025	–	–	–	–	–
Supervisors of the Company												
10	Xie Daxiong	Male	59	Chairman of Supervisory Committee	Incumbent	3/2022	3/2025	371,903	–	–	371,903	–
11	Xia Xiaoyue	Female	47	Supervisor	Incumbent	3/2022	3/2025	50,927	–	–	50,927	–
12	Li Miaona	Female	48	Supervisor	Incumbent	3/2022	3/2025	Note 3	–	–	–	–
13	Jiang Mihua	Female	46	Supervisor	Incumbent	3/2022	3/2025	Note 3	–	–	–	–
14	Hao Bo	Male	33	Supervisor	Incumbent	3/2022	3/2025	Note 3	–	–	–	–
15	Li Quancai	Male	61	Supervisor	Resigned	3/2019	3/2022	–	4,000	–	4,000	Note 4
16	Shang Xiaofeng	Male	47	Supervisor	Resigned	3/2019	3/2022	–	–	–	–	–
17	Zhang Sufang	Female	48	Supervisor	Resigned	3/2019	3/2022	–	–	–	–	–
Senior management of the Company												
18	Wang Xiyu	Male	48	Executive Vice President	Incumbent	3/2022	3/2025	51,566	87,468	–	139,034	Note 2
19	Li Ying	Female	44	Executive Vice President and Chief Financial Officer	Incumbent	3/2022	3/2025	42,700	52,800	–	95,500	
20	Xie Junshi	Male	47	Executive Vice President	Incumbent	3/2022	3/2025	30,000	82,468	–	112,468	
21	Ding Jianzheng	Male	46	Secretary to the Board of Directors	Incumbent	3/2022	3/2025	–	33,160	–	33,160	
	Total	**–**	**–**	**–**	**–**	**–**	**–**	**631,096**	**343,896**	**–**	**974,992**	**–**

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 incumbent Directors of the Ninth Session of the Board of Directors, Supervisors of the Ninth Session of the Supervisory Committee and senior management of the Company appointed by the Ninth Session of the Board of Directors.

Note 2: Exercise of 2017 A share options by the Directors and senior management of the Company during the reporting period.

Note 3: Ms. Li Miaona, Ms. Jiang Mihua and Mr. Hao Bo did not hold any A shares in the Company when they were elected as Supervisors of the Company on 30 March 2022.

Note 4: The term of office of Mr. Li Quancai concluded on 30 March 2022. Following such conclusion, Mr. Li Quancai acquired an additional 4,000 A shares in the Company.

Note 5: 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 or any equity in the subsidiary of the Company during the reporting period.

Note 6: As at the end of the reporting period, 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.

IX. Directors, Supervisors and Senior Management

For details of the share options of A shares of the Company held by the Directors and senior management of the Company, please refer to the section headed "Corporate Governance — (VII) Implementation and Impact of the Company's Share Option Incentive Scheme and Management Stock Ownership Scheme" in this report.

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

Name	Name of shareholder	Position with the shareholder	Commencement of term of office	Conclusion of term of office	Whether receiving remuneration from Zhongxingxin
Zhu Weimin[Note 1]	Zhongxingxin	Director	August 2018	August 2024	Yes
Jiang Mihua[Note 2]	Zhongxingxin	Supervisor	February 2022	August 2024	Yes
Hao Bo	Zhongxingxin	Head of strategic planning department	March 2019	/	Yes

Note 1: Mr. Zhu Weimin was appointed as director of the ninth session of the board of directors of Zhongxingxin in August 2018. Zhongxingxin completed the re-election of a new session in August 2021. The date of conclusion of term of office in the table represents the date of conclusion of the tenth session of the board of directors.

Note 2: Ms. Jiang Minhua was appointed as supervisor of the tenth session of the supervisory committee of Zhongxingxin in February 2022. The date of conclusion of term of office in the table represents the date of conclusion of the tenth session of the supervisory committee.

(IV) 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	Shenzhen Aerospace Industrial Technology Research Institute Limited	Chief accountant	Yes
	CASIC Shenzhen (Group) Company Limited	Director, chief accountant	No
	Shenzhen Aerospace Property Management Co., Ltd.	Director	No
	Shenzhen Aerospace Liye Industry Development Co., Ltd.	Chairman	No
	Shenzhen Zhongxing Information Company Limited	Director	No
	Shenzhen Hangxin Property Management Co., Ltd.	Director	No
Gu Junying[Note 1]	Jinzhuan Information Technology Co., Ltd.	Chairman, general manager	No
Zhu Weimin	Shenzhen Zhongxing International Investment Limited	Chairman	Yes
	Held positions in 6 subsidiaries of Shenzhen Zhongxing International Investment Limited including Beijing United Zhongxing International Investment Limited	Chairman/Director	No
	Zhongxing WXT	Director	No
	Shenzhen Techaser Technologies Co., Ltd.	Director	No
	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	Director	No
	Hainan Xinghang Technology Co., Ltd.	Director	No
Fang Rong[Note 2]	Zhongxing Development Company Limited	Director, executive vice president	Yes
	Held positions in 10 subsidiaries or investees of Zhongxing Development Company Limited including Xiazhi Technology Company Limited	Chairman/director	No
	Shenzhen Zhongxing International Investment Limited	Director	No
	Beijing United Zhongxing International Investment Limited	Director	No
Cai Manli	Beijing King & Wood Mallesons	Senior consultant	Yes
	Sichuan Xinwang Bank Co., Ltd.	External supervisor	Yes
	Shanghai Flyco Electrical Appliance Co., Ltd.	Independent director	Yes
	New Hope Liuhe Co., Ltd.	Independent director	Yes
	Kuangshi Technology Co., Ltd.	Independent director	Yes
	Guangzhou Jifei Technology Co., Ltd.	Independent director	Yes

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Gordon Ng	Dentons Hong Kong LLP	Partner	Yes
	China Energine International (Holdings) Limited	Independent non-executive Director	Yes
	Mainland Headwear Holdings Limited	Independent non-executive Director	Yes
Zhuang Jiansheng	Shanghai Huiyue Law Firm	Partner	Yes
Xie Daxiong	Guangdong Newstart Technology & Service Company Limited	Chairman	No
	Guangzhou Huijian Testing Technology Company Limited	Chairman	No
Li Miaona	深圳市中興宜和投資發展有限公司	Chairman	No
Jiang Mihua	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy head of finance department	Yes
	Shenzhen Aerospace Guangyu Industrial Company Limited	Director	No
Hao Bo[Note 3]	Held positions in 4 subsidiaries or investees of Zhongxingxin including Sindi Technologies Co., Ltd.	Director/supervisor/executive director, general manager	No
	Shenzhen Haina Jingying Management Consultant Company Limited	Executive director	No
Wang Xiyu[Note 4]	ZTE Microelectronics	Chairman	No
	ZTE Optoelectronics Technology Company Limited	Chairman	No
	Jinzhuan Information Technology Co., Ltd.	Vice-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. Gu Junying has been appointed as the chairman and general manager of Jinzhuan Information Technology Co., Ltd. since January 2022.

Note 2: Ms. Fang Rong has ceased to be director of Zhongxing Herun Investment (Shenzhen) Company Limited as from May 2022 and director of Shenzhen Jinghui Heyuan Equity Investment Management Company Limited as from July 2022.

Note 3: Mr. Hao Bo has ceased to be executive director and general manager of Shenzhen Xinshangke Management Consultant Company Limited as from June 2022.

Note 4: Mr. Wang Xiyu has been appointed as vice-chairman of Jinzhuan Information Technology Co., Ltd. since January 2022.

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

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

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

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

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

IX. Directors, Supervisors and Senior Management

(VI) INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE 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 2022 are set out in the section of this chapter head "(II) CHANGES IN THE SHAREHOLDINGS AND SHARE OPTIONS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY".

Save as disclosed above, as at 30 June 2022, 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 2022, 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.

X. Information on Bonds

(I) CORPORATE BONDS

☐ Applicable ✓ N/A

(II) DEBENTURES

☐ Applicable ✓ N/A

(III) NON-FINANCIAL CORPORATE DEBT FINANCING INSTRUMENTS

As considered and approved at the 2020 Annual General Meeting of the Company, the Company has sought the consolidated registration with the National Association of Financial Market Institutional Investors ("NAFMII") for issuance of multiple types of debt financing instruments, including super short term commercial paper ("SCPs"), short term commercial paper, medium term note, perpetual note and asset-backed note, such that the Company may conduct such issuance during the effective term of registration without further application. NAFMII has accepted the Company's registration of multiple types of debt financing instruments as aforesaid, which is valid within 2 years from the date of the "Notice of Acceptance of Registration"(13 August 2021). For details, please refer to the "Overseas Regulatory Announcement Announcement on the Proposed Application for Consolidated Registration For Issuance of Multiple Types of Debt Financing Instruments for 2021", "Announcement on Resolutions of the 2020 Annual General Meeting and "Overseas Regulatory Announcement Announcement on the Approval of Registration for Multiple Types of Debt Financing Instruments" published by the Company on 16 March 2021, 25 June 2021 and 18 August 2021, respectively.

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

During the first half of 2022, the Company issued a total of 21 tranches of SCPs for an aggregate issue amount of RMB21.5 billion, which had been repaid upon maturity as at 30 June 2022.

Information on the Company's SCPs issued and outstanding as at the date of the publication of this report is set out as follows:

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
2022 Tranche XXII SCPs	22中興通訊SCP022	012282348	30 June 2022	1 July 2022	30 September 2022	15	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXIII SCPs	22中興通訊SCP023	012282335	30 June 2022	1 July 2022	30 September 2022	10	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXIV SCPs	22中興通訊SCP024	012282331	30 June 2022	1 July 2022	30 September 2022	10	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXV SCPs	22中興通訊SCP025	012282340	30 June 2022	1 July 2022	30 September 2022	10	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXVI SCPs	22中興通訊SCP026	012282332	30 June 2022	1 July 2022	30 September 2022	15	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXVII SCPs	22中興通訊SCP027	012282328	30 June 2022	1 July 2022	30 September 2022	10	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXVIII SCPs (Technology Innovation Instrument)	22中興通訊SCP028	012282403	7 July 2022	8 July 2022	30 September 2022	15	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXIX SCPs (Technology Innovation Instrument)	22中興通訊SCP029	012282413	7 July 2022	8 July 2022	30 September 2022	10	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXX SCPs (Technology Innovation Instrument)	22中興通訊SCP030	012282417	7 July 2022	8 July 2022	30 September 2022	10	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market
2022 Tranche XXXI SCPs (Technology Innovation Instrument)	22中興通訊SCP031	012282410	7 July 2022	8 July 2022	30 September 2022	5	1.90%	One-off principal and interest repayment on maturity	Inter-bank bond market

X. Information on Bonds

Bond name	Bond abbreviation	Bond code	Issue date	Accrual date	Maturity date	Bond balance (RMB100 million)	Interest rate	Principal and interest repayment method	Trading market
2022 Tranche XXXII SCPs (Technology Innovation Instrument)	22中興通訊SCP032	012282728	3 August 2022	4 August 2022	30 September 2022	10	1.77%	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

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

(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	1.64	1.63	0.61%
Gearing ratio	68.44%	68.42%	Increased by 0.02 percentage point
Quick ratio	1.14	1.16	(1.72%)

	For the reporting period	Corresponding period of last year	Increase/decrease of the reporting period as compared to the corresponding period of last year
Net profit after extraordinary gain/loss attributable to holders of ordinary shares of the listed company (RMB in thousand)	3,725,359	2,246,454	65.83%
Debt-to-EBITDA ratio[Note]	13.67%	15.12%	Decreased by 1.45 percentage points
Interest coverage ratio	6.49	9.31	(30.29%)
Cash interest coverage ratio	5.82	12.49	(53.40%)
EBITDA interest coverage ratio	8.74	12.64	(30.85%)
Loan repayment ratio	100.00%	100.00%	—
Interest repayment ratio	100.00%	99.78%	Increased by 0.22 percentage point

Note: Total amount of debt = long-term borrowings + bonds payable + short-term borrowings + financial liabilities at fair value through current profit or loss + bills payable + short-term bonds payable (other current liabilities) + non-current liabilities due within one year + lease liabilities + long-term payables

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 2022 (Unaudited)	31 December 2021 (Audited)
Current assets			
Cash	1	**54,926,295**	50,713,310
Trading financial assets	2	**897,389**	1,360,697
Derivative financial assets	3	**251,162**	209,352
Trade receivables	4A	**17,936,988**	17,509,059
Receivable financing	4B	**7,617,467**	5,196,458
Factored trade receivables	4A	**119,996**	200,992
Prepayments	5	**584,863**	606,781
Other receivables	6	**1,666,520**	1,353,779
Inventories	7	**41,848,316**	36,316,753
Contract assets	8	**5,738,542**	6,585,307
Other current assets	20	**6,895,529**	7,818,597
Total current assets		**138,483,067**	127,871,085
Non-current assets			
Long-term receivables	9	**2,274,869**	2,356,413
Factored long-term receivables	9	**201,956**	243,701
Long-term equity investments	10	**1,619,616**	1,684,909
Other non-current financial assets	11	**1,152,720**	1,175,249
Investment properties	12	**2,012,443**	2,013,927
Fixed assets	13	**11,456,642**	11,437,011
Construction in progress	14	**1,666,168**	1,372,869
Right-of-use assets	15	**691,916**	815,346
Intangible assets	16	**7,946,004**	8,094,542
Development costs	17	**2,394,509**	2,453,275
Goodwill	18	**—**	—
Deferred tax assets	19	**3,389,592**	3,194,741
Other non-current assets	20	**6,435,260**	6,050,357
Total non-current assets		**41,241,695**	40,892,340
TOTAL ASSETS		**179,724,762**	168,763,425

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 2022 (Unaudited)	31 December 2021 (Audited)
Current liabilities			
Short-term loans	21	**9,815,823**	8,946,935
Bank advances on factored trade receivables	4A	**121,317**	202,249
Derivative financial liabilities	22	**14,739**	27,729
Bills payable	23A	**11,696,452**	11,557,376
Trade payables	23B	**20,728,610**	21,717,267
Contract liabilities	24	**20,166,471**	16,101,652
Salary and welfare payables	25	**10,216,221**	11,691,423
Taxes payable	26	**1,487,698**	1,216,334
Other payables	27	**3,425,848**	3,505,419
Provisions	28	**2,692,910**	2,741,536
Non-current liabilities due within one year	29	**4,295,660**	977,336
Total current liabilities		**84,661,749**	78,685,256
Non-current liabilities			
Long-term loans	30	**30,703,014**	29,908,441
Bank advances on factored long-term trade receivables	9	**208,612**	250,452
Lease liabilities	31	**465,825**	531,983
Provision for retirement benefits		**145,169**	147,539
Deferred income		**2,750,829**	1,872,518
Deferred tax liabilities	19	**108,331**	150,348
Other non-current liabilities	32	**3,968,683**	3,929,228
Total non-current liabilities		**38,350,463**	36,790,509
Total liabilities		**123,012,212**	115,475,765

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 2022 (Unaudited)	31 December 2021 (Audited)
Shareholder's equity			
Share capital	33	**4,735,829**	4,730,796
Capital reserves	34	**25,684,798**	25,359,964
Other comprehensive income	35	**(2,289,667)**	(2,287,021)
Surplus reserve	36	**3,027,154**	3,027,154
Retained profits	37	**23,796,809**	20,651,196
Total equity attributable to holders of ordinary shares of the parent		**54,954,923**	51,482,089
Non-controlling interests		**1,757,627**	1,805,571
Total shareholders' equity		**56,712,550**	53,287,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**179,724,762**	168,763,425

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 2022 (Unaudited)**	Six months ended 30 June 2021 (Unaudited)
Operating revenue	38	**59,818,300**	53,070,970
Less: Operating costs	38	**37,662,894**	33,892,782
Taxes and surcharges	39	**387,407**	385,671
Selling and distribution costs	40	**4,423,548**	4,169,804
Administrative expenses	41	**2,532,696**	2,543,538
Research and development costs	42	**10,151,500**	8,861,406
Finance costs	43	**303,745**	480,702
Including: Interest expense		**949,580**	665,129
Interest income		**1,141,487**	661,600
Add: Other income	44	**901,586**	1,267,706
Investment income	45	**671,223**	703,109
Including: Share of losses of associates and joint ventures		**(56,564)**	(70,777)
Losses from derecognition of financial assets at amortised cost		**(108,165)**	(106,075)
Gains/losses from changes in fair values	46	**(392,234)**	874,661
Credit impairment losses	47	**(116,912)**	(125,249)
Asset Impairment losses	48	**(160,771)**	40,928
Gains from asset disposal	49	**7,602**	47,494
Operating profit		**5,267,004**	5,545,716
Add: Non-operating income	50	**99,313**	143,174
Less: Non-operating expenses	50	**154,608**	161,914
Total profit		**5,211,709**	5,526,976
Less: Income tax	52	**665,057**	976,350
Net profit		**4,546,652**	4,550,626
Analysed by continuity of operations			
Net profit from continuing operations		**4,546,652**	4,550,626
Analysed by ownership			
Holders of ordinary shares of the parent		**4,565,826**	4,078,613
Non-controlling interests		**(19,174)**	472,013

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 2022 (Unaudited)**	Six months ended 30 June 2021 (Unaudited)
Other comprehensive income, net of tax		**(4,457)**	12,448
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	35	**(2,646)**	17,325
Other comprehensive income that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(2,646)**	17,325
		(2,646)	17,325
Other comprehensive income attributable to non-controlling interests, net of tax		**(1,811)**	(4,877)
Total comprehensive income		**4,542,195**	4,563,074
Attributable to:			
Holders of ordinary shares of the parent		**4,563,180**	4,095,938
Non-controlling interests		**(20,985)**	467,136
Earnings per share (RMB/share)			
Basic	53	**RMB0.96**	RMB0.88
Diluted	53	**RMB0.96**	RMB0.88

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 2022 (Unaudited)							
	Equity attributable to holders of ordinary shares of the parent							
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Non-controlling interests	Total shareholders' equity
I. Previous period's closing balance	4,730,796	25,359,964	(2,287,021)	3,027,154	20,651,196	51,482,089	1,805,571	53,287,660
II. Changes during the period								
(I) Total comprehensive income	–	–	(2,646)	–	4,565,826	4,563,180	(20,985)	4,542,195
(II) Shareholder's capital injection and capital reduction								
1. Ordinary share injection from shareholders	5,033	–	–	–	–	5,033	36,650	41,683
2. Equity settled share expenses charged to equity	–	326,902	–	–	–	326,902	–	326,902
3. Acquisition of non-controlling interests	–	(2,068)	–	–	–	(2,068)	(5,535)	(7,603)
4. Disposal of subsidiaries	–	–	–	–	–	–	(28,374)	(28,374)
(III) Profit appropriation								
1. Distribution to shareholders	–	–	–	–	(1,420,213)	(1,420,213)	(29,700)	(1,449,913)
III. Current period's closing balance	4,735,829	25,684,798	(2,289,667)	3,027,154	23,796,809	54,954,923	1,757,627	56,712,550

	Six months ended 30 June 2021 (Unaudited)								
	Equity attributable to holders of ordinary shares of the parent								
	Share capital	Capital reserves	Less: treasury stock	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Non-controlling interests	Total shareholders' equity
I. 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

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 2022 (Unaudited)	Six months ended 30 June 2021 (Unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		**67,593,369**	57,879,831
Refunds of taxes		**3,935,121**	2,826,692
Cash received relating to other operating activities	54	**2,848,097**	2,620,132
Sub-total of cash inflows		**74,376,587**	63,326,655
Cash paid for goods and services		**47,193,669**	35,185,808
Cash paid to and on behalf of employees		**15,376,536**	12,880,301
Cash paid for various types of taxes		**3,961,774**	3,862,435
Cash paid relating to other operating activities		**4,344,974**	4,369,676
Sub-total of cash outflows		**70,876,953**	56,298,220
Net cash flows from operating activities	55	**3,499,634**	7,028,435
II. Cash flows from investing activities			
Cash received from sale of investments		**5,941,408**	3,927,641
Cash received from return on investment		**441,612**	92,361
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**9,436**	14,032
Net cash received from the disposal of subsidiaries and other operating units		**89,100**	1,043,652
Sub-total of cash inflows		**6,481,556**	5,077,686
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets		**2,330,563**	2,988,051
Cash paid for acquisition of investments		**5,041,165**	8,771,072
Other cash paid in relation to investing activities	54	**72,098**	—
Sub-total of cash outflows		**7,443,826**	11,759,123
Net cash flows from investing activities		**(962,270)**	(6,681,437)
III. Cash flows from financing activities			
Cash received from capital injection		**124,823**	20,000
Including: Capital injection into subsidiaries by minority shareholders		**36,650**	20,000
Cash received from borrowings		**60,937,792**	20,776,602
Sub-total of cash inflows		**61,062,615**	20,796,602
Cash repayment of borrowings		**56,319,452**	11,029,930
Cash payments for distribution of dividends, profits and for interest expenses		**2,346,793**	756,904
Including: Distribution of dividends, profits by subsidiaries to minority shareholders		**75,905**	126,904
Other cash paid relating to financing activities	54	**203,801**	220,584
Sub-total of cash outflows		**58,870,046**	12,007,418
Net cash flows from financing activities		**2,192,569**	8,789,184
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**280,649**	(155,128)
V. Net increase in cash and cash equivalents		**5,010,582**	8,981,054
Add: cash and cash equivalents at beginning of period		**39,070,583**	31,403,056
VI. Net balance of cash and cash equivalents at the end of period	55	**44,081,165**	40,384,110

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 2022 (Unaudited)	31 December 2021 (Audited)
Current assets			
Cash		**32,208,290**	26,959,247
Derivative financial assets		**235,435**	208,877
Trade receivables	1	**21,938,625**	20,970,487
Receivable financing		**7,276,410**	4,943,204
Factored trade receivables	1	**87,865**	169,613
Prepayments		**12,458**	41,618
Other receivables	2	**32,211,340**	28,772,253
Inventories		**18,192,989**	17,333,958
Contract assets		**4,108,642**	5,127,209
Other current assets		**2,325,343**	2,634,789
Total current assets		**118,597,397**	107,161,255
Non-current assets			
Long-term trade receivables	3	**6,330,701**	6,200,183
Factored long-term trade receivables	3	**196,471**	222,746
Long-term equity investments	4	**15,919,951**	16,957,563
Other non-current financial assets		**606,885**	627,848
Investment properties		**1,612,516**	1,614,000
Fixed assets		**6,079,931**	5,937,863
Construction in progress		**581,800**	490,891
Right-of-use assets		**162,753**	246,209
Intangible assets		**2,879,263**	3,085,517
Development costs		**403,861**	307,740
Deferred tax assets		**1,343,400**	1,289,485
Other non-current assets		**4,882,867**	4,558,759
Total non-current assets		**41,000,399**	41,538,804
TOTAL ASSETS		**159,597,796**	148,700,059

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 2022 (Unaudited)	31 December 2021 (Audited)
Current liabilities			
Short-term loans		**2,850,050**	2,865,000
Bank advances on factored trade receivables		**88,281**	170,822
Derivative financial liabilities		**14,549**	27,625
Bills payable		**15,556,635**	15,474,186
Trade payables		**34,803,273**	32,865,858
Contract liabilities		**16,308,770**	12,141,684
Salary and welfare payables		**6,156,461**	7,267,864
Taxes payable		**194,735**	215,423
Other payables		**6,847,002**	7,402,014
Provisions		**1,996,433**	1,796,414
Non-current liabilities due within one year		**1,189,279**	247,572
Total current liabilities		**86,005,468**	80,474,462
Non-current liabilities			
Long-term loans		**23,660,280**	19,463,550
Bank advances on factored long-term trade receivables		**197,600**	229,500
Lease liabilities		**86,004**	137,135
Provision for retirement benefits		**145,169**	147,539
Deferred income		**459,990**	136,962
Other non-current liabilities		**1,861,104**	1,812,185
Total non-current liabilities		**26,410,147**	21,926,871
Total liabilities		**112,415,615**	102,401,333
Shareholders' equity			
Share capital		**4,735,829**	4,730,796
Capital reserves		**25,714,481**	25,387,579
Other comprehensive income		**717,525**	714,191
Surplus reserve		**2,365,398**	2,365,398
Retained profits		**13,648,948**	13,100,762
Total shareholders' equity attributable to holders of ordinary shares		**47,182,181**	46,298,726
Total shareholders' equity		**47,182,181**	46,298,726
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**159,597,796**	148,700,059

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 2022 (Unaudited)	Six months ended 30 June 2021 (Unaudited)
Operating revenue	5	**55,906,298**	50,890,634
Less: Operating costs	5	**47,675,351**	42,705,115
Taxes and surcharges		**107,427**	109,066
Selling and distribution costs		**2,482,615**	2,344,578
Administrative expenses		**2,164,419**	2,068,229
Research and development costs		**1,935,144**	1,598,161
Finance costs		**(488,770)**	336,205
Including: Interest expense		**624,809**	464,259
Interest income		**871,611**	405,988
Add: Other income		**82,408**	353,248
Investment income	6	**85,125**	893,762
Including: Share of losses of associates and joint ventures	6	**(53,453)**	(67,079)
Losses from derecognition of financial assets at amortised cost	6	**(52,798)**	(46,752)
Gain/(losses) from changes in fair values		**29,044**	196,281
Credit impairment losses		**(148,713)**	(60,658)
Asset Impairment losses		**(132,538)**	423,953
Gain on asset disposal	7	**4,521**	47,494
Operating profit		**1,949,959**	3,583,360
Add: Non-operating income		**68,054**	109,185
Less: Non-operating expenses		**40,362**	42,724
Total profit		**1,977,651**	3,649,821
Less: Income tax		**9,252**	436,184
Net profit		**1,968,399**	3,213,637
Including: net profit from continuing operations		**1,968,399**	3,213,637
Analysed by ownership			
Attributable to holders of ordinary shares		**1,968,399**	3,213,637
Other comprehensive income, net of tax		**3,334**	11,723
Other comprehensive income that will be reclassified to profit and loss			
Exchange differences on translation of foreign operations		**3,334**	11,723
Total comprehensive income		**1,971,733**	3,225,360
Attributable to:			
Holders of ordinary shares		**1,971,733**	3,225,360

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 2022 (unaudited)						
		Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Total shareholders' equity
I.	Closing balance of previous period	4,730,796	25,387,579	714,191	2,365,398	13,100,762	46,298,726	46,298,726
II.	Changes during the period							
	(I) Total comprehensive income	–	–	3,334	–	1,968,399	1,971,733	1,971,733
	(II) Shareholder's capital injection and capital reduction							
	1. Shareholder's capital injection	5,033	–	–	–	–	5,033	5,033
	2. Equity settled share expenses charged to equity	–	326,902	–	–	–	326,902	326,902
	(III) Profit appropriation							
	1. Distribution to shareholders	–	–	–	–	(1,420,213)	(1,420,213)	(1,420,213)
III.	Current period's closing balance	4,735,829	25,714,481	717,525	2,365,398	13,648,948	47,182,181	47,182,181

		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	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								
	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

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 2022 (Unaudited)	Six months ended 30 June 2021 (Unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	**64,809,387**	55,708,144
Refunds of taxes	**1,346,705**	1,291,719
Cash received relating to other operating activities	**1,186,076**	762,903
Sub-total of cash inflows	**67,342,168**	57,762,766
Cash paid for goods and services	**55,398,229**	45,023,046
Cash paid to and on behalf of employees	**4,907,145**	4,111,210
Cash paid for various types of taxes	**871,517**	804,387
Cash paid relating to other operating activities	**3,454,258**	2,457,805
Sub-total of cash outflows	**64,631,149**	52,396,448
Net cash flows from operating activities	**2,711,019**	5,366,318
II. Cash flows from investing activities		
Cash received from sale of investments	**4,967,520**	3,918,950
Cash received from return on investments	**876,982**	685,025
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**8,810**	19,000
Cash received relating to other investing activities	**31,098**	1,120,000
Sub-total of cash inflows	**5,884,410**	5,742,975
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	**1,024,658**	1,246,338
Cash paid for acquisition of investments	**4,149,556**	9,152,920
Other cash paid in relation to investing activities	**563,574**	—
Sub-total of cash outflows	**5,737,788**	10,399,258
Net cash flows from investing activities	**146,622**	(4,656,283)
III. Cash flows from financing activities		
Cash received from capital injection	**88,173**	—
Cash received from borrowings	**47,668,667**	14,144,360
Other cash received in relation to financing activities	**3,025,406**	—
Sub-total of cash inflows	**50,782,246**	14,144,360
Cash repayment of borrowings	**42,543,868**	7,828,070
Cash payments for distribution of dividends and profits or for interest expenses	**1,977,672**	373,080
Other cash paid in relation to financing activities	**3,111,258**	71,819
Sub-total of cash outflows	**47,632,798**	8,272,969
Net cash flows from financing activities	**3,149,448**	5,871,391
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**181,926**	(107,013)
V. Net increase in cash and cash equivalents	**6,189,015**	6,474,413
Add: cash and cash equivalents at the beginning of the period	**17,381,816**	20,097,442
VI. Net balance of cash and cash equivalents at the end of the period	**23,570,831**	26,571,855

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)

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 26 August 2022.

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

Notes to Financial Statements (continued)

(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

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

The financial statements are prepared on a going concern basis.

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company and the results of their operations and their cash flows as at and for the six months ended 30 June 2022.

2. Financial year

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

3. Reporting currency

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

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

Notes to Financial Statements (continued)

(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

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.

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

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination.

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

Notes to Financial Statements (continued)

(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)

5. Consolidated financial statements

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

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

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

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

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

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

6. Classification of joint venture arrangements and joint operation

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

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

Notes to Financial Statements (continued)

(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)

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.

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

Notes to Financial Statements (continued)

(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

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 amortised cost, financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss 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 one 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 (continued)

(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 one 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 one 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.

Notes to Financial Statements (continued)

(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)

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.

Classification and valuation of financial liabilities

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss, financial liabilities at amortised cost 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 financial liabilities at amortised cost, 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.

Notes to Financial Statements (continued)

(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 (continued)

Financial liabilities at amortised cost

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.

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.

Notes to Financial Statements (continued)

(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)

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.

Factors reflected in the Group's method of measuring ECL of financial instruments include: unbiased weighted average amount, currency time value, and reasonable and substantiated information on past events, current conditions and projected future economic conditions obtainable at the balance sheet date without undue excessive cost or effort.

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

Financial guarantee contracts

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

Notes to Financial Statements (continued)

(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)

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.

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.

Contract fulfilment costs classified as current assets are shown under inventories.

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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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Fixed Assets

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

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

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

	Useful life	Estimated residual value ratio	Annual depreciation rate
Freehold land	Indefinite	—	No depreciation
Buildings	30–50 years	5%	1.90%–3.17%
Electronic equipment	3–5 years	5%	19%–32%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
Other equipment	5 years	5%	19%

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs

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

Capitalisation of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

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

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

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

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.

(2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Provisions

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

(1) the obligation is a present obligation of the Group;

(2) the obligation would probably result in an outflow of economic benefits from the Group;

(3) the obligation could be reliably measured.

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

18. Share-based payments

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Share-based payments (continued)

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

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

19. Other equity instrument

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

20. Revenue

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

Contract for the sales of products

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

Contract for the rendering of services

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

Telecommunication system construction contract

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

Variable consideration

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

Consideration payable to customers

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

Return clauses

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

Significant financing component

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

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

Warranty clauses

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

21. Contract assets and contract liabilities

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

Contract assets

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Contract assets and contract liabilities (continued)

Contract liabilities

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

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

22. Assets relating to contract cost

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Government grants

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Deferred income tax

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

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

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

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

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

(1) where the deductible temporary difference arises from transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(2) deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are recognised when all following conditions are met: it is probable that the temporary differences will reverse in the foreseeable future, it is probable that taxable profit against the deductible temporary differences will be available.

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Deferred income tax (continued)

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

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

25. Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. If one party to the contract conveys a right to control the use of one or more identified assets for a period of time in exchange for consideration, such contract is, or contains, a lease.

Right-of-use assets

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 is initially measured at cost. Right-of-use assets include: the initially measured amount of lease liabilities; the lease payment incurred at or prior to the lease inception date, less the lease incentive amount received where applicable; initial direct expenses incurred by the lessee; estimated cost to be incurred by the lessee for demolishing and removing lease assets, restoring the premises at which the lease assets are located or restoring the lease assets to the agreed state under the lease terms. Where Group remeasures the lease liabilities owing to changes in the lease payment amount, the carrying value of the right-of-use assets should be adjusted accordingly. In subsequent measurement, the Group provides depreciation of the right-of-use assets 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.

Notes to Financial Statements (continued)

(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)

25. Leases (continued)

Lease liabilities

At the inception of the lease period, the Group recognised the present value of outstanding lease payments as lease liabilities, other than short-term leases and low-value asset lease. Lease payment amounts include fixed payments and the amount of substantial fixed payments less rental incentives, variable lease payment amounts depending on indices or ratios, estimated amounts payable based on the remaining value of guarantees, as well as amounts payable for the exercise price of buying option or termination of lease renewal option, provided that the Group reasonably ascertains that the option will be exercised or the lease period reflects that the Group will terminate the renewal option.

In calculating the present value of the lease payment amount, the Group adopts the inherent interest rate of the lease as the discount rate. Where the inherent interest rate of the lease cannot be ascertained, the incremental loan interest rate of the lessee is adopted as the discount rate. 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, other than those otherwise required to be included in relevant asset cost. Variable lease payments not included in lease liabilities are charged to current profit or loss as and when incurred, other than those otherwise required to be included in relevant asset cost.

After the inception of the lease period, the carrying amount of lease liabilities is increased when the Group recognises interest expenses and reduced when lease amounts are paid. 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.

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.

Notes to Financial Statements (continued)

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee

Please refer to the note above for the Group's accounting treatment for recognition of right-of-use assets and lease liabilities, other than short-term lease and lease of low-value assets.

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, including initial direct expenses.

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.

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. Initial direct cost is capitalised and distributed over the lease period in accordance with the same bases for recognising rental income and included in current profit or loss for each period.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As lessee

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

As lessor

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

26. Impairment

Impairment of assets other than inventories, investment properties measured at fair value, deferred tax assets, contract assets and financial assets, is determined using the methods described below:

At each balance sheet date, it is determined 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 and intangible assets not yet ready for use, tests for impairment is performed at least annually regardless of whether there are indications of 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.

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(Prepared in accordance with PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Impairment (continued)

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

Previously recognised impairment losses are not reversed in subsequent periods.

27. Employee remuneration

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

Short-term remuneration

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

Retirement benefit (defined deposit scheme)

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

Retirement benefit (defined benefit scheme)

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

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Employee remuneration (continued)

Retirement benefit (defined benefit scheme) (continued)

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

Termination benefits

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

Other long-term employees' benefits

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

28. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments, other debt investments and listed and unlisted equity instrument investments. Fair value means the price receivable from the disposal of an asset or required to be paid for the transfer of a liability in an orderly transaction incurred by market participants on the measurement date.

The 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.

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(Prepared in accordance with PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Profit distribution

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

30. Significant accounting judgements and estimates

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

Judgement

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

Determination of standalone contractual performance obligations under telecommunication system construction contracts

The Group's telecommunication system construction contract typically includes a range of pledged performance, such as equipment sales and installation service or a combination of both set out in contracts with customers. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

Determination of progress of performance of service rendering contracts

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

Performance of obligation at a point of time

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

Business model

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

Characteristics of contract cash flow

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

Deferred tax liabilities relating to subsidiaries, associates and joint ventures

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

Derecognition of financial assets

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

Estimation uncertainty

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of financial instruments

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

Depreciation and amortisation

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

Development costs

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

Deferred tax assets

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

Estimated standalone selling price

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Provision for inventory impairment

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

Warranty

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

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 30 June 2022 was RMB2,012,443,000 (31 December 2021: RMB2,013,927,000).

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value of non-listed equity investment

The Group determines the fair value of non-listed equity investment using the market approach. This requires the Group to ascertain comparable listed companies, select market multiples and make estimates on liquidity discounts. 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. At the inception of the lease period, if 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. After the inception date of the lease period, if material events or changes within the control of the Group occur and affect the Group's ability to reasonably determine whether to exercise the renewal option, the Group will reassess whether or not to the exercise of the renewal option and amend the lease period according the outcome of reassessment.

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 for 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.

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

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

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

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

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

Notes to Financial Statements (continued)

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

1. Cash and Bank Balance

	30 June 2022	31 December 2021
Cash	**1,933**	1,685
Bank Deposit	**53,835,810**	49,290,568
Other cash	**1,088,552**	1,421,057
	54,926,295	50,713,310

As at 30 June 2022, the Group's overseas currency deposits amounted to RMB3,207,874,000 (31 December 2021: RMB2,847,164,000). Funds placed overseas and subject to remittance restrictions amounted to RMB61,040,000 (31 December 2021: RMB41,776,000).

Current bank deposits earn interest income based on current deposit interest rate. Short-term time deposits have periods varying from seven days to three months subject to the Group's cash requirements and earn interest income based on corresponding time deposit interest rates of banks. Time deposit of over three months amounting to RMB9,756,578,000 (31 December 2021: RMB10,221,671,000) were not included in cash and cash equivalents.

2. Trading financial assets

	30 June 2022	31 December 2021
Investment in equity instrument at fair value through current profit or loss	**897,389**	1,360,697
	897,389	1,360,697

3. Derivative financial assets

	30 June 2022	31 December 2021
Derivative financial assets at fair value through current profit or loss	**251,162**	209,352

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 derivative financial instruments amounting to RMB54,603,000 (Six months ended 30 June 2021: gain of RMB265,985,000) was dealt with in current profit or loss.

Notes to Financial Statements (continued)

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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 2022	31 December 2021
Within 1 year	17,956,213	17,787,091
1 to 2 years	1,719,108	1,433,721
2 to 3 years	826,350	928,053
Over 3 years	5,022,928	4,813,325
	25,524,599	24,962,190
Less: bad debt provision for trade receivables	7,587,611	7,453,131
	17,936,988	17,509,059

	30 June 2022					31 December 2021				
	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	1,928,509	8	1,928,509	100	–	1,967,274	8	1,967,274	100	–
For which provision for bad debt is recognised by group with credit risk characteristics	23,596,090	92	5,659,102	24	17,936,988	22,994,916	92	5,485,857	24	17,509,059
	25,524,599	100	7,587,611	30	17,936,988	24,962,190	100	7,453,131	30	17,509,059

As at 30 June 2022, 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*	355,997	355,997	100%
Overseas carriers 2*	241,715	241,715	100%
Overseas carriers 3*	193,397	193,397	100%
Overseas carriers 4*	161,905	161,905	100%
Overseas carriers 5*	75,322	75,322	100%
Others (Customer 6 to Customer 31)*	900,173	900,173	100%
	1,928,509	1,928,509	100%

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

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

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

4A. Trade receivables (continued)

As at 31 December 2021, bad debt provisions for trade receivables which were individually made were as follows:

	Book balance	Bad debt provision	Expected credit loss rate
Overseas carriers 1*	390,460	390,460	100%
Overseas carriers 2*	241,715	241,715	100%
Overseas carriers 3*	199,284	199,284	100%
Overseas carriers 4*	158,079	158,079	100%
Overseas carriers 5*	90,141	90,141	100%
Others (Customer 6 to Customer 31)*	887,595	887,595	100%
	1,967,274	1,967,274	100%

* The provision was made 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 2022			31 December 2021		
	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	**15,896,639**	**2**	**385,063**	15,940,858	3	489,273
6–12 months	**1,378,107**	**15**	**201,585**	1,185,963	17	197,560
1–2 years	**1,699,684**	**32**	**542,587**	1,363,706	29	394,634
2–3 years	**709,533**	**87**	**617,740**	802,566	88	702,567
Over 3 years	**3,912,127**	**100**	**3,912,127**	3,701,823	100	3,701,823
	23,596,090		**5,659,102**	22,994,916		5,485,857

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

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	Closing balance
30 June 2022					
Bad debt provision	**7,454,388**	**118,144**	**(50,425)**	**66,825**	**7,588,932**
Including: Trade receivables	**7,453,131**	**118,080**	**(50,425)**	**66,825**	**7,587,611**
Factored trade receivables	**1,257**	**64**	**—**	**—**	**1,321**
31 December 2021					
Bad debt provision	9,555,334	218,800	(2,024,178)	(295,568)	7,454,388
Including: Trade receivables	9,554,429	218,448	(2,024,178)	(295,568)	7,453,131
Factored trade receivables	905	352	—	—	1,257

During the period, RMB72,905,000 (Six months ended 30 June 2021: RMB205,296,000) 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 no write-off of separately made bad-debt provision for trade receivables (Six months ended 30 June 2021: RMB91,839,000).

Top 5 accounts of trade receivables as at 30 June 2022 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	**2,991,591**	**11.72%**	**6,618**
Customer 2	**1,267,702**	**4.97%**	**325,418**
Customer 3	**1,233,209**	**4.83%**	**97,562**
Customer 4	**1,119,364**	**4.39%**	**17,020**
Customer 5	**733,845**	**2.88%**	**362,447**
	7,345,711	**28.79%**	**809,065**

Notes to Financial Statements (continued)

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

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 2021 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	3,428,694	13.74%	18,625
Customer 2	1,073,113	4.30%	26,388
Customer 3	1,002,129	4.01%	216,999
Customer 4	941,532	3.77%	77,718
Customer 5	862,243	3.45%	434,458
	7,307,711	29.27%	774,188

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 RMB7,015,273,000 (30 June 2021: RMB6,117,728,000) and loss of RMB108,165,000 (Six months ended 30 June 2021: Loss of RMB106,075,000) 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 2022	31 December 2021
Commercial acceptance bills	**3,749,098**	3,508,193
Bank acceptance bills	**3,868,369**	1,688,265
	7,617,467	5,196,458

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.

Notes to Financial Statements (continued)

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

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 2022		31 December 2021	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Commercial acceptance bills	**455,408**	**–**	–	–
Bank acceptance bills	**1,045,816**	**–**	1,017,956	–
	1,501,224	**–**	1,017,956	–

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

	Opening balance	Charge for the period	Charge-off for the period	Closing balance
30 June 2022	**3,328**	**1,327**	**(11)**	**4,644**
31 December 2021	1,439	1,889	–	3,328

5. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2022		31 December 2021	
	Book balance	**Percentage**	Book balance	Percentage
Within 1 year	**584,863**	**100%**	606,781	100%

Notes to Financial Statements (continued)

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

5. Prepayments (continued)

Top 5 accounts of prepayments as at 30 June 2022 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	**247,115**	**42.25%**
Supplier 2	**59,129**	**10.11%**
Supplier 3	**28,929**	**4.95%**
Supplier 4	**18,454**	**3.16%**
Supplier 5	**11,334**	**1.94%**
	364,961	**62.41%**

Top 5 accounts of prepayments as at 31 December 2021 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	300,000	49.44%
Supplier 2	59,146	9.75%
Supplier 3	32,289	5.32%
Supplier 4	18,419	3.04%
Supplier 5	10,771	1.78%
	420,625	69.33%

Notes to Financial Statements (continued)

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(English translation for reference only)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables

	30 June 2022	31 December 2021
Interests receivables	**515,883**	295,146
Other receivables	**1,150,637**	1,058,633
	1,666,520	1,353,779

Interest receivables

	30 June 2022	31 December 2021
Time deposits	**515,883**	295,146

Other receivables

Aging analysis of other receivables was as follows:

	30 June 2022	31 December 2021
Within 1 year	**699,780**	656,167
1 year to 2 years	**441,733**	414,203
2 years to 3 years	**35,505**	33,292
Over 3 years	**66,216**	62,089
	1,243,234	1,165,751
Bad debt provision	**(92,597)**	(107,118)
	1,150,637	1,058,633

Other receivables analysed by nature were as follows:

	30 June 2022	31 December 2021
Staff loans	**34,013**	87,075
Transactions with third parties	**1,116,624**	971,558
	1,150,637	1,058,633

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

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

6. Other receivables (continued)

Top 5 accounts of other receivables as at 30 June 2022 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Bad debt provision	Expected credit loss	Nature
Third-party entity 1	125,000	10.05%	–	–	Transactions with third parties
Third-party entity 2	99,834	8.03%	–	–	Transactions with third parties
Third-party entity 3	43,786	3.52%	–	–	Transactions with third parties
Third-party entity 4	40,209	3.23%	–	–	Transactions with third parties
Third-party entity 5	32,203	2.59%	–	–	Transactions with third parties
Total	341,032	27.42%	–		

Top 5 accounts of other receivables as at 31 December 2021 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Bad debt provision	Expected credit loss	Nature
Third-party entity 1	125,000	10.72%	–	–	Transactions with third parties
Third-party entity 2	89,100	7.64%	–	–	Transactions with third parties
Third-party entity 3	44,652	3.83%	–	–	Transactions with third parties
Third-party entity 4	35,114	3.01%	–	–	Transactions with third parties
Third-party entity 5	17,373	1.49%	–	–	Transactions with third parties
Total	311,239	26.69%	–		

The above top five accounts of other receivables represent other amounts receivable from and loans and advances to third parties of the Group aged within 0–36 months.

Notes to Financial Statements (continued)

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

6. Other receivables (continued)

Financial assets included in other receivables was RMB1,209,221,000. 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	973	–	106,145	107,118
Charge for the period	145	–	42,277	42,422
Reversal for the period	–	–	(41,295)	(41,295)
Charge-off for the period	–	–	(14,151)	(14,151)
Effect of exchange rate	–	–	(1,497)	(1,497)
Balance at 30 June 2022	**1,118**	**–**	**91,479**	**92,597**

7. Inventories

	30 June 2022			31 December 2021		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value
Raw materials and materials under subcontract processing	**21,903,889**	**1,830,488**	**20,073,401**	17,487,715	1,826,349	15,661,366
Work in progress	**2,004,593**	**36,027**	**1,968,566**	2,131,693	31,397	2,100,296
Finished goods	**4,087,497**	**455,700**	**3,631,797**	3,940,946	421,083	3,519,863
Dispatch of goods	**11,549,809**	**1,208,856**	**10,340,953**	10,764,909	1,248,209	9,516,700
Contract costs	**7,357,569**	**1,523,970**	**5,833,599**	6,935,493	1,416,965	5,518,528
	46,903,357	**5,055,041**	**41,848,316**	41,260,756	4,944,003	36,316,753

Notes to Financial Statements (continued)

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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 2022

	Opening balance	Charge/ (reversal) for the period	Transfer to write-off during the period	Others	Closing balance
Raw materials and materials under subcontract processing	**1,826,349**	**5,047**	**(378)**	**(530)**	**1,830,488**
Work in progress	**31,397**	**4,625**	**—**	**5**	**36,027**
Finished goods	**421,083**	**26,910**	**(3,550)**	**11,257**	**455,700**
Dispatch of goods and contract cost	**2,665,174**	**130,851**	**(14,949)**	**(48,250)**	**2,732,826**
	4,944,003	**167,433**	**(18,877)**	**(37,518)**	**5,055,041**

31 December 2021

	Opening balance	Charge/ (reversal) for the year	Transfer to write-off during the year	Others	Closing balance
Raw materials and materials under subcontract processing	789,230	1,081,968	(320)	(44,529)	1,826,349
Work in progress	22,218	20,865	—	(11,686)	31,397
Finished goods	548,437	(46,096)	(28,820)	(52,438)	421,083
Dispatch of goods and contract cost	2,935,793	(238,491)	(514)	(31,614)	2,665,174
	4,295,678	818,246	(29,654)	(140,267)	4,944,003

Notes to Financial Statements (continued)

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

8. Contract assets

	30 June 2022			31 December 2021		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Contract assets	6,104,739	(366,197)	5,738,542	6,974,268	(388,961)	6,585,307

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

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

	Opening balance	Charge/ (reversal) for the period	Charge-off for the period	Exchange rate changes	Closing balance
Six months ended 30 June 2022	388,961	(22,449)	90	(405)	366,197

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 2022		
	Carrying amount estimated to be in default	Expected credit loss rate	Expected credit loss during the entire subsistence
Standalone bad debt provision	166,259	100.00%	166,259
For which provision for bad debt is recognised by group with credit risk characteristics	5,938,480	3.37%	199,938
	6,104,739	6.00%	366,197

	31 December 2021		
	Carrying amount estimated to be in default	Expected credit loss rate	Expected credit loss during the entire subsistence
Standalone bad debt provision	165,931	100.00%	165,931
For which provision for bad debt is recognised by group with credit risk characteristics	6,808,337	3.28%	223,030
	6,974,268	5.58%	388,961

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Long-term receivables

	30 June 2022	31 December 2021
Installment payments for the provision of telecommunication system construction projects	**2,425,029**	2,510,109
Less: Bad debt provision for long-term receivables	**150,160**	153,696
	2,274,869	2,356,413

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

	Opening balance	**Charge/ (reversal) for the period**	**Write-off during the period**	**Exchange rate effect**	**Closing balance**
30 June 2022					
Bad debt provision	**160,446**	**(3,686)**	**–**	**55**	**156,815**
Including: long-term trade receivables	**153,696**	**(3,591)**	**–**	**55**	**150,160**
Factored long-term receivables	**6,750**	**(95)**	**–**	**–**	**6,655**
31 December 2021					
Bad debt provision	197,438	(8,548)	(25,477)	(2,967)	160,446
Including: long-term trade receivables	191,912	(9,772)	(25,477)	(2,967)	153,696
Factored long-term receivables	5,526	1,224	–	–	6,750

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 6.19%.

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

Notes to Financial Statements (continued)

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(All amounts in RMB'000 unless otherwise stated)

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

10. Long-term equity investments

		30 June 2022	31 December 2021
Equity method			
Joint ventures	(1)	**500,760**	498,020
Associates	(2)	**1,194,413**	1,273,662
Less: provision for impairment of long-term equity investments		**75,557**	86,773
		1,619,616	1,684,909

30 June 2022

(1) Joint Ventures

	Shareholding percentage	Opening book balance	Movement during the period: Increase of investment	Decrease of investment and other outgoing transfers	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend	Allowance for impairment provision	Closing book balance	Impairment provision as at the end of the period
Puxing Mobile Tech Company Limited	33.85%	10,752	–	–	–	–	–	–	–	10,752	–
德特賽維技術有限公司	49%	28,527	–	–	(3,684)	–	–	–	–	24,843	–
重慶百德行置業有限公司	10%	7,000	3,000	–	–	–	–	–	–	10,000	–
Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership)	40%	50,539	–	–	1,246	–	–	–	–	51,785	–
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	40%	401,202	–	–	2,178	–	–	–	–	403,380	–
		498,020	3,000	–	(260)	–	–	–	–	500,760	–

Notes to Financial Statements (continued)

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

10. Long-term equity investments (continued)

30 June 2022 (continued)

(2) Associates

			Movement during the period								
	Shareholding percentage	Opening book balance	Increase of investment	Decrease of investment and other outgoing transfers	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend	Allowance for/ transfer out of impairment provision	Closing balance	Impairment provision as at the end of the period
Telecom Innovations**	–	–	–	(11,216)	–	–	–	–	11,216	–	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	18%	–	–	–	–	–	–	–	–	–	–
中興耀維科技江蘇有限公司*	–	430	–	(430)	–	–	–	–	–	–	–
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	49%	–	–	–	–	–	–	–	–	–	(7,117)
中山優順置業有限公司	20%	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和(北京)科技有限公司	30%	–	–	–	–	–	–	–	–	–	(570)
廣東中城信息技術有限公司	39%	4,687	–	–	–	–	–	–	–	4,687	–
上海博色信息科技有限公司	29%	2,792	–	–	(365)	6	–	–	–	2,433	–
New Idea Investment Pte. Ltd	20%	–	–	–	–	–	–	–	–	–	(14,551)
興辰智能科技產業有限公司	19%	–	–	–	–	–	–	–	–	–	(37,248)
南京寧網科技有限公司	21.26%	3,653	–	–	(1,654)	–	–	–	–	1,999	–
Hengyang ICT Real Estate Co., Ltd.	30%	36,375	–	–	–	–	–	–	–	36,375	(16,071)
貴州中安雲網科技有限公司	9.31%	5,475	–	–	–	–	–	–	–	5,475	–
陝西高端裝備與智能製造產業研究院有限公司	12.5%	2,104	–	–	–	–	–	–	–	2,104	–
Kron Telekomunikasyon Hizmetleri A.S.*	–	4,294	–	(4,247)	–	(47)	–	–	–	–	–
山東興濟置業有限公司	10%	1,069	–	–	–	–	–	–	–	1,069	–
Huanggang Education Valley Investment Holdings Co., Ltd	25%	728	–	–	(728)	–	–	–	–	–	–
Whale Cloud Technology Co., Ltd.	28.99%	910,173	–	–	(49,172)	(5,314)	–	–	–	855,687	–
Shijiazhuang Smart Industries Company Limited	12%	7,829	–	–	(1,703)	–	–	–	–	6,126	–
Zhongxing Feiliu Information Technology Company Limited	31.69%	41,640	–	–	(5,001)	–	–	–	–	36,639	–
江西國投信息科技有限公司	15%	1,533	–	–	8	–	–	(92)	–	1,449	–
安徽奇英智能科技有限公司	35%	2,867	–	–	(104)	–	–	–	–	2,763	–
興雲時代科技有限公司	23.26%	131,694	–	–	304	–	–	–	–	131,998	–
ZTE (Wenzhou) Railway Communication Technology Limited	45.9%	27,546	–	–	2,112	–	–	(1,606)	–	28,052	–
		1,186,889	–	(15,893)	(56,303)	(5,355)	–	(1,698)	11,216	1,118,856	(75,557)

* 中興耀維科技江蘇有限公司 and Kron Telekomunikasyon Hizmetleri A.S. were no longer accounted for as associates for the period owing to the loss of significant influence over them following the disposal of the entire equity interests held in them.

** Telecom Innovations was no longer accounted for as an associate for the period following the dilution of ZTE's shareholdings in the company as a result of additional capital contribution made by its controlling shareholder.

2021

(1) Joint Ventures

			Movement during the year								
	Shareholding percentage	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend	Allowance for impairment provision	Closing book balance	Impairment provision as at the end of the year
Puxing Mobile Tech Company Limited	33.85%	31,343	–	–	(20,591)	–	–	–	–	10,752	–
德特賽維技術有限公司	49%	26,768	–	–	1,759	–	–	–	–	28,527	–
重慶百德行置業有限公司	10%	7,000	–	–	–	–	–	–	–	7,000	–
Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership)	40%	40,000	–	–	10,539	–	–	–	–	50,539	–
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	40%	99,911	300,000	–	1,291	–	–	–	–	401,202	–
		205,022	300,000	–	(7,002)	–	–	–	–	498,020	–

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

10. Long-term equity investments (continued)

2021 (continued)

(2) Associates

			Movement during the year								
	Shareholding percentage	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend	Charge/transfer out of impairment provision	Closing balance	Impairment provision as at the end of the year
KAZNURTEL Limited Liability Company*	–	–	–	(2,477)	–	–	–	–	2,477	–	–
ZTE Energy Limited*	–	447,010	–	(486,199)	48,377	–	–	(9,188)	–	–	–
ZTE Software Technology (Nanchang) Company Limited*	–	–	–	–	–	–	–	–	–	–	–
Telecom Innovations	34.04%	–	–	–	–	–	–	–	–	–	(11,216)
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	18%	–	–	–	–	–	–	–	–	–	–
北京億科三友科技發展有限公司*	–	–	–	(4,764)	–	–	–	–	4,764	–	–
上海中興思秸通訊有限公司*	–	–	–	–	–	–	–	–	–	–	–
中興耀維科技江蘇有限公司	23%	1,492	–	–	(1,062)	–	–	–	–	430	–
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	49%	–	–	–	–	–	–	–	–	–	(7,117)
中山優順置業有限公司	20%	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和(北京)科技有限公司	30%	–	–	–	–	–	–	–	–	–	(570)
廣東中城信息技術有限公司	39%	4,687	–	–	–	–	–	–	–	4,687	–
上海博色信息科技有限公司	29%	4,138	–	–	(1,342)	–	(4)	–	–	2,792	–
New Idea Investment Pte. Ltd	20%	–	–	–	–	–	–	–	–	–	(14,551)
興辰智能科技產業有限公司	19%	–	–	–	–	–	–	–	–	–	(37,248)
南京寧網科技有限公司	21.26%	3,812	–	–	(159)	–	–	–	–	3,653	–
Hengyang ICT Real Estate Co., Ltd.	30%	52,446	–	–	–	–	–	–	(16,071)	36,375	(16,071)
貴州中安雲網科技有限公司	9.31%	5,118	–	–	357	–	–	–	–	5,475	–
陝西高能裝備與智能製造產業研究院有限公司	12.5%	2,152	–	–	–	–	–	(48)	–	2,104	–
中教雲通(北京)科技有限公司*	–	1,526	–	(1,526)	–	–	–	–	–	–	–
Kron Telekomunikasyon Hizmetleri A.S.	10%	9,718	–	(711)	(4,494)	(224)	–	5	–	4,294	–
山東興濟置業有限公司	10%	1,069	–	–	–	–	–	–	–	1,069	–
ZTE 9 (Wuxi) Co., Ltd.*	–	–	–	(13,428)	–	–	–	–	13,428	–	–
Huanggang Education Valley Investment Holdings Co., Ltd	25%	4,414	–	–	(3,686)	–	–	–	–	728	–
Whale Cloud Technology Co., Ltd.	28.99%	867,614	–	–	42,559	–	–	–	–	910,173	–
Shijiazhuang Smart Industries Company Limited	12%	16,172	–	–	(8,343)	–	–	–	–	7,829	–
Zhongxing Feiliu Information Technology Company Limited	31.69%	42,848	–	–	(1,208)	–	–	–	–	41,640	–
江西國投信息科技有限公司	15%	1,571	–	–	(38)	–	–	–	–	1,533	–
安徽奇英智能科技有限公司	35%	3,044	–	–	(177)	–	–	–	–	2,867	–
Xingyun Times Technology Company Limited	23.26%	–	133,514	–	(1,820)	–	–	–	–	131,694	–
Shenzhen Zhongxin New Energy Technology Company Limited*	–	37,950	–	(37,950)	–	–	–	–	–	–	–
ZTE (Wenzhou) Railway Communication Technology Limited	45.9%	–	23,795	–	3,751	–	–	–	–	27,546	–
		1,508,781	157,309	(547,055)	72,715	(224)	(4)	(9,231)	4,598	1,186,889	(86,773)

* KAZNURTEL Limited Liability Company, ZTE Energy Company Limited (renamed Zonergy Corporation as from 2 November 2021), ZTE Software Technology (Nanchang) Company Limited, 北京億科三友科技發展有限公司, 上海中興思秸通訊有限公司, 中教雲通 (北京) 科技有限公司, ZTE 9 (Wuxi) Co., Ltd and Shenzhen Zhongxin New Energy Technology Company Limited were no longer accounted for as associates for the year owing to the loss of significant influence following the full disposal of equity interests held in these companies.

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

10. Long-term equity investments (continued)

Impairment provision for long-term equity investment

30 June 2022

	Opening balance	Increase for the period	Decrease for the period	Closing balance
Telecom Innovations	**11,216**	**—**	**(11,216)**	**—**
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**
鐵建聯和（北京）科技有限公司	**570**	**—**	**—**	**570**
Hengyang ICT Real Estate Co., Ltd	**16,071**	**—**	**—**	**16,071**
	86,773	**—**	**(11,216)**	**75,557**

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
KAZNURTEL Limited Liability Company	2,477	—	(2,477)	—
Telecom Innovations	11,216	—	—	11,216
北京億科三友科技發展有限公司	4,764	—	(4,764)	—
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	7,117	—	—	7,117
New Idea Investment Pte. Ltd	14,551	—	—	14,551
興辰智能科技產業有限公司	37,248	—	—	37,248
ZTE 9 (Wuxi) Co., Ltd.	13,428	—	(13,428)	—
鐵建聯和(北京)科技有限公司	570	—	—	570
Hengyang ICT Real Estate Co., Ltd	—	16,071	—	16,071
	91,371	16,071	(20,669)	86,773

11. Other non-current financial assets

	30 June 2022	31 December 2021
Financial assets at fair value through current profit and loss	**1,152,720**	1,175,249

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

12. Investment properties

30 June 2022

	Buildings
Opening balance	2,013,927
Fair value change (Note V.46)	(1,484)
Closing balance	2,012,443

31 December 2021

	Buildings
Opening balance	2,035,234
Other outgoing transfers	(18,738)
Fair value change	(2,569)
Closing balance	2,013,927

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 2022, investment properties with a carrying value of RMB1,302,500,000 (31 December 2021: RMB1,287,000,000) had yet to obtain title registration certificates.

13. Fixed Assets

30 June 2022

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	9,136,885	26,666	7,329,487	2,823,493	264,707	342,346	19,923,584
Acquisitions	11,450	–	912,545	37,320	4,030	18,639	983,984
Transfer from construction in progress	–	–	–	–	–	–	–
Disposal or retirement	(56,460)	–	(281,149)	(53,287)	(15,408)	(9,361)	(415,665)
Disposal of subsidiaries	(107,489)	–	(69,329)	(1,300)	(6,421)	(5,300)	(189,839)
Exchange rate adjustments	11,183	3,199	(1,587)	9,908	1,110	5,211	29,024
Closing balance	8,995,569	29,865	7,889,967	2,816,134	248,018	351,535	20,331,088
Accumulated depreciation							
Opening balance	2,327,262	–	3,902,487	1,799,251	156,834	272,160	8,457,994
Charge	155,332	–	556,968	89,044	8,548	7,338	817,230
Disposal or retirement	(37,555)	–	(251,623)	(49,892)	(13,680)	(6,697)	(359,447)
Disposal of subsidiaries	(22,614)	–	(56,358)	(1,241)	(5,733)	(5,003)	(90,949)
Exchange rate adjustments	8,359	–	(2,298)	9,617	979	4,576	21,233
Closing balance	2,430,784	–	4,149,176	1,846,779	146,948	272,374	8,846,061
Provision for impairment							
Opening balance	21,270	–	728	5,553	–	1,028	28,579
Charge	–	–	–	–	–	–	–
Disposal or retirement	–	–	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–	–
Exchange rate adjustments	–	–	(192)	–	–	(2)	(194)
Closing balance	21,270	–	536	5,553	–	1,026	28,385
Net book value							
As at the end of the period	6,543,515	29,865	3,740,255	963,802	101,070	78,135	11,456,642
As at the beginning of the period	6,788,353	26,666	3,426,272	1,018,689	107,873	69,158	11,437,011

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

13. Fixed Assets (continued)

31 December 2021

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	9,584,112	29,289	6,367,292	3,135,370	275,430	396,183	19,787,676
Acquisitions	95,181	–	1,601,529	157,646	22,118	58,636	1,935,110
Transfer from construction in progress	149,835	–	40,138	1,406	–	36	191,415
Transfer from investment properties	18,738	–	–	–	–	–	18,738
Disposal or retirement	(542,667)	–	(612,641)	(222,736)	(29,282)	(29,966)	(1,437,292)
Disposal of subsidiaries	(153,367)	–	(47,056)	(239,124)	(2,261)	(67,554)	(509,362)
Exchange rate adjustments	(14,947)	(2,623)	(19,775)	(9,069)	(1,298)	(14,989)	(62,701)
Closing balance	9,136,885	26,666	7,329,487	2,823,493	264,707	342,346	19,923,584
Accumulated depreciation							
Opening balance	2,150,165	–	3,457,403	1,800,470	165,703	271,258	7,844,999
Charge	293,800	–	1,029,918	240,199	20,015	86,788	1,670,720
Disposal or retirement	(77,353)	–	(538,607)	(192,411)	(26,382)	(25,330)	(860,083)
Disposal of subsidiaries	(29,334)	–	(28,668)	(41,527)	(1,212)	(50,358)	(151,099)
Exchange rate adjustments	(10,016)	–	(17,559)	(7,480)	(1,290)	(10,198)	(46,543)
Closing balance	2,327,262	–	3,902,487	1,799,251	156,834	272,160	8,457,994
Provision for impairment							
Opening balance	21,270	–	1,840	5,521	–	104	28,735
Charge	–	–	–	57,074	–	953	58,027
Disposal or retirement	–	–	(426)	(10)	–	(21)	(457)
Disposal of subsidiaries	–	–	–	(57,032)	–	–	(57,032)
Exchange rate adjustments	–	–	(686)	–	–	(8)	(694)
Closing balance	21,270	–	728	5,553	–	1,028	28,579
Net book value							
As at the end of the year	6,788,353	26,666	3,426,272	1,018,689	107,873	69,158	11,437,011
As at the beginning of the year	7,412,677	29,289	2,908,049	1,329,379	109,727	124,821	11,913,942

As at 30 June 2022, 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 RMB3,904,968,000 (31 December 2021: RMB4,023,835,000).

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

14. Construction in progress

Changes in major construction in progress as at 30 June 2022 were as follows:

	Budget	Opening balance	Increase during the period	Transfer to fixed assets during the period	Other reduction	Impairment provision	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Nanjing Project	978,070	567,225	108,715	–	–	–	675,940	Internal funds	69.11%	Under construction
Shanghai R&D Centre Phase III	478,000	258,506	33,139	–	–	–	291,645	Internal funds	61.01%	Under construction
ZTE headquarters	169,040	121,847	17,407	–	–	–	139,254	Internal funds	82.38%	Under construction
Xi'an Project	774,200	265,665	44,494	–	–	–	310,159	Internal funds	40.06%	Under construction
Others	–	159,626	101,240	–	11,696	–	249,170	Internal funds		Under construction
		1,372,869	304,995	–	11,696	–	1,666,168			

Changes in major construction in progress as at 31 December 2021 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets 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	361,162	206,063	–	–	–	567,225	Internal funds	57.99%	Under construction
New energy commercial vehicle production base	578,333	6,356	12,786	–	–	–	19,142	Internal funds	94.22%	Under construction
Shanghai R&D Centre Phase III	478,000	182,031	76,474	–	–	–	258,505	Internal funds	54.08%	Under construction
ZTE headquarters	169,040	84,520	37,327	–	–	–	121,847	Internal funds	72.08%	Under construction
Xi'an Project	774,200	194,464	71,201	–	–	–	265,665	Internal funds	34.31%	Under construction
Others	–	211,367	152,321	191,415	31,788	–	140,485	Internal funds		Under construction
		1,039,900	556,172	191,415	31,788	–	1,372,869			

As at 30 June 2022, there was no capitalised interest in the balance of the construction in progress (31 December 2021: Nil).

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

15. Rights-of-use assets

30 June 2022

	Buildings and structures	Vehicles	Other equipment	Total
Cost				
Opening balance	1,394,347	58,474	75,840	1,528,661
Increase	129,093	–	–	129,093
Decrease	(260,063)	(1,775)	(71,603)	(333,441)
Disposal of subsidiaries	(7,206)	–	–	(7,206)
Exchange rate adjustment	(3,725)	(168)	(13)	(3,906)
Closing balance	1,252,446	56,531	4,224	1,313,201
Cumulative depreciation				
Opening balance	608,847	37,488	66,980	713,315
Charge	151,608	5,529	7,163	164,300
Decrease	(179,855)	(1,775)	(71,603)	(253,233)
Disposal of subsidiaries	(2,480)	–	–	(2,480)
Exchange rate adjustment	(588)	(27)	(2)	(617)
Closing balance	577,532	41,215	2,538	621,285
Book value				
As at the end of the period	674,914	15,316	1,686	691,916
As at the beginning of the period	785,500	20,986	8,860	815,346

31 December 2021

	Buildings and structures	Vehicles	Other equipment	Total
Cost				
Opening balance	1,615,090	129,627	143,818	1,888,535
Increase	240,128	19,666	–	259,794
Disposal	(421,032)	(89,113)	(67,575)	(577,720)
Exchange rate adjustment	(39,839)	(1,706)	(403)	(41,948)
Closing balance	1,394,347	58,474	75,840	1,528,661
Cumulative depreciation				
Opening balance	628,047	99,259	114,019	841,325
Charge	355,961	28,549	20,814	405,324
Disposal	(347,795)	(89,113)	(67,575)	(504,483)
Exchange rate adjustment	(27,366)	(1,207)	(278)	(28,851)
Closing balance	608,847	37,488	66,980	713,315
Book value				
As at the end of the year	785,500	20,986	8,860	815,346
As at the beginning of the year	987,043	30,368	29,799	1,047,210

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

16. Intangible assets

30 June 2022

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	1,173,666	490,422	2,862,520	2,089,697	15,617,778	22,234,083
Acquisition	145,072	57,383	–	27,584	–	230,039
In-house R&D	–	–	–	–	898,791	898,791
Disposal or retirement	(25,965)	–	(9,532)	–	(103,112)	(138,609)
Disposal of subsidiaries	(8,928)	(133,907)	(22,164)	–	–	(164,999)
Exchange rate adjustments	15,436	–	–	(11,374)	–	4,062
Closing balance	1,299,281	413,898	2,830,824	2,105,907	16,413,457	23,063,367
Accumulated amortisation						
Opening balance	525,154	381,591	420,046	1,275,398	11,104,741	13,706,930
Charge	109,416	24,436	35,250	111,803	891,900	1,172,805
Disposal or retirement	(22,274)	–	(1,053)	–	(42,318)	(65,645)
Disposal of subsidiaries	(8,857)	(133,481)	(3,065)	–	–	(145,403)
Exchange rate adjustments	9,949	–	–	4,708	–	14,657
Closing balance	613,388	272,546	451,178	1,391,909	11,954,323	14,683,344
Provision for impairment						
Opening balance	92,613	39,422	–	245,117	55,459	432,611
Charge	–	–	–	–	–	–
Disposal or retirement	–	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–
Exchange rate adjustments	3,046	–	–	(1,638)	–	1,408
Closing balance	95,659	39,422	–	243,479	55,459	434,019
Book value						
As at the end of the period	590,234	101,930	2,379,646	470,519	4,403,675	7,946,004
As at the beginning of the period	555,899	69,409	2,442,474	569,182	4,457,578	8,094,542

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

16. Intangible assets (continued)

31 December 2021

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	994,714	464,259	3,075,120	2,061,615	14,191,688	20,787,396
Acquisition	285,378	38,376	30,433	70,191	–	424,378
In-house R&D	–	–	–	–	1,426,090	1,426,090
Disposal or retirement	(69,118)	(10,597)	(183,620)	–	–	(263,335)
Disposal of subsidiaries	(15,079)	(1,616)	(59,413)	(1,415)	–	(77,523)
Exchange rate adjustments	(22,229)	–	–	(40,694)	–	(62,923)
Closing balance	1,173,666	490,422	2,862,520	2,089,697	15,617,778	22,234,083
Accumulated amortisation						
Opening balance	389,337	327,705	393,296	952,686	9,271,610	11,334,634
Charge	218,440	55,723	75,201	329,332	1,833,131	2,511,827
Disposal or retirement	(57,267)	(1,142)	(45,381)	–	–	(103,790)
Disposal of subsidiaries	(8,050)	(695)	(3,070)	(436)	–	(12,251)
Exchange rate adjustments	(17,306)	–	–	(6,184)	–	(23,490)
Closing balance	525,154	381,591	420,046	1,275,398	11,104,741	13,706,930
Provision for impairment						
Opening balance	14,615	12,205	–	58,660	–	85,480
Charge	83,487	27,217	–	192,318	55,459	358,481
Disposal or retirement	(4,191)	–	–	–	–	(4,191)
Disposal of subsidiaries	–	–	–	–	–	–
Exchange rate adjustments	(1,298)	–	–	(5,861)	–	(7,159)
Closing balance	92,613	39,422	–	245,117	55,459	432,611
Book value						
As at the end of the year	555,899	69,409	2,442,474	569,182	4,457,578	8,094,542
As at the beginning of the year	590,762	124,349	2,681,824	1,050,269	4,920,078	9,367,282

As at 30 June 2022, 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 RMB89,676,000 (31 December 2021: RMB90,443,000).

As at 30 June 2022, intangible assets formed through internal research and development accounted for 55% of the book value of intangible assets as at the end of the period (31 December 2021: 55%).

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

17. Deferred development costs

30 June 2022

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Handsets	**5,354**	**30**	**(5,384)**	**–**
System products	**2,447,921**	**839,995**	**(893,407)**	**2,394,509**
	2,453,275	**840,025**	**(898,791)**	**2,394,509**

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	2,270	26,798	(23,714)	5,354
System products	2,070,587	1,779,710	(1,402,376)	2,447,921
	2,072,857	1,806,508	(1,426,090)	2,453,275

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 2022

	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**

Notes to Financial Statements (continued)

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

18. Goodwill (continued)

31 December 2021

	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 2022

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing**
		Exchange rate movement	**Disposal**	
Zhuhai Guangtong Bus Co., Ltd.	**186,206**	**–**	**–**	**186,206**
Suzhou Laxense Technology Co., Ltd.	**33,500**	**–**	**–**	**33,500**
NETAS TELEKOMUNIKASYON A.S.	**89,763**	**–**	**–**	**89,763**
Total	**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 2021

	Opening balance	Increase during the year	Decrease during the year	Closing
		Provision	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
Total	123,263	186,206	–	309,469

As at 30 June 2022, full impairment provisions had been provided in respect of the Zhongxing Smart Auto Company Limited asset group (Zhuhai Guangtong Bus Co., Ltd.), Suzhou Laxense Technology Co., Ltd. asset group and NETAS TELEKOMUNIKASYON A.S. asset group.

19. Deferred tax assets/liabilities

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

	30 June 2022		31 December 2021	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	**3,167,444**	**546,752**	3,192,500	531,200
Provision for impairment in inventory	**2,945,923**	**593,960**	2,467,474	545,017
Foreseeable construction contract losses	**2,116,096**	**335,474**	1,986,503	319,771
Amortisation of deferred development costs	**3,464,317**	**567,149**	3,464,832	567,272
Provision for warranties and returned goods	**148,622**	**34,170**	147,941	34,014
Provision for retirement benefits	**144,571**	**31,817**	147,539	33,935
Deductible tax losses	**6,447,870**	**1,102,230**	5,715,990	906,061
Accruals	**2,622,593**	**412,206**	3,107,299	499,853
Share option scheme expenses	**1,188,524**	**178,278**	996,419	149,463
Lease liabilities	**770,785**	**122,042**	921,179	134,111
	23,016,745	**3,924,078**	22,147,676	3,720,697

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

19. Deferred tax assets/liabilities (continued)

	30 June 2022		31 December 2021	
	Deductible temporary differences	**Deferred tax liabilities**	Deductible temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	**1,086,845**	**163,027**	1,088,329	163,249
Investment in equity instrument at fair value through profit or loss	**1,224,882**	**176,631**	1,615,632	212,922
Adjustments to fair value of business combination not under common control	**596,769**	**89,515**	656,635	98,495
Rights-of-use assets	**691,916**	**103,787**	815,346	122,302
Others	**732,380**	**109,857**	528,905	79,336
	4,332,792	**642,817**	4,704,847	676,304

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

	30 June 2022		31 December 2021	
	Amount of set-off	**Amount after set-off**	Amount of set-off	Amount after set-off
Deferred tax assets	**534,486**	**3,389,592**	525,956	3,194,741
Deferred tax liabilities	**534,486**	**108,331**	525,956	150,348

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

	30 June 2022	31 December 2021
Deductible tax losses	**5,747,009**	5,619,342

Deductible tax losses of unrecognised deferred tax assets expiring in:

	30 June 2022	31 December 2021
2022	**61,684**	73,508
2023	**166,092**	100,192
2024	**105,828**	115,342
2025	**289,921**	314,465
Beyond 2026	**5,123,484**	5,015,835
	5,747,009	5,619,342

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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 2022	31 December 2021
Advanced payment of output tax and credit tax available for set off	**6,746,335**	7,747,024
Others	**149,194**	71,573
	6,895,529	7,818,597

Other non-current assets

	30 June 2022	31 December 2021
Prepayments for project, equipment and land	**758,735**	675,261
Risk compensation fund	**394,568**	197,803
Guarantee deposit	**293,978**	346,398
Restricted cash (Note 1)	**2,768,108**	2,632,130
Prepaid income tax	**180,893**	193,783
Others	**2,038,978**	2,004,982
	6,435,260	6,050,357

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 2022		31 December 2021	
			Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans		RMB	**2,719,050**	**2,719,050**	2,872,000	2,872,000
		USD	**387,555**	**2,597,200**	385,100	2,455,012
		EUR	**17,584**	**123,022**	25,694	185,513
		TRY	**547,504**	**220,115**	311,150	152,848
		KZT	**203,460**	**2,932**	—	—
Bills discounting loans		RMB	**833,504**	**833,504**	271,562	271,562
Letter of credit loans		RMB	**3,300,000**	**3,300,000**	3,000,000	3,000,000
Pledged loans	Note 1	RMB	**20,000**	**20,000**	10,000	10,000
				9,815,823		8,946,935

As at 30 June 2022, the annual interest rate of the above loans ranged from 1.13%–44.50% (except for TRY loans which were subject to an annual interest rate of 14.75%–44.50%) (31 December 2021: 1.11%–20.00%, including TRY loans which were subject to an annual interest rate of 17.75%–20.00%).

Note 1: The guaranteed loan comprised mainly loans extended to ZTE ICT Company Limited secured by trade receivables with a book value of RMB40,253,000 of the "Wanzhou Smart Medicine Project".

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

22. Derivative financial liabilities

	30 June 2022	31 December 2021
Financial liabilities at fair value through current profit and loss	**14,739**	27,729

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 2022	31 December 2021
Bank acceptance bills	**4,873,428**	5,281,279
Commercial acceptance bills	**6,823,024**	6,276,097
	11,696,452	11,557,376

23B. Trade payables

Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2022	31 December 2021
0 to 6 months	**19,970,880**	20,964,976
6 to 12 months	**211,174**	200,629
1 year to 2 years	**199,976**	212,073
2 years to 3 years	**211,160**	147,694
Over 3 years	**135,420**	191,895
	20,728,610	21,717,267

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

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

24. Contract liabilities

	30 June 2022	31 December 2021
Contracted consideration received	**20,166,471**	16,101,652

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.

25. Salary and welfare payables

Salaries payable

30 June 2022

	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**
Short-term remuneration	**11,492,860**	**13,745,877**	**(15,220,172)**	**10,018,565**
Retirement benefits (Defined contribution scheme)	**171,825**	**861,516**	**(856,234)**	**177,107**
Termination benefits	**26,738**	**75,915**	**(82,104)**	**20,549**
	11,691,423	**14,683,308**	**(16,158,510)**	**10,216,221**

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	10,383,922	24,156,470	(23,047,532)	11,492,860
Retirement benefits (Defined contribution scheme)	126,395	1,612,573	(1,567,143)	171,825
Termination benefits	35,178	209,995	(218,435)	26,738
	10,545,495	25,979,038	(24,833,110)	11,691,423

Notes to Financial Statements (continued)

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

25. Salary and welfare payables (continued)

Short-term remuneration analysed as follows:

30 June 2022

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	9,303,305	12,276,570	(14,130,389)	7,449,486
Staff welfare	13,165	18,958	(16,768)	15,355
Social Insurance	38,414	648,485	(634,040)	52,859
Including: Medical	35,598	612,742	(598,691)	49,649
Work injuries	674	14,122	(13,970)	826
Maternity	2,142	21,621	(21,379)	2,384
Housing funds	2,499	409,281	(409,594)	2,186
Labour union fund and employee education fund	2,135,477	392,583	(29,381)	2,498,679
	11,492,860	13,745,877	(15,220,172)	10,018,565

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	8,443,244	21,784,178	(20,924,117)	9,303,305
Staff welfare	14,973	31,237	(33,045)	13,165
Social Insurance	61,668	936,149	(959,403)	38,414
Including: Medical	58,421	868,449	(891,272)	35,598
Work injuries	1,373	21,594	(22,293)	674
Maternity	1,874	46,106	(45,838)	2,142
Housing funds	33,405	711,633	(742,539)	2,499
Labour union fund and employee education fund	1,830,632	693,273	(388,428)	2,135,477
	10,383,922	24,156,470	(23,047,532)	11,492,860

Notes to Financial Statements (continued)

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

25. Salary and welfare payables (continued)

Defined contribution plans are analysed as follows:

30 June 2022

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	**170,361**	**836,447**	**(831,427)**	**175,381**
Unemployment insurance	**1,464**	**25,069**	**(24,807)**	**1,726**
	171,825	**861,516**	**(856,234)**	**177,107**

31 December 2021

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	123,944	1,570,017	(1,523,600)	170,361
Unemployment insurance	2,451	42,556	(43,543)	1,464
	126,395	1,612,573	(1,567,143)	171,825

26. Tax payable

	30 June 2022	31 December 2021
Value-added tax	**550,629**	433,126
Enterprise income tax	**649,767**	361,341
Including: PRC tax	**399,987**	307,359
Overseas tax	**249,780**	53,982
Personal income tax	**207,650**	276,507
City maintenance and construction tax	**35,725**	73,038
Education surcharge	**31,983**	54,718
Other taxes	**11,944**	17,604
	1,487,698	1,216,334

Notes to Financial Statements (continued)

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

27. Other payables

	30 June 2022	31 December 2021
Interest payables	**64,536**	55,379
Dividend payables	**1,261**	11,797
Other payables	**3,360,051**	3,438,243
	3,425,848	3,505,419

Dividend payables

	30 June 2022	31 December 2021
Dividend on ordinary shares	**225**	225
Dividend payables to minority shareholders	**1,036**	11,572
	1,261	11,797

Other payables

	30 June 2022	31 December 2021
Accruals	**1,225,627**	1,059,029
Deferred income from staff housing due in 1 year	**43,985**	44,162
Payables to external parties	**1,726,174**	2,130,813
Deposits	**150,648**	144,780
Others	**213,617**	59,459
	3,360,051	3,438,243

Notes to Financial Statements (continued)

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

28. Provisions

30 June 2022

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Expected contract loss (Note 1)	**2,349,337**	**588,833**	**(742,664)**	**2,195,506**
Outstanding litigation (Note 2)	**244,258**	**152,234**	**(47,710)**	**348,782**
Provision for warranties	**147,941**	**28,959**	**(28,278)**	**148,622**
	2,741,536	**770,026**	**(818,652)**	**2,692,910**

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Expected contract loss (Note 1)	1,756,267	1,560,442	(967,372)	2,349,337
Outstanding litigation (Note 2)	172,964	169,167	(97,873)	244,258
Provision for warranties	156,003	56,276	(64,338)	147,941
	2,085,234	1,785,885	(1,129,583)	2,741,536

Note 1: Unavoidable cost for the performance of contract in excess of expected economic benefits of the contract.

Note 2: Provisions in respect of likely compensation amounts for cases as assessed based on the advice from appointed legal counsel and the progress of such cases.

29. Non-current liabilities due within one year

	30 June 2022	31 December 2021
Long-term loans due within one year	**3,983,764**	588,140
Lease liabilities	**311,896**	389,196
	4,295,660	977,336

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

30. Long-term loans

			30 June 2022		31 December 2021	
			Original currency	**RMB equivalent**	Original currency	RMB equivalent
Credit loans		RMB	**27,752,750**	**27,752,750**	23,118,200	23,118,200
		USD	**279,373**	**1,872,215**	555,000	3,538,125
		EUR	**–**	**–**	363	2,619
		TRY	**–**	**–**	5,816	2,857
Guaranteed loans	Note 1	USD	**150,000**	**1,005,225**	499,000	3,181,125
Secured loans	Note 2	RMB	**72,824**	**72,824**	65,515	65,515
				30,703,014		29,908,441

As at 30 June 2022, the annual interest rate of the above loans ranged from 1.87%–5.64% (31 December 2021: 0.75%–9.00%, including TRY loans which were subject to an annual interest rate of 9.00%).

Note 1: The loan comprised mainly bank loans extended to ZTE (H.K.) Limited and guaranteed by ZTE Corporation (31 December 2021: RMB3,181,125,000).

Note 2: The secured loans comprised mainly an RMB72,824,000 (31 December 2021: RMB62,265,000) loan extended to Zhongxing Smart Auto Company Limited secured by land use rights with a book value of RMB218,133,000 and fixed assets with a book value of RMB486,909,000. The secured loans has been returned by Anhui Wantong Posts and Telecommunication Company Limited (31 December 2021: RMB3,250,000).

 # Aging profile of bank loans

	30 June 2022	31 December 2021
Listed as:		
Bank loan repayable:		
Within one year	**13,799,587**	9,535,075
Within the second year	**6,721,049**	13,467,751
Within the third to fifth years, inclusive	**23,981,965**	16,384,650
After five years	**–**	56,040
Total bank loans	**44,502,601**	39,443,516

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

31. Lease liabilities

	30 June 2022	31 December 2021
Lease liabilities	**465,825**	531,983

32. Other non-current liabilities

	30 June 2022	31 December 2021
Deferred income relating to staff housing	**219,392**	222,835
Long-term payable	**3,665,694**	3,644,581
Amounts payable to third parties	**58,743**	61,812
Financial liabilities at fair value through current profit or loss	**24,854**	—
	3,968,683	3,929,228

33. Share capital

30 June 2022

	Opening balance share in '000	**Increase/decrease during the period**				**Closing balance share in '000**
		Issue of new share	**Transfer from reserves**	**Others**	**Sub-total**	
Restricted shares						
State-owned legal person shares	**39,379**	**—**	**—**	**—**	**—**	**39,379**
Other domestic shareholdings	**45,942**	**—**	**—**	**—**	**—**	**45,942**
Shares held by Directors, Supervisors and senior management subject to lock-up	**588**	**255**	**—**	**(111)**	**144**	**732**
Total number of restricted shares	**85,909**	**255**	**—**	**(111)**	**144**	**86,053**
Unrestricted shares						
RMB Ordinary shares	**3,889,385**	**4,778**	**—**	**111**	**4,889**	**3,894,274**
Overseas listed foreign shares	**755,502**	**—**	**—**	**—**	**—**	**755,502**
Total number of unrestricted shares	**4,644,887**	**4,778**	**—**	**111**	**4,889**	**4,649,776**
Total number of shares	**4,730,796**	**5,033**	**—**	**—**	**5,033**	**4,735,829**

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

33. Share capital (continued)

31 December 2021

	Opening balance share in '000	Increase/decrease during the year				Closing balance share in '000
		Issue of new share	Transfer from reserves	Others	Sub-total	
Restricted shares						
State-owned legal person shares	43,032	39,379	—	(43,032)	(3,653)	39,379
Other domestic shareholdings	338,067	45,942	—	(338,067)	(292,125)	45,942
Shares held by Directors, Supervisors and senior management subject to lock-up	580	22	—	(14)	8	588
Total number of restricted shares	381,679	85,343	—	(381,113)	(295,770)	85,909
Unrestricted shares						
RMB ordinary shares	3,476,254	32,018	—	381,113	413,131	3,889,385
Overseas listed foreign shares	755,502	—	—	—	—	755,502
Total number of unrestricted shares	4,231,756	32,018	—	381,113	413,131	4,644,887
Total number of shares	4,613,435	117,361	—	—	117,361	4,730,796

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

34. Capital reserves

30 June 2022

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium (Note 1)	**24,283,545**	**134,797**	**(2,068)**	**24,416,274**
Share-based payment (Note 2)	**996,419**	**247,549**	**(55,444)**	**1,188,524**
Other capital investment	**80,000**	**—**	**—**	**80,000**
	25,359,964	**382,346**	**(57,512)**	**25,684,798**

31 December 2021

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	22,716,657	1,681,654	(114,766)	24,283,545
Share-based payment	479,153	871,497	(354,231)	996,419
Other capital investment	80,000	—	—	80,000
	23,275,810	2,553,151	(468,997)	25,359,964

Note 1: During the period, the shareholders' premium of the capital reserve was increased by RMB134,797,000 following the exercise of the Company's share option incentives, and the shareholders' premium of the capital reserve was decreased by RMB2,068,000 following the Company's acquisition of non-controlling interests.

Note 2: The Company issued share option incentives in November 2020 to be implemented in three exercise periods and recognized option expenses for the period of RMB223,305,000 during the year in respect of share option incentives under the three periods. The Company issued the Management Stock Ownership Scheme in December 2020 to be implemented in two exercise periods and recognized expenses for the period of RMB12,197,000 in respect of the Management Stock Ownership Scheme. The Company issued reserved share option incentives under the 2020 Share Option Incentive Scheme in September 2021 to be implemented in two exercise periods and recognised share option expenses of RMB12,047,000 during the year in respect of the share option incentives. For details please refer to Note XI.

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

35. Other comprehensive income

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

	1 January 2021	Increase/ decrease	31 December 2021	Increase/ decrease	**30 June 2022**
Changes in net liabilities arising from the re-measurement of defined benefit plans	(72,927)	(3,439)	(76,366)	–	**(76,366)**
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	(2,966,832)	(12,960)	(2,979,792)	(2,646)	**(2,982,438)**
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**
	(2,270,622)	(16,399)	(2,287,021)	(2,646)	**(2,289,667)**

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

Six months ended 30 June 2022

	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	**(4,457)**	**–**	**–**	**(2,646)**	**(1,811)**

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. Surplus reserves

30 June 2022

	Opening balance	Opening adjustment	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	**3,027,154**	**–**	**–**	**–**	**3,027,154**

31 December 2021

	Opening balance	Opening adjustment	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	2,968,473	–	58,681	–	3,027,154

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.

37. Retained profits

	30 June 2022	31 December 2021
Retained profits at the beginning of the period	**20,651,196**	14,824,478
Net profit attributable to shareholders of the parent	**4,565,826**	6,812,941
Surplus reserve	**–**	(58,681)
Distribution to shareholders	**(1,420,213)**	(927,542)
Retained profits at the end of the period	**23,796,809**	20,651,196

Pursuant to the resolution passed at the general meeting held on 21 April 2022, the Company shall pay a cash dividend of RMB0.3 (2021: RMB0.2) per share to all shareholders. Based on the total share capital in issue of 4,734,044,778 shares (2021: 4,637,709,675 shares) as at the shareholding record date, the total amount of profit distribution shall be RMB1,420,213,433.40 (2021: RMB927,541,935). The A share dividend payment date was 10 May 2022. The H share dividend payment date was 20 May 2022.

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

38. Operating revenue and costs

	Six months ended 30 June 2022		Six months ended 30 June 2021	
	Revenue	**Cost**	Revenue	Cost
Principal business	**58,238,358**	**36,402,809**	51,434,237	32,871,077
Other business	**1,579,942**	**1,260,085**	1,636,733	1,021,705
	59,818,300	**37,662,894**	53,070,970	33,892,782

Operating revenue is analysed as follows:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Revenue from customer contract	**59,750,685**	53,010,999
Rental income — operating leases	**67,615**	59,971
	59,818,300	53,070,970

Breakdown of revenue from customer contracts:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Major operating area		
PRC	**40,534,755**	35,894,853
Asia (excluding PRC)	**7,899,366**	7,140,276
Africa	**2,510,729**	2,351,270
Europe, America and Oceania	**8,805,835**	7,624,600
	59,750,685	53,010,999
Types of key products		
Sale of products	**20,430,782**	17,754,461
Rendering of services	**4,296,317**	3,767,790
Network construction	**35,023,586**	31,488,748
	59,750,685	53,010,999
Timing of revenue recognition		
Recognition of revenue at a point in time	**55,454,368**	49,243,209
Recognition of revenue over a period of time	**4,296,317**	3,767,790
	59,750,685	53,010,999

Notes to Financial Statements (continued)

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

38. 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 2022	Six months ended 30 June 2021
Revenue included in the opening book value of contract liabilities and recognized for the period	**6,741,166**	6,173,073

39. Taxes and surcharges

	Six months ended 30 June 2022	Six months ended 30 June 2021
City maintenance and construction tax	**117,089**	139,950
Education surcharge	**90,744**	110,571
Property tax	**38,266**	40,239
Stamp duty	**90,746**	35,973
Others	**50,562**	58,938
	387,407	385,671

40. Selling and distribution costs

	Six months ended 30 June 2022	Six months ended 30 June 2021
Wages, welfare and bonuses	**2,664,354**	2,468,358
Services charges	**226,404**	280,796
Travelling expenses	**328,810**	259,253
Service fees	**115,119**	95,010
Office expense	**118,022**	108,630
Advertising and promotion expenses	**620,815**	488,612
Others	**350,024**	469,145
	4,423,548	4,169,804

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

41. Administrative expenses

	Six months ended 30 June 2022	Six months ended 30 June 2021
Wages, welfare and bonuses	**1,194,995**	1,160,306
Office expenses	**80,749**	85,489
Amortisation and depreciation charges	**220,917**	308,698
Lease expenses	**5,017**	32,095
Travelling expenses	**29,578**	27,736
Audit fees#	**8,055**	8,429
Others	**993,385**	920,785
	2,532,696	2,543,538

42. Research and development costs

	Six months ended 30 June 2022	Six months ended 30 June 2021
Wages, welfare and bonuses	**7,448,841**	5,996,212
Direct material costs	**346,748**	241,769
Amortisation and depreciation charges	**1,372,889**	1,344,819
Office expenses	**189,194**	157,372
Technical cooperation fee	**444,177**	794,836
Others	**349,651**	326,398
	10,151,500	8,861,406

Notes to Financial Statements (continued)

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

43. Finance costs

	Six months ended 30 June 2022	Six months ended 30 June 2021
Interest expenses	**949,580**	665,129
Including: Interest expenses on lease liabilities	**26,597**	34,490
Interest expense on long-term payables	**29,957**	28,781
Interest expense on SCPs	**101,033**	9,172
Less: Interest income	**1,141,487**	661,600
Loss on foreign currency exchange	**405,233**	406,610
Bank charges	**90,419**	70,563
	303,745	480,702

Details of interest income are as follows:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Interest income from cash	**1,037,475**	517,400
Interest income from finance contract	**69,041**	110,626
Interest income from finance lease	**34,971**	33,574
	1,141,487	661,600

44. Other income

	Six months ended 30 June 2022	Six months ended 30 June 2021	Relating to asset/ income
Refund of VAT on software products (Note 1)	**714,735**	801,562	Relating to income
Refund of handling charges for personal tax	**23,028**	21,893	Relating to income
Others	**163,823**	444,251	Relating to income
	901,586	1,267,706	

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

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

45. Investment income

	Six months ended 30 June 2022	Six months ended 30 June 2021
Investment loss from long-term equity investment under equity method	**(56,564)**	(70,777)
Investment income earned from financial assets at fair value through current profit or loss during the period of holding	**7,973**	6,254
Investment (loss)/income arising from the disposal of derivative financial assets	**328,675**	(71,317)
Investment income from disposal of financial assets at fair value through current profit or loss	**529,190**	82,358
Investment income from the disposal of long-term equity interests	**7,445**	862,666
Loss upon derecognition of financial assets at amortised cost and financial assets at fair value through other comprehensive income	**(145,496)**	(106,075)
	671,223	703,109

46. Gain/loss from changes in fair values

	Six months ended 30 June 2022	Six months ended 30 June 2021
Financial assets at fair value through current profit or loss	**(445,353)**	607,798
Derivative financial instruments	**54,603**	265,985
Investment properties at fair value	**(1,484)**	878
	(392,234)	874,661

47. Credit impairment losses

	Six months ended 30 June 2022	Six months ended 30 June 2021
Impairment loss of trade receivables	**118,080**	55,706
Impairment losses on receivable financing	**1,327**	3,025
Impairment loss of other receivables	**1,127**	74,101
Reversal of impairment of long-term receivables	**(3,591)**	(7,831)
Loss of impairment of factored trade receivables	**64**	155
(Reversal)/loss of impairment of long-term factored receivables	**(95)**	93
	116,912	125,249

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

48. Asset impairment losses

	Six months ended 30 June 2022	Six months ended 30 June 2021
Loss/(reversal) on inventories provisions	**167,433**	(161,051)
Long-term equity investment impairment loss	**–**	16,070
(Reversal)/loss on impairment of contract assets	**(22,449)**	29,855
Impairment loss on prepayment	**9,850**	–
Impairment loss of intangible assets	**–**	16,214
Impairment loss of fixed assets	**–**	57,984
Impairment loss on other non-current assets	**5,937**	–
	160,771	(40,928)

49. Gain on asset disposal

	Six months ended 30 June 2022	Six months ended 30 June 2021
Gain on disposal of right-of-use assets	**5,911**	–
Gain on disposal of intangible assets	**1,691**	–
Gain on disposal of fixed assets	**–**	47,494
	7,602	47,494

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

50. Non-operating income/non-operating expenses

Non-operating income

	Six months ended 30 June 2022	Six months ended 30 June 2021	Amount of extraordinary gain/loss recognised for the six months ended 30 June 2022
Income from contract penalty and reward	**11,292**	15,581	11,292
Others	**88,021**	127,593	88,021
	99,313	143,174	99,313

Non-operating expenses

	Six months ended 30 June 2022	Six months ended 30 June 2021	Amount of extraordinary gain/loss recognised for the six months ended 30 June 2022
Compensation and indemnity	**102,152**	83,036	102,152
Others	**52,456**	78,878	52,456
	154,608	161,914	154,608

51. 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 2022	Six months ended 30 June 2021
Cost of goods and services	**34,646,743**	32,436,327
Staff remuneration (including share-based payment)	**14,050,926**	10,766,759
Depreciation and amortisation	**2,136,928**	2,215,862
Others	**3,936,041**	4,048,582
	54,770,638	49,467,530

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

52. Income tax

	Six months ended 30 June 2022	Six months ended 30 June 2021
Current income tax	**901,925**	540,084
Deferred income tax	**(236,868)**	436,266
	665,057	976,350

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Total profit	**5,211,709**	5,526,976
Tax at statutory tax rate (Note 1)	**1,302,927**	1,381,744
Effect of different tax rates applicable to certain subsidiaries	**(555,199)**	(516,163)
Adjustment to current tax in previous periods	**(20,878)**	(14,795)
Profits and losses attributable to jointly-controlled entities and associates	**10,472**	10,617
Income not subject to tax	**(36,257)**	(14,030)
Additional deduction for R&D expenses and non-deductible tax expenses	**(289,100)**	(121,434)
Utilisation of tax losses from previous years	**(13,824)**	(11,601)
Unrecognised tax losses and temporary difference available for setoff	**266,916**	262,012
Tax charge at the Group's effective rate	**665,057**	976,350

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 applicable tax rates prevailing in the countries/jurisdictions in which the Group operates in accordance with their existing legislation and interpretations and practices in respect thereof.

53. 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 parent 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.

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

53. Earnings per share (continued)

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 2022	Six months ended 30 June 2021
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	**4,565,826**	4,078,613
Shares		
Weighted average number of ordinary shares of the Company in issue ('000 shares)	**4,736,367**	4,613,435
Diluting effect — weighted average number of ordinary shares ('000 shares) (Note 1)		
Stock option	**108**	17,177
Adjusted weighted average number of ordinary shares of the Company in issue ('000 shares)	**4,736,475**	4,630,612

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.

54. Notes to major items in cash flow statement

	Six months ended 30 June 2022	Six months ended 30 June 2021
Cash received in connection with other operating activities:		
Interest income	**716,586**	658,774
Cash paid in connection with other investing activities:		
Net cash outflow in connection with disposal of subsidiaries	**72,098**	—
Cash paid in connection with other financing activities:		
Refund of investment by non-controlling interests	**8,011**	—
Principal and interest payment for lease liabilities	**195,790**	220,584

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

55. 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 2022	Six months ended 30 June 2021
Net profit	**4,546,652**	4,550,626
Add: Credit impairment losses	**116,912**	125,249
Asset impairment losses/(reversal)	**160,771**	(40,928)
Depreciation of fixed assets	**817,230**	776,020
Depreciation of rights-of-use assets	**164,300**	250,010
Amortisation of intangible assets	**1,172,805**	1,189,832
Gain on disposal of fixed assets, intangible assets and other long-term assets	**(7,602)**	(25,344)
Loss/(gain) from changes in fair value	**392,234**	(874,661)
Finance costs	**991,525**	490,987
Investment income	**(671,223)**	(703,109)
(Increase)/decrease in deferred tax assets	**(194,851)**	441,153
Decrease in deferred tax liabilities	**(42,017)**	(4,887)
Increase in inventories	**(5,698,996)**	(599,382)
Increase in operating receivables	**(1,257,070)**	(827,668)
Increase in operating payables	**2,761,653**	2,048,804
Cost of share-based payment	**247,549**	468,770
Increase in cash not immediately available for payments	**(238)**	(237,037)
Net cash flow from operating activities	**3,499,634**	7,028,435

Change in cash and cash equivalents:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Balance of cash at the end of the period	**1,933**	1,586
Less: balance of cash at the beginning of the period	**1,685**	1,655
Add: Balance of cash equivalents at the end of the period	**44,079,232**	40,382,524
Less: balance of cash equivalents at the beginning of the period	**39,068,898**	31,401,401
Net increase in cash and cash equivalents	**5,010,582**	8,981,054

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

55. Supplemental information on cash flow statement (continued)

(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 2022	Six months ended 30 June 2021
Price at which subsidiaries and other business units were disposed of	**297,000**	1,111,422
Cash and cash equivalents received on disposal of subsidiaries and other business units	**89,100**	1,111,422
Cash and cash equivalents held by subsidiaries and other business units disposed of	**–**	(67,770)
Net cash received on disposal of subsidiaries and other business units	**89,100**	1,043,652

(3) Cash and cash equivalents

	Six months ended 30 June 2022	Six months ended 30 June 2021
Cash		
Including: Cash on hand	**1,933**	1,586
Bank deposit readily available for payment	**44,079,232**	40,382,524
Balance of cash and cash equivalents at end of period	**44,081,165**	40,384,110

Notes to Financial Statements (continued)

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

56. Assets under restrictions on ownership or right of use

	30 June 2022	31 December 2021	
Cash	**1,088,552**	1,421,057	Note 1
Trade receivables and contract assets	**40,253**	68,638	Note 2
Fixed assets	**486,910**	495,234	Note 3
Work in progress	**—**	—	
Intangible assets	**218,133**	234,974	Note 4
Other non-current assets — restricted cash	**3,456,654**	3,176,331	Note 5
	5,290,502	5,396,234	

Note 1: As at 30 June 2022, the Group's cash subject to ownership restriction amounted to RMB1,088,552,000 (31 December 2021: RMB1,421,057,000), including acceptance bill deposits of RMB129,608,000 (31 December 2021: RMB212,344,000), letter of credit deposits of RMB561,618,000 (31 December 2021: RMB604,519,000), deposit for guarantee letter of RMB52,273,000 (31 December 2021: RMB63,247,000)), dues from the People's Bank of China of RMB138,682,000 (31 December 2021: RMB177,497,000), technology grants of RMB206,371,000 (31 December 2021: RMB363,450,000).

Note 2: As at 30 June 2022, trade receivables with a carrying value of RMB40,253,000 (31 December 2021: RMB68,638,000) were pledged to secure bank borrowing.

Note 3: As at 30 June 2022, fixed assets with a carrying value of RMB486,910,000 (31 December 2021: RMB495,234,000) were pledged to secure bank borrowing; no fixed assets were pledged in connection with asset acquisitions (31 December 2021: Nil).

Note 4: As at 30 June 2022, intangible assets with a carrying value of RMB218,133,000 (31 December 2021: RMB234,974,000) were pledged to secure bank borrowings. No intangible assets were pledged as security for asset acquisition (31 December 2021: Nil).

Note 5: As at 30 June 2022, restricted funds represented a RMB2,768,108,000 (31 December 2021: RMB2,632,130,000) deposit in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed, the details of which are set out in Note XII; a RMB293,978,000 performance bond with a term of over 1 year provided for ZTE in favour of a project partner (31 December 2021: RMB346,398,000); and risk compensation fund to be released after one year amounting to RMB394,568,000 (31 December 2021: RMB197,803,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2022, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB394,568,000 (31 December 2021: RMB197,803,000), representing risk compensation fund to be released after one year which was accounted for as other non-current assets.

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

57. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		30 June 2022			31 December 2021		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash	USD	**128**	**6.7015**	**858**	119	6.3750	759
	DZD	**1,267**	**0.0458**	**58**	1,081	0.0460	50
Bank deposit	USD	**442,308**	**6.7015**	**2,964,127**	747,348	6.3750	4,764,344
	EUR	**217,470**	**6.9961**	**1,521,442**	201,941	7.2201	1,458,034
	JPN	**4,239,811**	**0.0490**	**207,751**	1,863,205	0.0554	103,222
	PKR	**3,628,648**	**0.0326**	**118,294**	3,624,417	0.0358	129,754
	MYR	**16,030**	**1.5212**	**24,385**	39,938	1.5306	61,129
	ETB	**474,704**	**0.1289**	**61,189**	279,807	0.1296	36,263
	NPR	**584,153**	**0.0530**	**30,960**	473,009	0.0535	25,306
	DZD	**529,984**	**0.0458**	**24,273**	473,647	0.0460	21,788
	GBP	**2,961**	**8.1247**	**24,057**	4,906	8.6100	42,241
	RUB	**178,127**	**0.1310**	**23,335**	1,109,203	0.0858	95,170
	IDR	**215,603,017**	**0.0005**	**107,802**	146,874,147	0.0004	58,750
	HKD	**123,302**	**0.8535**	**105,238**	61,296	0.8174	50,103
	CAD	**17,209**	**5.2006**	**89,497**	9,830	5.0284	49,429
	BRL	**14,463**	**1.2795**	**18,505**	14,060	1.1424	16,062
	THB	**260,434**	**0.1901**	**49,509**	279,486	0.1910	53,382
	EGP	**50,826**	**0.3564**	**18,114**	13,743	0.4045	5,559
	COP	**9,591,448**	**0.0016**	**15,346**	16,718,943	0.0016	26,750
	CLP	**1,048,394**	**0.0073**	**7,653**	3,459,718	0.0075	25,948
Other cash	USD	**4,104**	**6.7015**	**27,503**	4,352	6.3750	27,744
Trade receivables	USD	**725,691**	**6.7015**	**4,863,218**	835,553	6.3750	5,326,650
	EUR	**124,286**	**6.9961**	**869,517**	163,925	7.2201	1,183,555
	INR	**5,249,458**	**0.0849**	**445,679**	5,991,072	0.0858	514,034
	THB	**907,175**	**0.1901**	**172,454**	567,576	0.1910	108,407
	BRL	**42,195**	**1.2795**	**53,989**	23,100	1.1424	26,389
Other receivables	USD	**35,382**	**6.7015**	**237,112**	33,661	6.3750	214,589
	EUR	**259,967**	**0.1310**	**34,056**	8,230	7.2201	59,421
	INR	**4,635**	**6.9961**	**32,427**	597,080	0.0535	31,944
	RUB	**1,278,930**	**0.0162**	**20,719**	1,571,797	0.0155	24,363
	PKR	**231,519**	**0.0849**	**19,656**	484,920	0.0358	17,360
Trade payables	USD	**897,611**	**6.7015**	**6,015,340**	851,980	6.3750	5,431,373
	IDR	**2,177,496,037**	**0.0005**	**1,088,748**	2,040,060,674	0.0004	816,024
	EUR	**75,898**	**6.9961**	**530,990**	69,022	7.2201	498,346
	MXN	**910,824**	**0.3329**	**303,213**	1,449,260	0.3115	451,444
	PHP	**1,278,547**	**0.1219**	**155,855**	1,277,975	0.1250	159,747
Other payables	USD	**111,310**	**6.7015**	**745,944**	139,507	6.3750	889,357
	EUR	**14,768**	**6.9961**	**103,318**	42,041	7.2201	303,540
	JPN	**71,101**	**0.0490**	**3,484**	82,112	0.0554	4,549
	SAR	**8**	**1.7871**	**14**	1,236	1.7000	2,101
Short-term loans	USD	**387,555**	**6.7015**	**2,597,200**	385,100	6.3750	2,455,012
	EUR	**17,584**	**6.9961**	**123,022**	25,694	7.2201	185,513
	TRY	**547,504**	**0.4020**	**220,115**	311,150	0.4912	152,848
	KZT	**203,460**	**0.0144**	**2,932**	–	–	–
Long-term loans	USD	**429,373**	**6.7015**	**2,877,440**	1,054,000	6.3750	6,719,250
	TRY	**–**	**0.4020**	**–**	5,816	0.4912	2,857
	EUR	**–**	**6.9961**	**–**	363	7.2201	2,619

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

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

	Place of registration	Business nature	The Group's total shareholding percentage (%)	Percentage of the Group's total voting rights (%)	Reason for ceasing to be subsidiary
Shenzhen Jingcheng Communication Technology Company Limited	Shenzhen	Communication engineering and technical services	100%	100%/100%	Note
Shenzhen Wantong Posts and Telecommunication Company Limited	Shenzhen	Digital communication products and government and corporate access equipment	100%	100%/100%	Note
Shenzhen Yilian Digital Communication Technology Company Limited	Shenzhen	Indoor coverage products and related services	100%	100%/100%	Note

Note: The Group disposed 100% equity interest in Shenzhen Jingcheng Communication Technology Company Limited, Shenzhen Wantong Posts and Telecommunication Company Limited and Shenzhen Yilian Digital Communication Technology Company Limited in June 2022. Accordingly, as from June 2022, the Group has ceased to include the aforesaid three companies in its consolidated statements.

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (CONTINUED)

2. Changes to the scope of consolidation for other reasons

Tier-one subsidiaries established during the year included Shenzhen Wantong Posts and Telecommunication Company Limited, Shenzhen Jingcheng Communication Technology Company Limited and Shenzhen Yilian Digital Communication Technology Company Limited.

Foshan Zhongxing ICT Company Limited, a tier-two subsidiary of the Company, completed deregistration with industrial and commercial administration authorities on 14 January 2022 and has been excluded from the Group's consolidated statements as from 14 January 2022. ZTE Integration Telecom Limited, a tier-one subsidiary of the Company, completed deregistration with industrial and commercial administration authorities and deregistration of bank accounts on 10 March 2022 and has been excluded from the Group's consolidated statements as from 10 March 2022. ZTE (Paraguay) Company Limited, a tier-three subsidiary of the Company, completed deregistration with industrial and commercial administration authorities and deregistration of bank accounts on 20 April 2022 and has been excluded from the Group's consolidated statements as from 20 April 2022. Wuhan ZTE Smart City Research Institute Co., Ltd., a tier-one subsidiary of the Company, completed deregistration with industrial and commercial administration authorities and deregistration of bank accounts on 22 April 2022 and has been excluded from the Group's consolidated statements as from 22 April 2022. ZTE (Sweden) AB, a tier-three subsidiary of the Company, completed deregistration with industrial and commercial administration authorities and deregistration of bank accounts on 26 April 2022 and has been excluded from the Group's consolidated statements as from 26 April 2022. Nanjing Xingtong Zhiyuan Property Management Company Limited, a tier-two subsidiary of the Company, completed deregistration with industrial and commercial administration authorities on 10 May 2022 and has been excluded from the Group's consolidated statements as from 10 May 2022.

ZTE Tajikistan Corporation, a tier-two subsidiary of the Company, commenced bankruptcy procedures on 11 February 2022 and taken over by court, and has been excluded from the Group's consolidated statements as from 11 February 2022.

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VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the major subsidiaries of the Group are as below:

Type of subsidiary	Place of registration/ principal places of business	Business nature	Registered capital	Percentage of shareholding % Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen	Manufacturing	RMB1,755 million	100%	–
ZTE (H.K.) Limited	Hong Kong	Information technology	HKD995 million	100%	–
Shenzhen Zhongxing Software Company Limited	Shenzhen	Services	RMB51.08 million	100%	–
Xi'an ZTE Terminal Technology Company Limited	Xi'an	Manufacturing	RMB300 million	100%	–
ZTE Microelectronics Technology Co., Ltd.	Shenzhen	Manufacturing	RMB131,578,947	87.22%	12.78%
Xi'an Zhongxing New Software Company Limited	Xi'an	Services	RMB340 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%	–

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding % Direct	Indirect	Accounting method
Joint Ventures						
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	RMB220,000,000	10%	–	Equity method
Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Venture investment, equity investment, investment management and investment consultation	RMB100,000,000	39%	1%	Equity method
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Equity investment, investment management and asset management	RMB1,000,000,000	40%	–	Equity method

* The Group had 10% shareholdings in 重慶百德行置業有限公司, which was accounted for as associate mainly owing to the fact that the articles of association of this company stipulates that its board of director shall comprise 5 members, 2 of which shall be nominated by Chongqing Zhongxing ICT Company Limited and 3 of which shall be nominated by 建歷有限公司, and that board resolutions can only be passed with the approval of over two-thirds of the directors. Hence the Group and 建歷有限公司 exercised joint control over its production and operational decisions or its finances.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

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

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding % Direct	Indirect	Accounting method
Associates						
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	–	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
鐵建聯和(北京)科技有限公司	PRC	Technology promotion and application services	RMB20,000,000	30%	–	Equity method
廣東中城信息技術有限公司	PRC	Software and IT services	RMB30,000,000	39%	–	Equity method
上海博色信息科技有限公司	PRC	Professional technical services	RMB18,940,902	29%	–	Equity method
南京寧網科技有限公司	PRC	Manufacturing of computers, communication and other electronic equipment	RMB25,487,370	21.26%	–	Equity method
New Idea Investment Pte. Ltd	Singapore	Investment company	USD10,200,000 + SGD1	20%	–	Equity method
Xingchen Smart Tech Industry Company Limited*	PRC	Manufacturing of computers and related equipment	RMB200,000,000	19%	–	Equity method
Hengyang ICT Real Estate Co., Ltd	PRC	Real estate	RMB20,000,000	30%	–	Equity method
貴州中安雲網科技有限公司*	PRC	Technology and innovative IOT inter-network services	RMB61,224,500	9.31%	–	Equity method
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
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	–	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd	PRC	Education	RMB50,000,000	25%	–	Equity method
Shijiazhuang Smart Industry Company Limited*	PRC	Smart City construction and operation	RMB400,000,000	12%	–	Equity method
Whale Cloud Technology Co., Ltd.	PRC	Scientific research and technical service	RMB754,108,771	28.99%	–	Equity method
江西國投信息科技有限公司*	PRC	Smart city operation	RMB100,000,000	15%	–	Equity method
安徽奇英智能科技有限公司	PRC	Intelligent technology, automobile and Information technology	RMB20,000,000	35%	–	Equity method
Zhongxing Feiliu Information Technology Company Limited	PRC	Development of computer software and hardware, development of big data technology	RMB118,153,846	31.69%	–	Equity method
Xingyun Times Technology Company Limited	PRC	Internet and related services	RMB290,000,000	23.26%	–	Equity method
ZTE (Wenzhou) Railway Communication Technology Limited	PRC	Software and information technology services	RMB50,000,000	45.9%	–	Equity method

* Companies in which the Group had a shareholding percentage less than 20% were listed as associates, mainly in view of the Group's right to participate in the decision-making of the financial and operational policies of the investees.

During the reporting period, the Group had no subsidiaries that were subject to material minority interest, nor key joint ventures or associates which had a significant impact on the Group.

Notes to Financial Statements (continued)

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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 2022	31 December 2021
Joint ventures		
Aggregate carrying value of investments	**500,760**	498,020

	Six months ended 30 June 2022	Six months ended 30 June 2021
Aggregate amounts of the following attributable to shareholdings:		
Net loss	**(260)**	(31,198)
Other comprehensive income	**—**	—
Total comprehensive income	**(260)**	(31,198)

	30 June 2022	31 December 2021
Associates		
Aggregate carrying value of investments	**1,118,856**	1,186,889

	Six months ended 30 June 2022	Six months ended 30 June 2021
Aggregate amounts of the following attributable to shareholdings:		
Net loss	**(56,303)**	(39,579)
Other comprehensive income	**(5,355)**	(749)
Total comprehensive income	**(61,658)**	(40,328)

As at 30 June 2022, there were no contingent liabilities associated with the investments in joint ventures and associates (31 December 2021: 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 2022

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	–	54,926,295	–	54,926,295
Derivative financial assets	251,162	–	–	251,162
Trading financial assets	897,389	–	–	897,389
Trade receivables	–	17,936,988	–	17,936,988
Long-term trade receivables	–	2,274,869	–	2,274,869
Factored trade receivables and factored long-term receivables	–	321,952	–	321,952
Financial assets in other receivables	–	1,209,221	–	1,209,221
Receivable financing	–	–	7,617,467	7,617,467
Financial assets in other non-current assets	–	3,456,654	–	3,456,654
Other non-current financial assets	1,152,720	–	–	1,152,720
	2,301,271	80,125,979	7,617,467	90,044,717

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

Financial liabilities

	Financial liabilities at fair value through current profit and loss	At amortised cost	Total
Derivative financial liabilities	14,739	–	14,739
Bank loans	–	44,502,601	44,502,601
Lease liabilities	–	777,721	777,721
Bills payable	–	11,696,452	11,696,452
Trade payables	–	20,728,610	20,728,610
Bank advances on factored trade receivables and long-term trade receivables	–	329,929	329,929
Other payables (excluding accruals and staff housing fund contributions)	–	2,154,975	2,154,975
Other non-current liabilities	24,854	3,724,437	3,749,291
	39,593	83,914,725	83,954,318

31 December 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	–	50,713,310	–	50,713,310
Derivative financial assets	209,352	–	–	209,352
Trading financial assets	1,360,697	–	–	1,360,697
Trade receivables	–	17,509,059	–	17,509,059
Long-term trade receivables	–	2,356,413	–	2,356,413
Factored trade receivables and factored long-term receivables	–	444,693	–	444,693
Financial assets in other receivables	–	1,078,676	–	1,078,676
Receivable financing	–	–	5,196,458	5,196,458
Financial assets in other non-current assets	–	3,176,331	–	3,176,331
Other non-current financial assets	1,175,249	–	–	1,175,249
	2,745,298	75,278,482	5,196,458	83,220,238

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

Financial liabilities

	Financial liabilities at fair value through current profit and loss	At amortised cost	Total
Derivative financial liabilities	27,729	—	27,729
Bank loans	—	39,443,516	39,443,516
Lease liabilities	—	921,179	921,179
Bills payable	—	11,557,376	11,557,376
Trade payables	—	21,717,267	21,717,267
Bank advances on factored trade receivables and long-term trade receivables	—	452,701	452,701
Other payables (excluding accruals and staff housing fund contributions)	—	2,390,431	2,390,431
Other non-current liabilities	—	3,703,324	3,703,324
	27,729	80,185,794	80,213,523

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 2021: Nil) which retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets (continued)

Transferred financial assets that are not derecognised in their entirety (continued)

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). 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 2022 the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB20,494,881,000 (31 December 2021: RMB19,257,274,000). 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 2022	31 December 2021
Carrying value of assets under continuous involvement	**321,952**	444,693
Carrying value of liabilities under continuous involvement	**329,929**	452,701

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 2022, the amount of factored trade receivables was RMB321,952,000 (31 December 2021: RMB444,693,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2022, the amount of bank advances on factored trade receivables was RMB329,929,000 (31 December 2021: RMB452,701,000).

Transferred financial assets derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the period. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB1,501,224,000 (31 December 2021: RMB1,017,956,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognised in full 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 at the date of transfer discounted interests of RMB15,076,000 (31 December 2021: RMB5,159,000) in respect of the derecognised bills receivable which were discounted but not due as at the balance sheet date.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments

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

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

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

Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group is not exposed to significant bad debts. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the special approval of the credit control department of the Group.

Since cash and bank balances, bank acceptance bills receivable and derivative financial instruments are placed with the well-established banks with high credit ratings, the credit risk of these financial instruments is relatively low.

The Group's other financial assets comprise commercial acceptance bills, trade receivables, equity investments, other receivables and certain derivatives. The credit risk associated with such financial assets and contract assets arises from default of the counterparty, with a maximum exposure equivalent to the carrying amounts of these instruments.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Criteria for judging significant increases in credit risk

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.
- The cap is represented by the contract payment (including principal and interest) by the debtor being overdue for more than 30 days.

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 an individually identifiable event.

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(Prepared in accordance with PRC ASBEs)
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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Forward-looking information

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

Liquidity risk

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

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

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

30 June 2022

	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	13,966,091	7,010,065	17,416,882	8,965,052	47,358,090
Lease liabilities	311,896	176,300	102,686	231,615	822,497
Derivative financial liabilities	14,739	–	–	–	14,739
Bills payable	11,696,452	–	–	–	11,696,452
Trade payables	20,728,610	–	–	–	20,728,610
Bank advances on factored trade receivables and factored long-term trade receivable	121,317	39,571	13,657	155,384	329,929
Other payables (excluding accruals and staff housing fund contributions)	2,154,975	–	–	–	2,154,975
Other non-current liabilities	7,416	1,478,930	1,561	2,434,277	3,922,184
	49,001,496	8,704,866	17,534,786	11,786,328	87,027,476

31 December 2021

	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	9,648,849	4,952,372	23,497,988	3,468,016	41,567,225
Lease liabilities	389,196	334,597	174,043	299,284	1,197,120
Derivative financial liabilities	27,729	–	–	–	27,729
Bills payable	11,557,376	–	–	–	11,557,376
Trade payables	21,717,267	–	–	–	21,717,267
Bank advances on factored trade receivables and factored long-term trade receivable	202,249	91,809	10,829	147,814	452,701
Other payables (excluding accruals and staff housing fund contributions)	2,390,431	–	–	–	2,390,431
Other non-current liabilities	13,871	1,428,379	12,674	2,303,710	3,758,634
	45,946,968	6,807,157	23,695,534	6,218,824	82,668,483

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(Prepared in accordance with PRC ASBEs)
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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 2022, 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 1.75% to 34.50%. Approximately 16.71% (31 December 2021: 18.97%) of the Group's interest bearing borrowings were subject to interests at fixed rates. In addition, the Group borrowed an approximately USD1,069 million loan at floating interest rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2022	**25**	**(78,765)**	**–**	**(78,765)**
	(25)	**78,765**	**–**	**78,765**
Six months ended 30 June 2021	25	(74,681)	–	(74,681)
	(25)	74,681	–	74,681

Foreign currency risk

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's net profit or loss, with all other variables held constant, as at the balance sheet date.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2022				
Weaker RMB against USD	**5%**	**(80,155)**	**–**	**(80,155)**
Stronger RMB against USD	**(5%)**	**80,155**	**–**	**80,155**
Six months ended 30 June 2021				
Weaker RMB against USD	5%	(18,545)	–	(18,545)
Stronger RMB against USD	(5%)	18,545	–	18,545

	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 2022				
Weaker RMB against EUR	**5%**	**143,024**	**–**	**143,024**
Stronger RMB against EUR	**(5%)**	**(143,024)**	**–**	**(143,024)**
Six months ended 30 June 2021				
Weaker RMB against EUR	5%	84,541	–	84,541
Stronger RMB against EUR	(5%)	(84,541)	–	(84,541)

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 2022.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

4. Capital management (continued)

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	30 June 2022	31 December 2021
Interest-bearing bank borrowings	**44,502,601**	39,443,516
Lease liabilities	**777,721**	921,179
Bank advances on factored receivables and long-term trade receivables	**329,929**	452,701
Total interest-bearing liabilities	**45,610,251**	40,817,396
Owners' equity	**56,712,550**	53,287,660
Total equity and interest-bearing liabilities	**102,322,801**	94,105,056
Gearing ratio	**44.6%**	43.4%

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

30 June 2022

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant Observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Derivative financial assets	**–**	**251,162**	**–**	**251,162**
Trading financial assets	**857,157**	**–**	**40,232**	**897,389**
Other non-current financial assets	**–**	**–**	**1,152,720**	**1,152,720**
Receivable financing	**–**	**7,617,467**	**–**	**7,617,467**
Investment properties				
Leased buildings	**–**	**–**	**2,012,443**	**2,012,443**
	857,157	**7,868,629**	**3,205,395**	**11,931,181**
Derivative financial liabilities	**–**	**(14,739)**	**–**	**(14,739)**
Other non-current liabilities	**–**	**–**	**(24,854)**	**(24,854)**
	857,157	**7,853,890**	**3,180,541**	**11,891,588**

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

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

31 December 2021

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant Observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Derivative financial assets	—	209,352	—	209,352
Trading financial assets	220,126	—	1,140,571	1,360,697
Other non-current financial assets	—	—	1,175,249	1,175,249
Receivable financing	—	5,196,458	—	5,196,458
Investment properties				
Leased buildings	—	—	2,013,927	2,013,927
	220,126	5,405,810	4,329,747	9,955,683
Derivative financial liabilities	—	(27,729)	—	(27,729)
	220,126	5,378,081	4,329,747	9,927,954

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 approximate 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 2022, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

Notes to Financial Statements (continued)

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

2. Estimation of fair value (continued)

Fair value of financial assets (continued)

The fair values of listed equity instruments are determined on the basis of market prices. The fair values of equity investments in listed companies during the lock-up period is arrived at based on quotations in an active market discounted at a percentage reflecting the lack of liquidity during lock-up.

Fair value of non-listed equity investment at fair value through profit or loss is estimated using the market-based method. The assumptions on which it is based are unobservable input. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each identified comparable company, such as enterprise value to EBIT ("EV/EBIT"), enterprise value to revenue ("EV/Revenue") 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 inputs 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 2022, 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 2022 was RMB2,012,443,000 (31 December 2021: RMB2,013,927,000).

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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 2022

	Fair value at end of period	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,012,443,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB43-RMB500
			Rent growth (p.a.)	3%–6%
			Discount rate	7.25%–8%
Equity instrument investment	RMB1,192,952,000	Market method	Liquidity discount rate	4%–30%
			P/E	13–67
			EV/Revenue	2–6
			EV/EBIT	11–14
Other non-current Liabilities	RMB24,854,000	Binomial Model	Risk free rate	2.41%-2.7%
			Volatility rate	43.24%-45.26%
			Dividend Yield Ratio	—
			Exercise probability	5%-15%

31 December 2021

	Fair value at end of year	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,013,927,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB43–RMB500
			Rent growth (p.a.)	3%–6%
			Discount rate	7.25%–8%
Equity instrument investment	RMB2,315,820,000	Market method	Liquidity discount rate	20%–30%
			P/E	7–53
			P/B	0.8
			EV/Revenue	2–8
			EV/EBIT	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 2022

	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	**2,013,927**	**–**	**–**	**(1,484)**	**–**	**–**	**2,012,443**	**(1,484)**
Trading financial assets	**1,139,092**	**22,011**	**(1,139,092)**	**18,221**	**–**	**–**	**40,232**	**18,221**
Other non-current financial assets	**1,175,249**	**–**	**(22,011)**	**12,988**	**–**	**(13,506)**	**1,152,720**	**11,689**
Other non-current liabilities	**–**	**–**	**–**	**–**	**24,854**	**–**	**24,854**	**–**

31 December 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 year included in profit and loss
Investment properties	2,035,234	–	(18,738)	(2,569)	–	–	2,013,927	(2,569)
Trading financial assets	194,896	166,060	(186,266)	964,402	–	–	1,139,092	964,402
Other non-current financial assets	1,536,741	895	(166,060)	62,399	–	(258,726)	1,175,249	(35,195)

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 2022 Relating to non-financial assets	Six months ended 30 June 2021 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	**(1,484)**	878
Change in unrealised profit or loss for the period of assets held at the end of the period	**(1,484)**	878

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	21.28%	21.28%

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.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties

	Relationship
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxingxin Cloud Service Company Limited	Subsidiary of the Company's controlling shareholder
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
安徽中興聚力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Xingkai Communication Equipment Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Subsidiary of the Company's controlling shareholder
Shenzhen New Video Smart Technology Company Limited	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 (Nanchang) 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
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship
重慶中興中投物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
深圳中興和泰海景酒店投資發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company
Shenzhen Zhongxing International Investment Company Limited	Company for which a connected natural person of the Company acted as chairman
Tianjin Zhongxing 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	Subsidiary of a company for which a connected natural person of the Company served as senior management
Xi'an Microelectronics Technology Research Institute	Entity at which a connected natural person of the Company acted as head
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
CASIC Shenzhen (Group) Limited	Company for which a connected natural person of the Company served as director and senior management
Shenzhen Aerospace Property Management Co., Ltd	Company for which a connected natural person of the Company acted as director

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

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 2022	Six months ended 30 June 2021
Zhongxingxin Telecom Company Limited	**—**	6
Puxing Mobile Tech Company Limited	**811**	811
Sindi Technologies Co., Ltd	**—**	22
航天歐華信息技術有限公司	**401,604**	357,680
Shenzhen Zhongxing Information Company Limited	**2,366**	15,859
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**25**	27
南京中興和泰酒店管理有限公司	**883**	24
西安中興和泰酒店管理有限公司	**786**	1,368
Zhongxing Development Company Limited	**—**	93
上海博色信息科技有限公司	**657**	225
Shenzhen Zhongxin New Energy Technology Company Limited	**—**	5
Shenzhen Xingkai Communication Equipment Limited	**—**	29,635
上海市和而泰酒店投資管理有限公司	**598**	829
Whale Cloud Technology Co., Ltd.	**6**	191
Huanggang Education Valley Investment Holdings Co., Ltd.	**—**	13
廣東中城信息技術有限公司	**174**	—
Shenzhen Zhongxing WXT Equipment Company Limited	**2**	—
	407,912	406,788

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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 2022	Six months ended 30 June 2021
Sindi Technologies Co., Ltd#	**73,837**	57,831
Shenzhen Xinyu Tengyue Electronics Co., Ltd#	**13,986**	11,690
ZTE Software Technology (Nanchang) Company Limited	**17,831**	15,671
深圳市中興新力精密機電技術有限公司#	**72,405**	56,059
Huatong Technology Company Limited	**19,940**	22,940
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**3,497**	6,720
南京中興和泰酒店管理有限公司	**4,535**	3,396
上海市和而泰酒店投資管理有限公司	**5,826**	2,153
西安中興和泰酒店管理有限公司	**2,818**	2,926
Pylon Technologies Co., Ltd #	**14,177**	18,452
ZTE Software Technology (Shenyang) Company Limited	**2,135**	2,349
廣東歐科空調製冷有限公司	**3,066**	12,191
Whale Cloud Technology Co., Ltd.	**107,340**	97,506
安徽中興聚力精密機電技術有限公司#	**374**	761
北京中興協力科技有限公司	**1,644**	2,828
深圳中興和泰海景酒店投資發展有限公司	**22**	2,077
重慶中興中投物業服務有限公司	**–**	24
CASIC Shenzhen (Group) Limited	**1,001**	–
Huanggang Education Valley Investment Holdings Co., Ltd.	**2**	–
Shenzhen New Video Smart Technology Company Limited#	**3,824**	–
	348,260	315,574

Continuing connected transactions required to be reported on an annual basis under the Hong Kong Listing Rules.

Note: For the period, the Group conducted commodity trade with connected parties based on market prices.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

(2) Leasing with related parties

As lessor

	Property asset leased	**Six months ended 30 June 2022 Lease income**	Six months ended 30 June 2021 Lease income
上海中興思秸通訊有限公司	Office	**–**	170
上海中興科源實業有限公司	Office	**202**	213
Huatong Software Technology (Nanjing) Company Limited	Office	**92**	193
Shenzhen Zhongxingxin Cloud Service Company Limited	Office	**1,860**	1,688
Zhongxing Feiliu Information Technology Company Limited	Office	**351**	369
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	**6,442**	7,069
南京中興和泰酒店管理有限公司	Property and equipment and facilities	**3,427**	3,789
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	**8,181**	8,596
西安中興和泰酒店管理有限公司	Property and equipment and facilities	**9,320**	479
深圳中興節能環保股份有限公司	Office	**84**	88
Shenzhen Zhongxing International Investment Company Limited	Properties	**73**	66
Huatong Technology Co., Ltd	Office	**10**	–
		30,042	22,720

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

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

Six months ended 30 June 2022

	Asset type	Rental expenses for simplified short-term lease and lease of low-value assets	Rental paid	Lease liability interest expense assumed	Right-of-use assets added
Zhongxingxin Telecom Company Limited	Office	113	5,489	251	13,192
Chongqing Zhongxing Development Company Limited	Office	318	3,857	319	—
三河中興物業服務有限公司	Office	1,657	—	—	—
三河中興發展有限公司	Office	114	4,966	322	2,377
Tianjin Zhongxing International Investment Company Limited	Office	820	1,286	165	—
		3,022	15,598	1,057	15,569

Six months ended 30 June 2021

	Asset type	Rental expenses for simplified short-term lease and lease of low-value assets	Rental paid	Lease liability interest expense assumed	Right-of-use assets added
Zhongxingxin Telecom Company Limited	Office	1,830	2,556	9	—
Zhongxing Development Company Limited	Office	—	979	23	—
Chongqing Zhongxing Development Company Limited	Office	700	3,658	495	22,267
三河中興物業服務有限公司	Office	1,629	—	—	—
三河中興發展有限公司	Office	1,165	6,392	580	—
Tianjin Zhongxing International Investment Company Limited	Office	1,107	1,294	134	9,212
		6,431	14,879	1,241	31,479

Note: The Group recognised lease income of RMB30,042,000 (Six months ended 30 June 2021: RMB22,720,000) 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 RMB18,620,000 (Six months ended 30 June 2021: RMB21,310,000) for the period according to the lease contracts for the lease of office from the aforesaid connected parties.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

(3) Other major related transactions

Remuneration of key management staff

	Six months ended 30 June 2022	Six months ended 30 June 2021
Short-term staff remuneration	**5,554**	5,120
Retirement benefit	**153**	132
	5,707	5,252

Note: Share option expenses or share-based payment expenses recognized in the first six months of 2022 in respect of grants to key management personnel of the Company under the 2017 Share Option Incentive Scheme, 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme amounted to RMB12,234,000 (the first six months of 2021: RMB13,598,000). For details, please refer to Note XI. 2 and 3.

6. Commitments with related parties

(1) As the purchaser, the Group's purchase information with related parties from January to June 2022 is as follows：

Supplier	**Purchase target**	**Signing date**	**Agreement period**	**Estimated purchase amount**	
				2022 ('000)	2023 ('000)
Zhongxingxin Telecom Company Limited and its subsidiaries	raw materials	December 2021	1-year	**550,000**	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries	hotel services	December 2021	2-year	**46,000**	48,000
Huatong Software Technology Company Limited	software outsource services	January 2020	3-year	**98,380**	–
ZTE Software Technology (Nanchang) Company Limited	software outsource services	January 2020	3-year	**66,000**	–

Note: For the purchases that have occurred in this year, please refer to Note X.5(1).

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties (continued)

(2) As the seller, the Group's sales information with related parties from January to June 2022 is as follows：

Sales customer	Sales target	Signing date	Agreement period	Estimated sales amount	
				2022 ('000)	2023 ('000)
航天歐華信息技術有限公司	the full range of government and corporate products	December 2021	1-year	**1,200,000**	–

Note: For the sales that have occurred in this year, please refer to Note X. 5(1).

(3) As the lessor, the Group's lease information with related parties from January to June 2022 is as follows：

Lessee	Signing date	Lease period	Estimated rental income	
			2022 ('000)	2023 ('000)
上海中興科源實業有限公司	July 2020	2-year	**202**	–
Shenzhen Zhongxingxin Cloud Service Company Limited	July 2021	2-year	**99**	48
Shenzhen Zhongxingxin Cloud Service Company Limited	July 2020	26-month	**627**	–
Shenzhen Zhongxingxin Cloud Service Company Limited	November 2020	27-month	**974**	–
Shenzhen Zhongxingxin Cloud Service Company Limited	June 2022	2-year	**1,096**	1096
Shenzhen Zhongxingxin Cloud Service Company Limited	June 2022	2-year	**474**	474
Shenzhen Zhongxingxin Cloud Service Company Limited	August 2020	2-year	**116**	–
Zhongxing Feiliu Information Technology Company Limited	January 2021	2-year	**703**	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiaries	December 2021	2-year	**57,540**	57,540
深圳中興節能環保股份有限公司	January 2022	1-year	**168**	–
Shenzhen Zhongxing International Investment Company Limited	November 2020	7-year	**146**	146
Huatong Software Technology Company Limited	March 2022	3-year	**24**	34

Note: For the rental income that have occurred in this year, please refer to Note X. 5(2).

(4) As the lessee, the Group's lease information with related parties from January to June 2022 is as follows：

Lessor	Signing date	Lease Period	Estimated rental fee	
			2022 ('000)	2023 ('000)
Zhongxingxin Telecom Company Limited	April 2021	2-year	**10,455**	3,107
Tianjin Zhongxing International Investment Company Limited	April 2021	3-year	**2,669**	2,699
Tianjin Zhongxing International Investment Company Limited	April 2021	3-year	**1,288**	1,288
Tianjin Zhongxing International Investment Company Limited	April 2022	1-year	**403**	101
Tianjin Zhongxing International Investment Company Limited	May 2022	1-year	**314**	94
三河中興發展有限公司	December 2021	30-month	**573**	573
三河中興發展有限公司	June 2019	5-year	**800**	834
三河中興發展有限公司	March 2020	3-year	**9,409**	1,588
三河中興發展有限公司	March 2020	3-year	**1,869**	311
三河中興發展有限公司	December 2020	3-year	**1,661**	1,532
Chongqing Zhongxing Development Company Limited	January 2021	3-year	**7,787**	7,787

Note: For the rental fee that have occurred in this year, please refer to Note X. 5(2).

Notes to Financial Statements (continued)

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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 2022 Amount	31 December 2021 Amount
Receivable financing	航天歐華信息技術有限公司	**235,455**	88,689
	Shenzhen Zhongxing Information Company Limited	**–**	10,586
		235,455	99,275
Trade receivable	Puxing Mobile Tech Company Limited	**14,213**	14,213
	Xi'an Microelectronics Technology Research Institute	**9**	9
	航天歐華信息技術有限公司	**3,622**	4,179
	ZTE Software Technology (Nanchang) Company Limited	**–**	225
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**31,450**	26,231
	南京中興和泰酒店管理有限公司	**3,555**	2
	上海市和而泰酒店投資管理有限公司	**56,553**	52,295
	Whale Cloud Technology Co., Ltd.	**2,677**	3,359
	鐵建聯和 (北京) 科技有限公司	**7,424**	7,560
	西安中興和泰酒店管理有限公司	**16,647**	5,584
	Shenzhen Xingkai Communication Equipment Limited	**22,060**	22,060
	Telecom Innovations	**–**	404
	中興飛流信息科技有限公司	**185**	–
		158,395	136,121
Prepayments	深圳市中興新力精密機電技術有限公司	**731**	–
		731	–
Other receivables	Shenzhen Zhongxing Information Company Limited	**–**	14
	山東興濟置業有限公司	**20,591**	20,591
		20,591	20,605

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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 2022 Amount	31 December 2021 Amount
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd	**11,942**	11,592
	Sindi Technologies Co., Ltd.	**66,958**	69,835
	深圳市中興新力精密機電技術有限公司	**69,026**	61,123
	廣東歐科空調製冷有限公司	**3,224**	12,863
	Pylon Technologies Co., Ltd.	**17,277**	90,904
	Zhongxing Feiliu Information Technology Company Limited	**1,450**	—
		169,877	246,317
Trade payables	Shenzhen Xinyu Tengyue Electronics Co., Ltd	**3,737**	8,489
	Sindi Technologies Co., Ltd.	**30,287**	32,132
	Shenzhen Zhongxing WXT Equipment Company Limited	**483**	483
	Shenzhen Zhongxing Information Company Limited	**13,120**	13,120
	Puxing Mobile Tech Company Limited	**217**	217
	深圳市中興新力精密機電技術有限公司	**25,893**	29,772
	廣東歐科空調製冷有限公司	**181**	3,224
	Whale Cloud Technology Co., Ltd.	**238,910**	257,751
	Pylon Technologies Co., Ltd.	**1,108**	37,287
	安徽中興聚力精密機電技術有限公司	**—**	1,065
	Huanggang Education Valley Investment Holdings Co., Ltd.	**1**	—
		313,937	383,540
Contract liabilities	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,327
	Puxing Mobile Tech Company Limited	**250**	739
	Xi'an Microelectronics Technology Research Institute	**1,628**	1,628
	北京中興協力科技有限公司	**155**	155
	航天歐華信息技術有限公司	**15,022**	79,774
	ZTE Software Technology (Shenyang) Company Limited	**3**	3
	江西國投信息科技有限公司	**4,827**	4,014
	Whale Cloud Technology Co., Ltd.	**10,610**	11,407
		37,822	103,047

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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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 2022 Amount	31 December 2021 Amount
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	12	12
	Zhongxingxin Telecom Company Limited	10	318
	深圳中興新源環保股份有限公司	–	4
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	5,084	4,878
	中山優順置業有限公司	2,000	2,000
	Huanggang Education Valley Investment Holdings Co., Ltd.	181	178
	Hengyang ICT Real Estate Co., Ltd	198	198
	山東興濟置業有限公司	272	272
	Shenzhen Zhongxingxin Cloud Service Company Limited	45	45
	重慶百德行置業有限公司	3,000	–
	Huatong Technology Co., Ltd	6	–
	Shenzhen Aerospace Property Management Co., Ltd	30	–
	Whale Cloud Technology Co., Ltd.	–	2,354
	深圳中興節能環保股份有限公司	29	29
	Shenzhen Zhongxing International Investment Company Limited	26	26
		10,893	10,314

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.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:

	30 June 2022	30 June 2021
Accumulated balance of equity-settled share-based payments credited to capital reserves	**1,188,524**	947,924
Transfer of equity-settled share-based payment cost to capital reserve share capital premium on exercise of share options	**(55,444)**	—
Total costs of equity-settled share-based payments in the year	**247,549**	468,770

2. Share option incentive scheme

(1 2017 Share Option Incentive Scheme

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017 and 149,601,200 share options were granted to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company's business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 5 years from the date of grant subject to a 2-year vesting period. Thereafter, one-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The initial exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the business performance conditions or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

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.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

(1) 2017 Share Option Incentive Scheme (continued)

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options of each exercise period:

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

The fair value of the share options granted amounted to RMB1,477,496,000. Due to the expiry of the first exercise period share options in July 2020, non-fulfilment of exercise conditions for the second exercise period and the expiry of the third exercise period share options in July 2021, no recognition of related share option expenses for 2022 was required.

Share options issued and outstanding under the Scheme are as follows:

	30 June 2022		31 December 2021	
	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	**16.66**	**5,256**	16.86	39,726
Exercised during the period		**(4,972)**		(32,033)
Lapsed		**–**		(2,437)
At the end of the period	**16.36**	**284**	16.66	5,256

Note: The grant under the Company's 2017 Share Option Incentive Scheme was completed in July 2017. The initial exercise price of the share options was RMB17.06 per A share. The exercise price of the 2017 Share Option Incentive Scheme was adjusted to RMB16.86 per A share after the implementation of 2019 profit distribution plan in August 2020, to RMB16.66 per A share after the implementation of 2020 profit distribution plan in August 2021, and to RMB16.36 per A share after the implementation of 2021 profit distribution plan in May 2022.

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(Prepared in accordance with PRC ASBEs)
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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

(1) 2017 Share Option Incentive Scheme (continued)

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2022

Number of share options In '000	Exercise price RMB/share	Valid exercise period
284	**16.36**	**6 July 2021 to 5 July 2022**
284		

31 December 2021

Number of share options In '000	Exercise price RMB/share	Valid exercise period
5,256	16.66	6 July 2021 to 5 July 2022
5,256		

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second	Third
Estimated dividend payment (RMB)	**0.18**	**0.18**	**0.18**
Volatility (%)	**43.35**	**42.2**	**42.9**
Risk-free interest rate (%)	**3.498**	**3.506**	**3.517**

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

(2) 2020 Share Option Incentive Scheme — Initial Grant

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2020 Share Option Incentive Scheme" considered and passed at the Twenty-seventh Meeting of the Eighth Session of the Board of Directors and the Twentieth Meeting of the Eighth Session of the Supervisory Committee held on 6 November, it was confirmed that 158,472,000 would be granted to 6,123 participants under the initial grant. In accordance with ASBE 11 — Share-based Payment, the date of grant should be the date of approval of the share-based payment agreement. Hence, the date of grant for the initial grant of the share option incentive scheme was set for 6 November 2020. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company's business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options under the initial grant shall be valid for a period of 4 years from the date of grant, subject to a 1-year vesting period. Thereafter, one-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the business performance conditions or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

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:

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 RMB223,305,000 for the first six months of 2022 based on the best estimates of expected number of exercisable options at the end of the period.

Notes to Financial Statements (continued)

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

XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

(2) 2020 Share Option Incentive Scheme — Initial Grant (continued)

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2022

Number of share options In '000	**Exercise price RMB/share**	**Valid exercise period**
51,376	**34.47**	**6 November 2021 to 5 November 2022**
51,616	**34.47**	**6 November 2022 to 5 November 2023**
51,616	**34.47**	**6 November 2023 to 5 November 2024**
154,608		

31 December 2021

Number of share options In '000	Exercise price RMB/share	Valid exercise period
51,436	34.47	6 November 2021 to 5 November 2022
51,616	34.47	6 November 2022 to 5 November 2023
51,616	34.47	6 November 2023 to 5 November 2024
154,668		

Share options issued and outstanding under the Scheme are as follows:

	30 June 2022		31 December 2021	
	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	**34.47**	**154,668**	34.47	158,472
Exercised during the period		**(60)**		(7)
Lapsed		**—**		(3,797)
At the end of the period	**34.47**	**154,608**	34.47	154,668

Notes to Financial Statements (continued)

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

XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

(2) 2020 Share Option Incentive Scheme — Initial Grant (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

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

(3) 2020 Share Option Incentive Scheme — Reserved Options

Pursuant to the "Resolution on Matters pertaining to the Grant of Reserved Share Options under the 2020 Share Option Incentive Scheme" considered and passed at the Fortieth Meeting of the Eighth Session of the Board of Directors of the Company and the Thirty-first Meeting of the Eighth Session of the Supervisory Committee held on 23 September 2021, 5,000,000 reserved share options shall be granted to 410 participants. In accordance with ASBE No. 11 — Share-based payment, the date of grant shall be the date on which the agreement governing the share-based payment is approved. Therefore, the date of grant for the reserved share options under the share option incentive scheme shall be 23 September 2021. Participants of the reserved share options shall be key business personnel who have a direct impact or make outstanding contributions to the overall results and sustainable development of the Company.

The reserved share options shall be valid for a period of 3 years subject to a 1-year vesting period from the date of grant. Thereafter, one half of the options shall become exercisable in each of the two exercise periods, namely, the first and the second exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the business performance conditions or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

Business performance indicator for the exercise of the share options: net profit attributable to holders of ordinary shares of the listed company.

Notes to Financial Statements (continued)

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

XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

(3) 2020 Share Option Incentive Scheme — Reserved Options

The conditions for the exercise of share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/2	2022.9.23–2023.9.22	Cumulative net profit for 2020 and 2021 shall be no less than 20% RMB6.47 billion
Second exercise period ("Second Period")	1/2	2023.9.23–2024.9.22	Cumulative net profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

The fair value of the reserved share options was RMB39,913,000. The Company recognised share option expenses of RMB12,047,000 for the first six months of 2022 based on the best estimates of the expected number of exercisable options at the end of the period.

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2022

Number of share options In '000	Exercise price RMB/share	Valid exercise period
2,500	**34.92**	**23 September 2022 to 22 September 2023**
2,500	**34.92**	**23 September 2023 to 22 September 2024**
5,000		

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second
Estimated dividend payment (RMB)	**0.20**	**0.20**
Volatility (%)	**29.53**	**31.46**
Risk-free interest rate (%)	**2.393**	**2.499**

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

Notes to Financial Statements (continued)

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

XI. SHARE-BASED PAYMENT (CONTINUED)

3. MANAGEMENT STOCK OWNERSHIP SCHEME OF THE COMPANY 2020

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 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, accounting for 0.06% of the total share capital of the Company. There were 27 participants, including Directors, Supervisors, senior management and other core management personnel.

The total amount of funds paid for the Management Stock Ownership Scheme was RMB114,765,557.00, divided into 114,766,000 units at RMB1.00 each, The Directors, Supervisors and senior management of the Company subscribed for a total of 62,606,000 units, while other participants subscribed for a total of 52,160,000 units.

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 performance indicator for the Management Stock Ownership Scheme is a net profit attributable to ordinary shareholders of the listed company for 2020 of not less than RMB3.0 billion. The number of share options to be granted is based on the operating results of the business segment which the management personnel is in charge of and his/her personal appraisal, and the confirmed number of options will be vested in the holder in 2 periods separated by an interval of 12 months, with 50% vested in each period.

The lock-up period for Company shares transferred to the Management Stock Ownership Scheme was from 18 December 2020 to 17 December 2021. On 18 December. On 18 December 2021, the lock-up period for shares under the Management Stock Ownership Scheme expired. Pursuant to the "ZTE Corporation Management Stock Ownership Scheme (Draft)", 50% of the units under the Management Stock Ownership Scheme were vested during the reporting period.

The Group recognised share option expense of RMB12,197,000 for the first six months of 2022 based on the best estimates of expected number of exercisable shares at the end of the period and the fair value per share on the date of grant.

Notes to Financial Statements (continued)

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

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	30 June 2022	31 December 2021
Contracted but not provided of		
Capital commitments	**2,446,852**	2,534,033
Investment commitments	**138,500**	26,500
	2,585,352	2,560,533

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 RMB44,293,400). 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 RMB44,110,600), together with accruable interests and legal costs (the "Primary Case"). 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 RMB44,110,600) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB44,110,600) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit (the "Sued Case") 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 RMB117 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

Notes to Financial Statements (continued)

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

XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.1. (continued)

On 18 March 2022, the presiding judge of the Primary Case ruled that the valid period for the execution of the credit rights ruled in favour of ZTE Brazil expired on 13 June 2022. On 1 April 2022, ZTE Brazil filed an appeal against such ruling. Pursuant to Brazilian law, the valid period for an execution will not be suspended because of an appeal. Therefore, on 8 June 2022, ZTE Brazil applied to the Court of Brasilia, the court for the Primary Case, to request deliberation between the Court of Brasilia and Civil Court No. 15 of Sao Paulo City, Brazil, the court for the Sued Case, in support of the Brazilian subsidiary's application for the set-off of the credit rights ruled in favour in the Primary Case against any liabilities that may materialise in the event of an unfavourable ruling under the Sued Case. On 18 June 2022, the Court of Brasilia ruled in favour of the aforesaid application for set-off, confirming that, in the event of an unfavourable ruling against ZTE Brazil under the Sued Case, ZTE Brazil will be allowed to set off a compensation amount of BRL176,997,100 (equivalent to approximately RMB250 million as at the date of ruling, subject to inflationary adjustments as at the date of actual set-off).

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 2022 where BRL amounts are translated at the exchange rate of BRL1: RMB1.4127.

2.2. 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").

Notes to Financial Statements (continued)

(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)

2.2. (continued)

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

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

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

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

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

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

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

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

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

XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.4. On 21 February 2022, 山東興濟置業有限公司 ("興濟置業") filed an litigation with Jining City Rencheng District People's Court ("Rencheng Court") against Shenzhen Zhongxing ICT Company Limited ("Shenzhen ICT") and Shandong Zhongxing ICT Company Limited ("Shandong ICT") on the grounds that the latter two had not fulfilled contractual agreements, demanding: (1) compensation for loss caused by default with a provisional amount of RMB90,499,085.06 to be paid by Shenzhen ICT and Shandong ICT in accordance with the law; (2) the assumption by Shenzhen ICT and Shandong ICT of agency fees, litigation fees and preservation fees incurred by 興濟置業 in connection with the case.

On 29 April 2022, Shandong ICT received the civil case verdict for property preservation from Rencheng Court and civil litigation petition of 興濟置業. Rencheng Court ruled to freeze RMB95 million bank deposits or seal properties with the corresponding value of Shenzhen ICT and Shandong ICT.

On 26 May 2022, Shandong ICT received a writ of summons from Rencheng Court and an application for modification of litigation petition from 興濟置業, who had modified the litigation claim amount from RMB90,499,085.06 to RMB94,148,627.01.

On 18 July 2022, the first trial commenced at Rencheng Court.

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.

2.5. On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) ("ZTE") from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644) on 23 April 2018.

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017 ("2017 Settlement Agreement"). The 2018 Superseding Settlement Agreement came into effect via a superseding order relating to ZTE on 8 June 2018 (the "8 June 2018 Order"). In accordance with the 2018 Superseding Settlement Agreement, the Company had paid civil monetary penalties totalling USD1.4 billion, including a lump sum payment of USD1 billion and an additional penalty of USD0.4 billion placed in an escrow account with a U.S. bank suspended during the period of ten years from the issuance of the 8 June 2018 Order(the "Probationary Period") (The USD0.4 billion penalty will be waived after the end of Probationary Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the 2018 Superseding Settlement Agreement and 2017 Settlement Agreement, the Company is required to provide and implement a comprehensive and updated export control compliance programme that covers all levels of ZTE.

Notes to Financial Statements (continued)

(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)

2.5. (continued)

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.

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and export control compliance team members with global coverage and engaged a number of counsels and consultants; established and enhanced the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System to automate key aspects of export compliance management; carried out ECCN Publication Project, which makes available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the EAR via a public website; continued to provide online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring and compliance audits; and made continuous investment on the work on export control compliance.

In the First Half Year of 2022, the Company has complied with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses.

Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as a foundation for the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually build its value for its customers, shareholders, and employees, and build a compliant and healthy business environment with customers and partners through the dedication and vigilance to export compliance of every employee.

During the period from 1 January 2022 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent events will not have any material adverse impact on the current financial conditions and operating results of the Group.

2.6. As at 30 June 2022, an amount of RMB11,618,550,000 (31 December 2021: RMB12,974,135,000) was outstanding under the bank guarantee letters issued by the Group.

Notes to Financial Statements (continued)

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

XIII. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee

	Six months ended 30 June 2022	Six months ended 30 June 2021
Interest expense on lease liabilities	**26,597**	34,490
Short-term leases through current profit or loss using simplified approach	**63,388**	144,575
Total cash outflow relating to leases	**195,790**	220,584

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 2022	Six months ended 30 June 2021
Interest income from finance leases	**34,971**	33,574

As at 30 June 2022, the balance of unrealised finance income amounting to RMB107,823,000 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 2022	30 June 2021
1 to 2 years (including 2 years)	**1,824,100**	—
2 to 3 years (including 3 years)	**—**	1,824,100
Less: unrealised finance income	**107,823**	176,369
Lease investment, net	**1,716,277**	1,647,731

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

1. Leases (continued)

As lessor (continued)

Operating lease:

Profit or loss relating to operating leases is set out as follows:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Lease income	**67,615**	59,971

According to the lease contract signed with lessee, minimum lease payments under non-cancellable operating leases falling due are as follows:

	30 June 2022	30 June 2021
Within 1 year (including 1 year)	**166,776**	87,145
1 to 2 years (including 2 years)	**86,627**	54,695
2 to 3 years (including 3 years)	**58,925**	50,227
3 to 4 years (including 4 years)	**59,079**	52,302
4 to 5 years (including 5 years)	**57,568**	52,738
More than 5 years	**100,112**	137,866
	529,087	434,973

The Group entered into operating property leasing contracts with terms ranging from 1 year to 15 years with certain lessees. The leased properties were accounted for as investment properties. Please refer to Note V.12.

Notes to Financial Statements (continued)

(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

Operating segment

For management purposes, the Group is organised into business units based on its products and services and has 3 reportable operating segments as follows:

(1) The Carriers' Networks Business is focused on meeting carries' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, telecommunication software systems and services and other innovative technologies and product solutions;

(2) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry 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 (continued)

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segment (continued)

	Carriers' networks	Consumer business	Government and corporate business	Total
Segment revenue				
Six months ended 30 June 2022				
Revenue from external transactions	38,720,841	14,392,182	6,637,662	59,750,685
Rental income	—	—	67,615	67,615
Sub-total	38,720,841	14,392,182	6,705,277	59,818,300
Segment results	14,430,955	1,618,070	1,295,426	17,344,451
Unallocated revenue				1,000,899
Unallocated cost				(12,381,098)
Finance costs				(303,745)
Losses from changes in fair values				(392,234)
Investment losses from associates and joint ventures				(56,564)
Total profit				5,211,709
Total assets				
30 June 2022				
Segment assets	49,602,348	17,546,162	8,589,624	75,738,134
Unallocated assets				103,986,628
Sub-total				179,724,762
Total liabilities				
Segment liabilities	13,891,320	4,199,524	2,405,556	20,496,400
Unallocated liabilities				102,515,812
Sub-total				123,012,212
Supplemental information				
Six months ended 30 June 2022				
Depreciation and amortisation expenses	1,383,250	514,141	239,537	2,136,928
Capital expenditure	1,610,590	598,641	278,905	2,488,136
Asset impairment losses	(104,068)	(38,681)	(18,022)	(160,771)
Credit impairment losses	(75,678)	(28,129)	(13,105)	(116,912)

Notes to Financial Statements (continued)

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segment (continued)

	Carriers' networks	Consumer business	Government and corporate business	Total
Segment revenue				
Six months ended 30 June 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 losses 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 losses	(82,723)	(29,152)	(13,374)	(125,249)

Notes to Financial Statements (continued)

(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)

Group Information

Geographic information

Revenue from external customers

	Six months ended 30 June 2022	Six months ended 30 June 2021
PRC	**40,602,370**	35,954,824
Asia (excluding PRC)	**7,899,366**	7,140,276
Africa	**2,510,729**	2,351,270
Europe, America and Oceania	**8,805,835**	7,624,600
	59,818,300	53,070,970

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	30 June 2022	31 December 2021
PRC	**23,169,973**	22,993,371
Asia (excluding PRC)	**1,467,844**	1,477,536
Africa	**434,018**	454,790
Europe, America and Oceania	**403,931**	445,927
	25,475,766	25,371,624

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 RMB17,991,810,000 was derived from carriers' networks and consumer business revenue from one major customer (first half of 2021: RMB16,602,146,000 from one major customer).

Notes to Financial Statements (continued)

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. # Net current assets/(liabilities)

	30 June 2022 Group	31 December 2021 Group	30 June 2022 Company	31 December 2021 Company
Current assets	**138,483,067**	127,871,085	**118,597,397**	107,161,255
Less: current liabilities	**84,661,749**	78,685,256	**86,005,468**	80,474,462
Net current assets/(liabilities)	**53,821,318**	49,185,829	**32,591,929**	26,686,793

4. # Total assets less current liabilities

	30 June 2022 Group	31 December 2021 Group	30 June 2022 Company	31 December 2021 Company
Total assets	**179,724,762**	168,763,425	**159,597,796**	148,700,059
Less: current liabilities	**84,661,749**	78,685,256	**86,005,468**	80,474,462
Total assets less current liabilities	**95,063,013**	90,078,169	**73,592,328**	68,225,597

Notes to Financial Statements (continued)

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

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 2022	31 December 2021
Within 1 year	16,660,688	15,015,331
1–2 years	1,591,530	2,110,408
2–3 years	1,014,879	1,104,192
Over 3 years	9,024,858	8,906,033
	28,291,955	27,135,964
Less: bad debt provision for trade receivables	6,353,330	6,165,477
	21,938,625	20,970,487

	30 June 2022				31 December 2021			
	Book balance		Expected credit loss for the entire subsisting period		Book balance		Expected credit loss for the entire subsisting period	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	1,875,175	7	1,875,175	100	1,905,415	7	1,905,415	100
For which bad debt provision has been collectively made								
0–6 months	13,182,269	47	233,070	2	12,585,587	46	154,720	1
6–12 months	2,798,174	9	65,415	2	1,774,953	6	53,205	3
12–18 months	711,685	3	102,658	14	1,344,145	5	93,285	7
18–24 months	862,105	3	100,949	12	702,067	3	27,757	4
2–3 years	899,237	3	180,553	20	979,226	4	266,225	27
Over 3 years	7,963,310	28	3,795,510	48	7,844,571	29	3,664,870	47
	26,416,780	93	4,478,155	17	25,230,549	93	4,260,062	17
	28,291,955	100	6,353,330	22	27,135,964	100	6,165,477	23

Notes to Financial Statements (continued)

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

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

1. Trade receivables (continued)

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 2022	**6,165,477**	**116,839**	**(49,008)**	**120,022**	**6,353,330**
31 December 2021	8,192,867	24,190	(1,914,186)	(137,394)	6,165,477

As at 30 June 2022, RMB70,725,000 (2021: RMB176,984,000) 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 no write-off of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately for the period (31 December 2021: RMB1,593,497,000).

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

2. Other receivables

	30 June 2022	31 December 2021
Interest receivable	**444,804**	266,150
Dividend receivable	**1,056,303**	1,056,533
Other receivables	**30,710,233**	27,449,570
	32,211,340	28,772,253

Other receivables

The aging analysis of other receivables:

	30 June 2022	31 December 2021
Within 1 year	**24,021,880**	21,449,993
1–2 years	**3,465,387**	2,201,432
2–3 years	**2,099,057**	2,767,257
Over 3 years	**1,165,064**	1,040,327
	30,751,388	27,459,009
Bad debt provision	**(41,155)**	(9,439)
Total	**30,710,233**	27,449,570

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (continued)

Other receivables (continued)

Other receivables are analysed as follows:

	30 June 2022	31 December 2021
Staff loans	**34,045**	50,680
Current amounts	**30,676,188**	27,398,890
Total	**30,710,233**	27,449,570

3. Long-term trade receivables

	30 June 2022	31 December 2021
Loans granted to subsidiaries (Note 1)	**4,235,131**	4,045,099
Installment payments for the provision of telecommunication system construction projects	**2,114,049**	2,176,930
Less: Bad debt provision for long-term receivables	**18,479**	21,846
	6,330,701	6,200,183

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 2022	**21,846**	**(3,367)**	**18,479**
31 December 2021	27,841	(5,995)	21,846

The interest rate of long-term trade receivables ranged from 4.50%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables".

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments

		30 June 2022	31 December 2021
Equity method			
Joint Ventures	(1)	**438,975**	440,481
Associates	(2)	**836,080**	895,369
Less: Provision for impairment in long-term equity Investments		**–**	–
		1,275,055	1,335,850
Cost method			
Subsidiaries	(3)	**15,026,062**	16,007,470
Less: Provision for impairment in long-term equity investments	(4)	**381,166**	385,757
		14,644,896	15,621,713
		15,919,951	16,957,563

30 June 2022

(1) Joint Ventures

	Opening book balance	Movements during the period: Increase of investment	Decrease of investment	Investment gains/losses undue equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for Impairment provision	Closing book balance	Impairment provision at the end of the period
Puxing Mobile Tech Company Limited	10,752	–	–	–	–	–	–	–	10,752	–
德特賽維技術有限公司	28,527	–	–	(3,684)	–	–	–	–	24,843	–
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	401,202	–	–	2,178	–	–	–	–	403,380	–
	440,481	–	–	(1,506)	–	–	–	–	438,975	–

(2) Associates

	Opening book balance	Movements during the period: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Other	Closing book balance	Impairment provision at the end of the period
中興耀維科技江蘇有限公司*	430	–	(430)	–	–	–	–	–	–	–	–
廣東中城信息技術有限公司	4,687	–	–	–	–	–	–	–	–	4,687	–
上海博色信息科技有限公司	2,791	–	–	(365)	6	–	–	–	–	2,432	–
南京寧網科技有限公司	3,652	–	–	(1,654)	–	–	–	–	–	1,998	–
Whale Cloud Technology Co., Ltd.	702,183	–	–	(45,639)	(5,313)	–	–	–	–	651,231	–
Shijiazhuang Smart Industries Company Limited	7,829	–	–	(1,703)	–	–	–	–	–	6,126	–
Zhongxing Feiliu Information Technology Company Limited	16,855	–	–	(5,001)	–	–	–	–	–	11,854	–
Xingyun Times Technology Company Limited	131,694	–	–	304	–	–	–	–	–	131,998	–
ZTE (Wenzhou) Railway Communication Technology Limited	25,248	–	–	2,112	–	–	(1,606)	–	–	25,754	–
	895,369	–	(430)	(51,946)	(5,307)	–	(1,606)	–	–	836,080	–

* 中興耀維科技江蘇有限公司 were no longer accounted for as associates for the year owing to the loss of significant influence following the full disposal of equity interests held in these companies.

Notes to Financial Statements (continued)

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

4. Long-term equity investments (continued)

30 June 2022 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	–
Shanghai ZXELINK Co., Ltd.	–	37,382	(37,382)	–	***	–	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100.0%	100.0%	–
ZTE Microelectronics Technology Company Limited	2,702,784	2,702,784	–	2,702,784	87.2%	87.2%	–
Anhui Wantong Posts and Telecommunication Company Limited	–	179,767	(179,767)	–	***	–	8,100
ZTE Integration Telecom Limited	–	41,250	(41,250)	–	****	–	–
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)	–	***	–	–
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	340,000	600,000	(260,000)	340,000	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	76.0%	76.0%	–
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 Do Brasil LTDA	18,573	18,573	–	18,573	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%	35,200
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise (Limited Partnership)	–	–	–	–	–	**	–
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100.0%	100.0%	–
北京中興網捷科技有限公司	289,341	289,341	–	289,341	100.0%	100.0%	–
Shenzhen Zhongxing Cloud Service Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
Zhongxing New Energy Technology Automobile Company Limited	232,360	232,360	–	232,360	100.0%	100.0%	–
Xi'an ZTE Terminal Technology Company Limited	300,000	300,000	–	300,000	100.0%	100.0%	–
Zhongxing Health Technology Company Limited	15,000	15,000	–	15,000	50.0%	50.0%	–
Shenzhen Zhongxing Smart Valley Technology Company Limited	15,000	15,000	–	15,000	100.0%	100.0%	–
Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)	–	45,000	(45,000)	–	–	**	–
中興捷維通訊技術有限責任公司	51,530	51,530	–	51,530	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 2022 (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%	*	–
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 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)	–	–	**	–
ZTE Kela Technology (Suzhou) Co., Ltd.	48,661	48,661	–	48,661	90.0%	90.0%	–
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	–	49,000	100.0%	100.0%	–
ZTE (Xi'an) Co., Ltd.	–	500,000	(500,000)	–	100.0%	100.0%	2,925
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)	–	****	–	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	20,000	10,000	10,000	20,000	100.0%	100.0%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Nanjing Yingbo Super Computer Technology Company Limited	23,600	23,600	–	23,600	50.1%	50.1%	–
Nubia Technology Limited	1,124,402	1,124,402	–	1,124,402	78.3%	78.3%	–
Shenzhen Renxing Technology Company Limited	720,000	720,000	–	720,000	100.0%	100.0%	–
Zhongxing Terminal Co., Ltd.	100,000	100,000	–	100,000	100.0%	100.0%	–
Zhongxing Intelligent Technology (Nanjing) Company Limited	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Nanjing Zhongxing Zhiyuan Technology Company Limited	100,000	100,000	–	100,000	100.0%	100.0%	–
Nanjing Chunjun Innovative Technology Company Limited	111,000	55,000	56,000	111,000	100.0%	100.0%	–
Jinzhuan Xinke Company Limited	154,038	83,759	70,279	154,038	92.7%	92.7%	–
ZTE (Congo) Company Limited	393	356	37	393	100.0%	100.0%	–
Zhongxing (Chengdu) Intelligent Technology Company Limited	100,000	100,000	–	100,000	100.0%	100.0%	–
Sanhe Zhongxing Software Company Limited	10,000	–	10,000	10,000	100.0%	100.0%	–
ZTE (Guinea) Company Limited	69	–	69	69	100.0%	100.0%	–
ZTE (Côte d'Ivoire) Company Limited	106	–	106	106	100.0%	100.0%	–
		16,007,470	(981,408)	15,026,062			46,225

* 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 Group as in a position to exercise control over this subsidiary.

*** The company was disposed of prior to 30 June 2022 and the Company has ceased to be in control of the company.

**** The company was deregistered prior to 30 June 2022 and the Company has ceased to be in control of the company.

***** The articles of association of ZTE Holdings (Thailand) Co., Ltd provide that ZTE Corporation's shareholding percentage is different from its percentage of voting rights in the company.

****** The Company had a shareholding of less than 50%. However, ZTE Holdings (Thailand) Co., Ltd. also held 51% equity interests in ZTE (Thailand) Co., Ltd., henced the Company was in a position to exercise control over this subsidiary.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2022 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the period	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-Communication Technologies Ltd. (Russia)	6,582	–	6,582
	385,757	(4,591)	381,166

Notes to Financial Statements (continued)

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

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

4. Long-term equity investments (continued)

31 December 2021

(1) Joint Ventures

		Movements during the year								
	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	31,343	–	–	(20,591)	–	–	–	–	10,752	–
德特賽維技術有限公司	26,768	–	–	1,759	–	–	–	–	28,527	–
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	99,911	300,000	–	1,291	–	–	–	–	401,202	–
	158,022	300,000	–	(17,541)	–	–	–	–	440,481	–

(2) Associates

		Movements during the year									
	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Other	Closing book balance	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company*	–	–	(2,477)	–	–	–	–	2,477	–	–	–
ZTE Energy Limited*	447,009	–	(486,198)	48,377	–	–	(9,188)	–	–	–	–
ZTE Software Technology (Nanchang) Company Limited*	–	–	–	–	–	–	–	–	–	–	–
北京億科三友科技發展有限公司*	–	–	(4,764)	–	–	–	–	4,764	–	–	–
上海中興思秸通訊有限公司*	–	–	–	–	–	–	–	–	–	–	–
中興耀維科技江蘇有限公司	1,492	–	–	(1,062)	–	–	–	–	–	430	–
廣東中城信息技術有限公司	4,687	–	–	–	–	–	–	–	–	4,687	–
上海博色信息科技有限公司	4,137	–	–	(1,342)	–	(4)	–	–	–	2,791	–
南京寧網科技有限公司	3,811	–	–	(159)	–	–	–	–	–	3,652	–
Whale Cloud Technology Co., Ltd.	652,476	–	–	49,707	–	–	–	–	–	702,183	–
Shijiazhuang Smart Industries Company Limited	16,172	–	–	(8,343)	–	–	–	–	–	7,829	–
Zhongxing Feiliu Information Technology Company Limited	18,063	–	–	(1,208)	–	–	–	–	–	16,855	–
Xingyun Times Technology Company Limited	–	133,514	–	(1,820)	–	–	–	–	–	131,694	–
ZTE (Wenzhou) Railway Communication Technology Limited	–	21,047	–	4,201	–	–	–	–	–	25,248	–
	1,147,847	154,561	(493,439)	88,351	–	(4)	(9,188)	7,241	–	895,369	–

* KAZNURTEL Limited Liability Company, ZTE Energy Company Limited (renamed Zonergy Corporation as from 2 November 2021), ZTE Software Technology (Nanchang) Company Limited, 北京億科三友科技發展有限公司 and 上海中興思秸通訊有限公司 were no longer accounted for as associates for the year owing to the loss of significant influence following the full disposal of equity interests held in these companies.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

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

4. Long-term equity investments (continued)

31 December 2021 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100.0%	100.0%	1,410,000
Shanghai ZXELINK Co., Ltd.	37,382	37,382	–	37,382	90.0%	90.0%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100.0%	100.0%	–
ZTE Microelectronics Technology Company Limited	2,702,784	91,957	2,610,827	2,702,784	87.22%	87.22%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90.0%	90.0%	7,200
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	75.0%	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%	46,000
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100.0%	100.0%	650,000
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%	–
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 (Limited Partnership)	–	–	–	–	–	**	10,800
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	750,000
深圳市百維技術有限公司	16,000	16,000	–	16,000	100.0%	100.0%	–
北京中興網捷科技有限公司	289,341	289,341	–	289,341	100.0%	100.0%	–
Caltta Technologies Co., Ltd.	–	42,750	(42,750)	–	***	–	–
Shenzhen Zhongxing Cloud Service Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
Shenzhen Zhongxing SI Technology Company Limited	–	27,000	(27,000)	–	***	–	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
Zhongxing New Energy Technology Automobile Company Limited	232,360	232,360	–	232,360	100.0%	100.0%	–
Xi'an ZTE Terminal Technology Company Limited	300,000	300,000	–	300,000	100.0%	100.0%	–
Zhongxing Health Technology Company Limited	15,000	15,000	–	15,000	50.0%	50.0%	–
Shenzhen Zhongxing Smart Valley Technology Company Limited	15,000	15,000	–	15,000	100.0%	100.0%	–
Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)	45,000	45,000	–	45,000	28.9%	**	6,400
中興捷維通訊技術有限責任公司	51,530	51,530	–	51,530	100.0%	100.0%	–
西安中興精誠科技有限公司	–	9,393	(9,393)	–	***	–	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	–	19,500	65.0%	65.0%	–

Notes to Financial Statements (continued)

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

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

4. Long-term equity investments (continued)

31 December 2021 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Changsha Zhongxing Smart Technologies Company Limited	350,000	350,000	–	350,000	100.0%	100.0%	–
Shenzhen Zhongxing Videocom Technologies Company Limited	31,400	31,400	–	31,400	44.0%	*	–
ZTE (Wenzhou) Railway Communication Technology Limited	–	25,500	(25,500)	–	***	–	–
Zhongxing (Shenyang) Financial Technology Company Limited	45,000	45,000	–	45,000	100.0%	100.0%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
ZTE Gaoneng Technology Company Limited	–	400,000	(400,000)	–	***	–	–
ZTE Smart Auto Company Limited	790,500	790,500	–	790,500	86.4%	86.4%	–
Zhongxing Opto-electronic Technology Company Limited	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	21,000	21,000	–	21,000	25.0%	**	78,000
ZTE Kela Technology (Suzhou) Co., Ltd.	48,661	41,650	7,011	48,661	100.0%	100.0%	–
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	–	49,000	100.0%	100.0%	–
ZTE (Xi'an) Co., Ltd.	500,000	500,000	–	500,000	100.0%	100.0%	–
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	52,270	52,270	–	52,270	100.0%	100.0%	–
Xi'an Zhongxing Electronic Technology Company Limited	45,000	45,000	–	45,000	100.0%	100.0%	–
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	–	3,000	100.0%	100.0%	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	10,000	10,000	–	10,000	100.0%	100.0%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Nanjing Yingbo Super Computer Technology Company Limited	23,600	23,600	–	23,600	50.1%	50.1%	–
Nubia Technology Limited	1,124,402	1,124,402	–	1,124,402	78.33%	78.33%	–
Shenzhen Renxing Technology Company Limited	720,000	720,000	–	720,000	100.0%	100.0%	–
Zhongxing Terminal Co., Ltd.	100,000	100,000	–	100,000	100.0%	100.0%	–
Zhongxing Intelligent Technology (Nanjing) Company Limited	1,000,000	–	1,000,000	1,000,000	100.0%	100.0%	–
Nanjing Zhongxing Zhiyuan Technology Company Limited	100,000	–	100,000	100,000	100.0%	100.0%	–
Nanjing Chunjun Innovative Technology Company Limited	55,000	–	55,000	55,000	100.0%	100.0%	–
Jinzhuan Xinke Company Limited	83,759	–	83,759	83,759	70.66%	70.66%	–
ZTE (Congo) Company Limited	356	–	356	356	100.0%	100.0%	–
Zhongxing (Chengdu) Intelligent Technology Company Limited	100,000	–	100,000	100,000	100.0%	100.0%	–
		12,571,262	3,436,208	16,007,470			2,986,065

* This subsidiary is a company with limited liability in which the Company had a shareholding of less than 50%. It 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 Group was in a position to exercise control over this subsidiary.

*** The company was disposed of prior to 31 December 2021 and the Company has ceased to be in control of the company.

**** The articles of association of ZTE Holdings (Thailand) Co., Ltd provide that ZTE Corporation's shareholding percentage is different from its percentage of voting rights in the company.

***** The Company had a shareholding of less than 50%. However, ZTE Holdings (Thailand) Co., Ltd. also held 51% equity interests in ZTE (Thailand) Co., Ltd., henced the Company was in a position to exercise control over this subsidiary.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

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

4. Long-term equity investments (continued)

31 December 2021 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
ZTE DoBrasil LT DA	18,572	—	18,572
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (European research institute)	2,030	—	2,030
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	335,759	—	335,759
ZTE Romania S.R.L	827	(827)	—
PT ZTE Indonesia	15,275	(15,275)	—
ZTE-Communication Technologies Ltd. (Russia)	6,582	—	6,582
	401,859	(16,102)	385,757

Notes to Financial Statements (continued)

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

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

5. Operating revenue and costs

	Six months ended 30 June 2022		Six months ended 30 June 2021	
	Revenue	**Cost**	Revenue	Cost
Principal operations	**50,035,643**	**47,574,881**	44,147,330	42,492,324
Other businesses	**5,870,655**	**100,470**	6,743,304	212,791
	55,906,298	**47,675,351**	50,890,634	42,705,115

6. Investment income

	Six months ended 30 June 2022	Six months ended 30 June 2021
Investment loss from long-term equity investment under equity method	**(53,452)**	(67,079)
Investment income from long-term equity investment under cost method	**46,225**	52,065
Investment income from the disposal of derivative investment	**326,033**	(65,597)
Investment income earned from financial assets at fair value through current profit or loss during the period of holding	**4,163**	1,634
Investment income/(loss) from the disposal of long-term equity investment	**(147,715)**	1,019,491
Loss upon derecognition of financial assets at amortised cost and financial assets at fair value through other comprehensive income	**(90,129)**	(46,752)
	85,125	893,762

7. Gain from asset disposal

	Six months ended 30 June 2022	Six months ended 30 June 2021
Gain from disposal of right-of-use assets	**4,521**	—
Gain from disposal of fixed assets	**—**	47,494
	4,521	47,494

Supplementary Information to the Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2022
Gain from the disposal of non-current assets	7,602
Investment gain from the disposal of long-term equity investment	7,445
Gain/loss from fair-value change of derivative financial assets and derivative financial liabilities held and investment gain from disposal of derivative financial assets and derivative financial liabilities, excluding the effective value protection hedge business relating to the Company's ordinary business Note 2	55,259
Write-back of provision for individually tested receivable impairment	72,905
Gain/loss from fair-value change of investment properties	(1,484)
Other gains other than income from software VAT rebate and income from handling charge for withholding personal tax	163,823
Net of other non-operating income and expenditure other than the above	(55,295)
Other gains/losses falling under the definition of extraordinary gain/loss	739,772
	990,027
Effect of income tax	(148,504)
Effect of non-controlling interests (net of tax)	(1,056)
	840,467

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 are as follows:

	Six months ended 30 June 2022	Reason
Income from VAT rebate for software products	714,735	In line with national policies and received on an ongoing basis
Income from handling charge for withholding personal tax	23,028	In line with national policies and received on an ongoing basis
Investment gain and gain/loss from fair-value change of ZTE Capital	91,371	Business with the scope of operation of ZTE Capital

Note 2: The Company has entered into a series of forward exchange contracts. Subject to compliance with conditions for hedge accounting, the Company has elected not to apply hedge accounting. The gain/loss of hedging instruments was included in recurring gain/loss to the extent of the exchange gain/loss of the hedged items. The effective value protection hedge relating to the Company's ordinary business operations included in recurring gain/loss for the reporting period amounted to RMB328,019,000.

Supplementary Information to the Financial Statements (continued)

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2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE (CONTINUED)

30 June 2022

	Weighted average return on net assets	**Earnings per share**	
	(%)	**Basic**	**Diluted**
Net profit attributable to ordinary shareholders of the Company	**8.56%**	**0.96**	**0.96**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**6.98%**	**0.79**	**0.79**

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	4.98%	0.49	0.49

XII. Documents Available for Inspection

(I) Text of the 2022 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 2022 duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

(III) Original copies of all of the Company's documents and announcements published in China Securities Journal, Securities Times, Shanghai Securities News, posted on http://www.cninfo.com.cn and http://www.hkexnews.hk during the reporting period; and

(IV) Articles of Association.

By order of the Board
Li Zixue
Chairman
27 August 2022

ZTE 中兴通讯股份有限公司
ZTE CORPORATION