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ZTE CORPORATION

中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 763)

2020 INTERIM REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that the contents of the 2020 Interim Report(the “Interim Report”) are true, accurate and complete without any false information, misleading statements or material omissions, and accept individual and collective legal responsibility.

The Interim Report containing all information required to be presented in interim reports in accordance with Appendix 16 to the Rules (the “Hong Kong Stock Exchange Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) will be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company’s website (www.zte.com.cn) in due course.

- 1.2 There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of the Interim Report.
- 1.3 The Interim Report has been considered and approved at the Twenty-second Meeting of the Eighth Session of the Board of Directors of the Company.
- 1.4 The interim financial reports of ZTE and its subsidiaries (“the Group”) for the six months ended 30 June 2020 were unaudited.

- 1.5 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 the Interim Report.
- 1.6 No profit distribution or conversion of capital reserves will be implemented in respect of the interim period of 2020.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE
Stock code	000063 (A Shares) 763 (H Shares)
Place of listing	Shenzhen Stock Exchange The Stock Exchange of Hong Kong Limited
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
Principal place of business in Hong Kong	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Website	http://www.zte.com.cn
E-mail	IR@zte.com.cn

2.2 Contact persons and correspondence

	Authorized representatives	Secretary to the Board of Directors/ Company Secretary	Securities Affairs Representatives
Name	Gu Junying, DingJianzhong	Ding Jianzhong	Xu Yulong
Address	No. 55, Keji Road South, Shenzhen, Guangdong Province, the People's Republic of China		
Tel	+86 755 26770282		
Fax	+86 755 26770286		
E-mail	IR@zte.com.cn		

3. SUMMARY OF THE COMPANY'S BUSINESS

3.1 Principal businesses

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

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

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

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

3.2 The industry in which we operates

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

The Group owns a 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 fulfill 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 mainstream products, enhancing customer satisfaction and market share in an ongoing effort and constantly strengthening its product competitiveness through persistent endeavours in proprietary innovation of core technologies, while forging closer cooperation with partners with a more open-minded approach to build a mutually beneficial industrial chain and embrace together the brilliant and best new era of "mobile smart interconnection of all things".

4. HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

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

☐ Yes ☒ No

4.1 Major accounting data and financial indicators of the Group prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”)

Unit: RMB in thousands

Item	End of the reporting period (30 June 2020)	End of last year (31 December 2019)	Changes as at the end of the reporting period compared with the end of last year
Total assets	165,432,364	141,202,135	17.16%
Owners' equity attributable to holders of ordinary shares of the listed company	41,156,116	28,826,868	42.77%
Share capital (thousand shares) <i>Note 1</i>	4,613,435	4,227,530	9.13%
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	8.92	6.82	30.79%
Gearing ratio (%)	73.24%	73.12%	Increased by 0.12 percentage point

Unit: RMB in thousands

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

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

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

Note 3: As the 2017 share options granted by the Company have given rise to 22,143 thousand and 30,440 thousand potentially dilutive ordinary share for the six months ended 30 June 2020 and the six months ended 30 June 2019, respectively, dilutive earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

4.2 Extraordinary gains or losses items and amounts prepared in accordance with PRC ASBEs

Unit: RMB in thousands

Extraordinary item	Amount
Non-operating income, other income and others	1,272,667
Gains/(Losses) from fair value change	(121,434)
Investment income	57,351
Less: Losses on disposal of non-current assets	26,618
Less: Other non-operating expenses	28,670
Less: Asset impairment loss	7,165
Less: Effect of income tax	171,920
Less: Effect of non-controlling interests (after tax)	19,037
Total	955,174

4.3 Major financial indicators prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”)

Item	Six months ended 30 June 2020	Six months ended 30 June 2019
Basic earnings per share (<i>RMB/share</i>) ^{Note}	0.40	0.35
Weighted average return on net assets	5.28%	6.20%
Weighted average return on net assets after extraordinary items	2.56%	2.58%
Item	30 June 2020	31 December 2019
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	8.92	6.82

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

4.4 The amounts of net profit and shareholders' equity of the Group for the six months ended and as at 30 June 2020 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

5. SHAREHOLDINGS OF THE SHAREHOLDERS

5.1 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 2020		There were 513,906 shareholders (comprising 513,585 holders of A shares and 321 holders of H shares)						
Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares								
Name of shareholders		Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Class of shares	Increase/decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen (shares)
1.	Zhongxingxin Telecom Company Limited (“Zhongxingxin”)	Domestic general corporation	23.40%	1,079,569,700 2,038,000 ^{Note 1}	A share H share	-69,279,900 —	— —	98,667,983 ^{Note 2} Nil
2.	HKSCC Nominees Limited ^{Note 3}	Foreign shareholders	16.31%	752,327,016	H share	+15,630	—	Unknown
3.	Hong Kong Securities Clearing Company Limited ^{Note 4}	Overseas corporation	1.38%	63,869,835	A share	-3,998,471	—	Nil
4.	NSSF Portfolio #101	Others	1.27%	58,524,205	A share	+42,204,567	42,204,567	Nil
5.	Bank of China Limited — Huaxia Securities 5G Themed Traded Open-ended Index Securities Fund	Others	1.27%	58,362,288	A share	+36,897,586	—	Nil
6.	Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.14%	52,519,600	A share	—	—	Nil
7.	Shenzhen Huitong Rongxin Investment Co., Ltd.	State-owned corporation	0.93%	43,032,108	A share	+43,032,108	43,032,108	Nil
8.	Nanjing Xinchuangxing Consulting and Management Partnership (Limited Partnership)	Domestic general corporation	0.93%	43,032,108	A share	+43,032,108	43,032,108	Nil
9.	New China Life Insurance Company Limited — New Traditional Products 2	Others	0.93%	43,032,108	A share	+43,032,108	43,032,108	Nil
10.	Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership)	Others	0.93%	43,032,108	A share	+43,032,108	43,032,108	Nil
11.	Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	Others	0.93%	43,032,108	A share	+43,032,108	43,032,108	Nil

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

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

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

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

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

Note 4: Shares held by Hong Kong Securities Clearing Company Limited represented the sum of A shares in the Company purchased through Shenzhen Hong Kong Stock Connect (Northbound).

Note 5: During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.

Note 6: Shareholders holding 5% or above of the Company’s shares — Zhongxingxin, holding 1,079,569,700 shares in the Company in aggregate, representing 23.40% of the total share capital of the Company as at the end of the reporting period, is the controlling shareholder of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period are as follows:

Name of shareholder	Increase/decrease of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	-69,279,900	1,077,531,700	A shares	0	1,077,531,700	98,667,983
	0	2,038,000	H shares	0	2,038,000	Nil

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

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

☐ Yes ☒ No

The Company had no preferential shares.

5.2 Changes in controlling shareholder and de facto controller

☐ Applicable ☒ N/A

During the reporting period, there was no change to the controlling shareholder of the Company. There was no de facto controller of the Company.

5.3 Purchase, sale and redemption of securities

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

6. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

6.1 Changes in the shareholdings and share options of the Company's Directors, Supervisors and senior management

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on <i>Note 1</i>	Term of office ending on <i>Note 1</i>	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	56	Chairman	Incumbent	3/2019	3/2022	—	—	—	—	—
2	Xu Ziyang	Male	48	Director	Incumbent	3/2019	3/2022	42,000	42,000	—	84,000	<i>Note 3</i>
				President		4/2019	3/2022					
3	Li Buqing	Male	48	Director	Incumbent	3/2019	3/2022	—	—	—	—	—
4	Gu Junying	Male	53	Director	Incumbent	3/2019	3/2022	—	—	—	—	—
				Executive Vice President		4/2019	3/2022					
5	Zhu Weimin	Male	54	Director	Incumbent	3/2019	3/2022	—	—	—	—	—
6	Fang Rong	Female	56	Director	Incumbent	3/2019	3/2022	—	—	—	—	—
7	Cai Manli	Female	47	Independent	Incumbent	3/2019	3/2022	—	—	—	—	—
				Non-executive Director								
8	Gordon Ng	Male	56	Independent	Incumbent	3/2019	3/2022	—	—	—	—	—
				Non-executive Director								
9	Zhuang Jiansheng <i>Note 2</i>	Male	55	Independent	Incumbent	6/2020	3/2022	—	—	—	—	—
				Non-executive Director								
10	Yuming Bao <i>Note 2</i>	Male	48	Independent	Resigned	3/2019	6/2020	—	—	—	—	—
				Non-executive Director								
Supervisors of the Company												
11	Xie Daxiong	Male	57	Chairman of Supervisory Committee	Incumbent	3/2019	3/2022	495,803	—	—	495,803	—
12	Xia Xiaoyue	Female	45	Supervisor	Incumbent	3/2019	3/2022	50,927	—	—	50,927	—
13	Li Quancai	Male	59	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—
14	Shang Xiaofeng	Male	45	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—
15	Zhang Sufang	Female	46	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—
Senior Management of the Company												
16	Wang Xiyu	Male	46	Executive Vice President	Incumbent	4/2019	3/2022	41,500	45,966	—	87,466	<i>Note 3</i>
17	Li Ying	Female	42	Executive Vice President and Chief Financial Officer	Incumbent	4/2019	3/2022	27,800	26,800	—	54,600	<i>Note 3</i>
18	Xie Junshi	Male	45	Executive Vice President	Incumbent	9/2019	3/2022	—	—	—	—	—
19	Ding Jianzhong	Male	44	Secretary to the Board of Directors	Incumbent	7/2019	3/2022	—	—	—	—	—
—	Total	—	—	—	—	—	—	658,030	114,766	—	772,796	—

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

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

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

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

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

6.2 Interests of Directors, Supervisors and Chief Executive Officer of the Company in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2020 are set out in the section of this chapter headed “6.1 Changes in the shareholdings and share options of the Company’s Directors, Supervisors and senior management”.

Save as disclosed above, as at 30 June 2020, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2020, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

7. REPORT OF THE BOARD OF DIRECTORS

7.1 Review of business in the first half of 2020

(1) Overview of the domestic telecommunications industry for the first half of 2020

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

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

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

(2) Overview of the global telecommunications industry for the first half of 2020

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

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

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

(3) Operating results of the Group for the first half of 2020

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

A. By market

The domestic market

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

The international market

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

B. By business segment

For the reporting period, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB34.970 billion, RMB4.816 billion and RMB7.413 billion, respectively.

Carriers' networks

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

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

Government and corporate business

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

Consumer business

The Group's consumer business involves handset, mobile data terminal, home information terminal and integrated innovative terminal. The handset business focuses on the 5G terminal in an active effort to explore the domestic and international carrier and consumer markets, while the mobile data terminal business was targeted at the carriers' market. We have been a consistent global leader in home information terminal and integrated innovative terminal, thanks to our

formidable strengths in R&D, customisation and delivery, as well as our longstanding intensive cooperation with upstream component manufacturers and downstream carriers along the industry chain.

7.2 Discussion and analysis of operations under PRC ASBEs

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

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

Unit: RMB in thousands

Revenue mix	Operating revenue	As a percentage of operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
I. By industry							
Manufacturing of communication equipment	47,199,373	100%	31,418,303	33.43%	5.81%	15.85%	(5.78)
Total	47,199,373	100%	31,418,303	33.43%	5.81%	15.85%	(5.78)
II. By business							
Carriers' networks	34,969,589	74.09%	22,260,793	36.34%	7.65%	23.98%	(8.38)
Government and corporate business	4,816,598	10.20%	3,455,139	28.27%	2.48%	16.59%	(8.68)
Consumer business	7,413,186	15.71%	5,702,371	23.08%	(0.15%)	(8.03%)	6.60
Total	47,199,373	100%	31,418,303	33.43%	5.81%	15.85%	(5.78)
III. By region							
The PRC	31,751,164	67.27%	21,910,519	30.99%	15.79%	33.80%	(9.29)
Asia (excluding the PRC)	6,923,102	14.67%	3,856,222	44.30%	(11.33%)	(14.72%)	2.21
Africa	2,522,750	5.34%	1,147,424	54.52%	(7.09%)	(24.17%)	10.25
Europe, Americas and Oceania	6,002,357	12.72%	4,504,138	24.96%	(9.93%)	(4.34%)	(4.39)
Total	47,199,373	100%	31,418,303	33.43%	5.81%	15.85%	(5.78)

(1) *Analysis of change in revenue*

The Group reported RMB47,199,373 thousand in operating revenue for the first six months of 2020, a 5.81% increase as compared to the same period last year. Operating revenue from domestic business amounted to RMB31,751,164 thousand, increasing by 15.79% as compared to the same period last year; operating revenue from international business amounted to RMB15,448,209 thousand, decreasing by 10.12% as compared to the same period last year.

Analysed by business segment, the Group reported year-on-year growth in operating revenue for the first half of 2020, reflecting mainly year-on-year growth in revenue from carriers' networks and government and corporate business. For the first half of 2020, the Group reported a 7.65% year-on-year growth in operating revenue from carriers' network, reflecting mainly year-on-year growth in revenue from 5G system equipment and core networks in the domestic market. For the first half of 2020, the Group reported a 2.48% year-on-year growth in operating revenue from government and corporate business, reflecting mainly year-on-year growth in revenue from optical transmission products in the international and domestic markets and servers and railway transportation systems integration in the domestic market.

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

Unit: RMB in thousands

Six months ended 30 June 2020			Six months ended 30 June 2019 <i>Note</i>			Year-on-year increase/decrease in	Year-on-year increase/decrease in	Year-on-year increase/decrease in
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin	operating revenue	operating costs	gross profit margin
47,199,373	31,418,303	33.43%	44,561,890	27,086,193	39.22%	5.92%	15.99%	(5.79)

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

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

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

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

- (1) There was no significant change in the principal business and its structure during the reporting period compared to the same period last year.
- (2) Changes in the profit mix during the reporting period compared to the same period last year are set out as follows:

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

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

The Group's gross profit margin for the first half of 2020 was 33.43%, a reduction of 5.78 percentage points compared to the same period last year, reflecting mainly the year-on-year decline in gross profit margins for the carriers'

networks and government and corporate business. The year-on-year decline in the gross profit margin of carriers' networks reflected the increase in revenue from low-margin domestic products as a percentage of total revenue, while the year-on-year decline in the gross profit margin of government and corporate business reflected decline in the gross profit margin of government and corporate business of domestic subsidiaries and the increase in revenue from domestic low-margin products as a percentage of total revenue.

7.3 Management discussion and analysis prepared under HKFRSs

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

REVENUE

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

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

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

Unit: RMB in millions

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

The Group reported RMB47,199.4 million in operating revenue for the first six months of 2020, a 5.8% increase as compared to the same period last year. Operating revenue from domestic business amounted to RMB31,751.2 million, increasing by 15.8% as compared to the same period last year; operating revenue from international business amounted to RMB15,448.2 million, decreasing by 10.1% as compared to the same period last year.

Analysed by business segment, the Group reported year-on-year growth in operating revenue for the first half of 2020, reflecting mainly year-on-year growth in revenue from carriers' networks and government and corporate business. For the first half of 2020, the Group reported a 7.6% year-on-year growth in operating revenue from carriers' networks, reflecting mainly year-on-year growth in revenue from products such as 5G system equipment and core network in the domestic market. For the first half of 2020, the Group reported a 2.5% year-on-year growth in operating revenue from government and corporate business, reflecting mainly year-on-year growth in revenue from optical transmission products in international and domestic markets, server and railway transportation integration in the domestic market.

COST OF SALES AND GROSS PROFIT

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

OTHER INCOME AND GAINS

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

RESEARCH AND DEVELOPMENT COSTS

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

SELLING AND DISTRIBUTION EXPENSES

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

ADMINISTRATIVE EXPENSES

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

CREDIT IMPAIRMENT LOSS

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

LOSS FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST

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

OTHER EXPENSES

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

PROFIT FROM OPERATING ACTIVITIES

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

FINANCE COSTS

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

INCOME TAX EXPENSE

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

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

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

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for the first half of 2020 amounted to RMB-115.5 million, compared to RMB51.1 million for the same period last year, reflecting mainly the Group's loss on translation of statements denominated in foreign currencies owing to exchange rate fluctuations for the period versus gain on translation of statements denominated in foreign currencies owing to exchange rate fluctuations for the same period last year.

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

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

The Group's debt-equity ratio for the first half of 2020 was 52.2%, increasing by 1.9 percentage points as compared to 50.3% for 2019, attributable mainly to the issue of super and short-term commercial papers ("SCPs") by the Group during the period.

CASH FLOW DATA

Unit: RMB in millions

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

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

OPERATING ACTIVITIES

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

INVESTING ACTIVITIES

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

FINANCING ACTIVITIES

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

INDEBTEDNESS

Unit: RMB in millions

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

Unit: RMB in millions

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

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. As at 30 June 2020, the Group's RMB short-term and long-term bank loans subject to fixed interest rates amounted to RMB6,935.7 million and RMB1,084.5 million respectively. Short-term bank loans and long-term bank loans in TRY and EUR subject to fixed interest rates amounted to the equivalent of approximately RMB273.3 million and RMB214.7 million, respectively. Short-term USD bank loans subject to fixed interest rates amounted to the equivalent of approximately RMB1,203.3 million. The remaining RMB, USD, EUR and TRY loans were subject to floating interest rates. The Group's borrowings were mainly denominated in USD and EUR, apart from certain RMB loans.

The Group's bank loans as at 30 June 2020 increased by RMB1,957.2 million as compared to 31 December 2019, which were mainly applied to replenish its working capital.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

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

CAPITAL COMMITMENTS

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

Unit: RMB in millions

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

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES OF THE GROUP

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

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40(2) of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2019 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

7.4 Warnings of and reasons for any projected accumulated net loss from the beginning of the year to the end of the next reporting period or substantial change in accumulated net profit from the beginning of the year to the end of the next reporting period as compared to the same period last year

☐ Applicable ☒ N/A

7.5 Business outlook for the second half of 2020 and risk exposures

7.5.1 Business outlook for the second half of 2020

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

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

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

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

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

7.5.2 Risk Exposures

(1) Country risks

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

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risks

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

(4) Interest rate risk

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

(5) Customer credit risk

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

8. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

8.1 Compliance of the Corporate Governance Code

The Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules during the period from 1 January to 30 June 2020, save for the deviation described in the below.

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

Such requirement for the length of notice of meeting was waived, upon the unanimous approval of all Directors on the Board of Directors of the Company, in respect of the notice sent by the Company to the Directors on 15 April 2020 to convene the Sixteenth Meeting of the Eighth Session of the Board of Directors on 24

April 2020 for the purpose of considering and approving the first quarter 2020 results of the Group and its announcement. The Directors' attendance at the meeting has not been affected by the said waiver.

8.2 Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company had adopted 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.

9. FINANCIAL REPORTS

9.1 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 the Interim Report, including the financial statements of the Group for the six months ended 30 June 2020.

9.2 Audit opinion

☒ Unaudited ☐ Audited

9.3 Comparative financial statements

9.3.1 Financial statements prepared in accordance with PRC ASBEs (Unaudited) (Please see Appendix I)

9.3.2 Financial statements prepared in accordance with HKAS 34 (Unaudited) and notes thereto (Please see Appendix II)

9.4 Explanatory statement on changes in the accounting policies, accounting estimates, and auditing methods for the reporting period in comparison with the previous annual financial report

☐ Applicable ☒ N/A

9.5 Explanatory statement on rectification of significant accounting errors for the reporting period requiring retrospective restatement.

☐ Applicable ☒ N/A

9.6 Explanation statement on changes to the scope of consolidated financial statement in comparison with the previous annual financial report.

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

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

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

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
28 August 2020

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Li Zixue, Xu Ziyang, Gu Junying; three non-executive directors, Li Buqing, Zhu Weimin, Fang Rong; and three independent non-executive directors, Cai Manli, Gordon Ng, Zhuang Jiansheng.

**APPENDIX I: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
PRC ASBES (UNAUDITED)**

CONSOLIDATED BALANCE SHEET

RMB'000

Assets	30 June 2020 (unaudited)	31 December 2019 (audited)
Current assets		
Cash	45,867,997	33,309,347
Trading financial assets	1,066,532	560,662
Derivative financial assets	31,147	106,065
Trade receivables	16,898,230	19,778,280
Receivable financing	3,987,386	2,430,389
Factored trade receivables	252,220	308,710
Prepayments	445,058	402,525
Other receivables	891,418	1,023,271
Inventories	37,179,092	27,688,508
Contract assets	10,203,533	9,537,850
Other current assets	8,430,637	7,421,567
Total current assets	125,253,250	102,567,174
Non-current assets		
Long-term receivables	3,110,970	2,819,606
Factored long-term receivables	310,393	200,671
Long-term equity investments	2,292,452	2,327,288
Other non-current financial assets	1,530,232	1,594,254
Investment properties	1,960,864	1,957,242
Fixed assets	10,314,505	9,383,488
Construction in progress	845,174	1,171,716
Right-of-use assets	986,362	1,063,781
Intangible assets	8,257,755	7,718,820
Development costs	1,829,046	1,876,409
Goodwill	186,206	186,206
Deferred tax assets	2,472,641	2,511,372
Other non-current assets	6,082,514	5,824,108
Total non-current assets	40,179,114	38,634,961
TOTAL ASSETS	165,432,364	141,202,135

CONSOLIDATED BALANCE SHEET (CONTINUED)

RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

RMB'000

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

Legal Representative
Li Zixue

Chief Financial Officer
Li Ying

Head of Finance Division
Xu Jianrui

CONSOLIDATED INCOME STATEMENT

RMB'000

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Operating revenue	47,199,373	44,609,219
Less: Operating costs	31,418,303	27,119,296
Taxes and surcharges	311,846	595,289
Selling and distribution costs	3,940,595	4,025,746
Administrative expenses	2,265,126	2,538,508
Research and development costs	6,637,376	6,471,866
Finance costs	632,833	662,809
Including: Interest expense	847,922	823,053
Interest income	581,860	322,233
Add: Other income	860,171	860,800
Investment income	30,257	315,397
Including: Share of losses of associates and joint ventures	(63,816)	(158,146)
Losses from derecognition of financial assets at amortised cost	(69,797)	(84,063)
Gains/(losses) from changes in fair values	377,724	(142,604)
Credit impairment losses	(279,143)	(1,416,091)
Impairment losses	(141,703)	(469,998)
Operating profit	2,840,600	2,343,209
Add: Non-operating income	55,659	74,308
Less: Non-operating expenses	55,288	180,040
Total profit	2,840,971	2,237,477
Less: Income tax	517,590	412,914
Net profit	2,323,381	1,824,563
Analysed by continuity of operations		
Net profit from continuing operations	2,323,381	1,824,563
Analysed by ownership		
Holders of ordinary shares of the parent	1,857,289	1,470,699
Holders of perpetual capital instruments	16,236	172,867
Non-controlling interests	449,856	180,997

CONSOLIDATED INCOME STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Other comprehensive income, net of tax	(115,505)	51,077
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	(119,072)	51,829
Other comprehensive income that cannot be reclassified to profit or loss		
Change in net assets arising from the re-measurement of defined benefit plans	—	—
	—	—
Other comprehensive income that will be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(119,072)	51,829
	(119,072)	51,829
Other comprehensive income attributable to non-controlling interests, net of tax	3,567	(752)
Total comprehensive income	2,207,876	1,875,640
Attributable to:		
Holders of ordinary shares of the parent	1,738,217	1,522,528
Holders of perpetual capital instruments	16,236	172,867
Non-controlling interests	453,423	180,245
Earnings per share (RMB/share)		
Basic	RMB0.40	RMB0.35
Diluted	RMB0.40	RMB0.35

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

RMB'000

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

RMB'000

Six months ended 30 June 2019 (Unaudited)									
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments		
I. Previous period's closing balance	4,192,672	11,444,456	(2,047,561)	2,324,748	6,983,261	22,897,576	6,252,364	3,810,735	32,960,675
II. Changes during the period									
(I) Total comprehensive income	—	—	51,829	—	1,470,699	1,522,528	172,867	180,245	1,875,640
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	—	43,434	—	—	—	43,434	—	111,917	155,351
2. Equity settled share expenses charged to equity	—	150,266	—	—	—	150,266	—	—	150,266
3. Capital reduction by shareholders	—	—	—	—	—	—	—	(584,836)	(584,836)
4. Acquisition of non-controlling interests	—	(93,494)	—	—	—	(93,494)	—	(24,790)	(118,284)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	(348,599)	(273,581)	(622,180)
III. Current period's closing balance	<u>4,192,672</u>	<u>11,544,662</u>	<u>(1,995,732)</u>	<u>2,324,748</u>	<u>8,453,960</u>	<u>24,520,310</u>	<u>6,076,632</u>	<u>3,219,690</u>	<u>33,816,632</u>

CONSOLIDATED CASH FLOW STATEMENT

RMB'000

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	51,930,178	43,797,682
Refunds of taxes	1,970,019	2,853,112
Cash received relating to other operating activities	2,686,249	2,912,413
Sub-total of cash inflows	56,586,446	49,563,207
Cash paid for goods and services	36,597,288	30,226,065
Cash paid to and on behalf of employees	11,013,040	8,740,820
Cash paid for various types of taxes	3,543,500	5,289,879
Cash paid relating to other operating activities	3,391,848	4,039,826
Sub-total of cash outflows	54,545,676	48,296,590
Net cash flows from operating activities	2,040,770	1,266,617
II. Cash flows from investing activities		
Cash received from sale of investments	1,342,817	1,227,875
Cash received from return on investment	214,682	101,557
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	7,898	14,593
Net cash received from the disposal of subsidiaries and other operating units	377	445,907
Cash received relating to other investing activities	245,000	—
Sub-total of cash inflows	1,810,774	1,789,932
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	2,722,869	4,263,060
Cash paid for acquisition of investments	6,702,118	194,901
Other cash paid in relation to investing activities	33,709	2,200,000
Sub-total of cash outflows	9,458,696	6,657,961
Net cash flows from investing activities	(7,647,922)	(4,868,029)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	11,557,524	4,570
Including: Capital injection into subsidiaries by minority shareholders	12,000	4,570
Cash received from borrowings	35,976,266	23,776,919
Other cash received in relation to financing activities	3,000	26,280
Sub-total of cash inflows	47,536,790	23,807,769
Cash repayment of borrowings	26,178,820	12,468,044
Cash payments for perpetual capital instruments	6,000,000	—
Cash payments for distribution of dividends, profits and for interest expenses	1,157,063	1,661,520
Including: Distribution of dividends, profits by subsidiaries to minority shareholders	141,424	273,581
Other cash paid relating to financing activities	270,570	652,159
Sub-total of cash outflows	33,606,453	14,781,723
Net cash flows from financing activities	13,930,337	9,026,046
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	146,027	77,915
V. Net increase in cash and cash equivalents	8,469,212	5,502,549
Add: cash and cash equivalents at beginning of period	28,505,800	21,134,111
VI. Net balance of cash and cash equivalents at the end of period	36,975,012	26,636,660

BALANCE SHEET

RMB'000

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

BALANCE SHEET (CONTINUED)

RMB'000

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

INCOME STATEMENT

RMB'000

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Operating revenue	43,309,434	39,475,276
Less: Operating costs	37,477,589	32,290,242
Taxes and surcharges	95,051	344,033
Selling and distribution costs	2,256,304	2,138,680
Administrative expenses	1,884,914	2,071,946
Research and development costs	553,072	1,935,014
Finance costs	389,750	542,245
Including: Interest expense	601,126	475,331
Interest income	261,988	108,109
Add: Other income	218,101	27,253
Investment income	80,218	113,190
Including: Share of losses of associates and joint ventures	(56,186)	(98,657)
Losses from derecognition of financial assets at amortised cost	(7,504)	(21,067)
Losses from changes in fair values	(85,498)	(82,272)
Credit impairment losses	(117,831)	(1,330,901)
Impairment losses	(116,972)	(392,017)
Operating profit/(loss)	630,772	(1,511,631)
Add: Non-operating income	35,546	38,226
Less: Non-operating expenses	20,785	106,330
Total profit/(loss)	645,533	(1,579,735)
Less: Income tax	109,341	(58,586)
Net profit/(loss)	536,192	(1,521,149)
Including: net profit/(loss) from continuing operations	536,192	(1,521,149)
Analysed by ownership		
Attributable to holders of ordinary shares	519,956	(1,694,016)
Attributable to holders of perpetual capital instruments	16,236	172,867

INCOME STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Other comprehensive income, net of tax	(28)	(1,067)
Other comprehensive income that cannot be reclassified to profit and loss		
Change in net assets arising from the re-measurement of defined benefit plans	<u>—</u>	<u>—</u>
Other comprehensive income will be reclassified to profit and loss		
Exchange differences on translation of foreign operations	<u>(28)</u>	<u>(1,067)</u>
Total comprehensive profit/(loss)	<u>536,164</u>	<u>(1,522,216)</u>
Attributable to:		
Holders of ordinary shares	<u>519,928</u>	<u>(1,695,083)</u>
Holders of perpetual capital instruments	<u>16,236</u>	<u>172,867</u>

STATEMENT OF CHANGES IN EQUITY

RMB'000

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

RMB'000

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

CASH FLOW STATEMENT

RMB'000

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	46,987,381	44,767,563
Refunds of taxes	1,449,017	2,072,501
Cash received relating to other operating activities	807,272	973,060
Sub-total of cash inflows	49,243,670	47,813,124
Cash paid for goods and services	45,214,325	34,880,732
Cash paid to and on behalf of employees	3,479,049	2,659,160
Cash paid for various types of taxes	924,655	2,366,021
Cash paid relating to other operating activities	2,235,172	2,588,942
Sub-total of cash outflows	51,853,201	42,494,855
Net cash flows from operating activities	(2,609,531)	5,318,269
II. Cash flows from investing activities		
Cash received from sale of investments	861,230	611,851
Cash received from return on investments	3,792,067	240,311
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	5,586	10,258
Cash received relating to other investing activities	3,125,000	—
Sub-total of cash inflows	7,783,883	862,420
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	1,039,365	3,065,420
Cash paid for acquisition of investments	4,040,600	70,735
Other cash paid in relation to investing activities	6,050,000	2,200,000
Sub-total of cash outflows	11,129,965	5,336,155
Net cash flows from investing activities	(3,346,082)	(4,473,735)

CASH FLOW STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	11,545,524	—
Cash received from borrowings	27,079,645	12,387,166
Sub-total of cash inflows	38,625,169	12,387,166
Cash repayment of borrowings	12,664,267	9,468,566
Cash payment for perpetual capital instruments	6,000,000	—
Cash payments for distribution of dividends and profits or for interest expenses	856,609	818,775
Other cash paid in relation to financing activities	71,492	61,378
Sub-total of cash outflows	19,592,368	10,348,719
Net cash flows from financing activities	19,032,801	2,038,447
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	85,535	(18,497)
V. Net increase in cash and cash equivalents	13,162,723	2,864,484
Add: cash and cash equivalents at the beginning of the period	10,032,692	10,147,946
VI. Net balance of cash and cash equivalents at the end of the period	23,195,415	13,012,430

**APPENDIX II: FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH
HKAS 34 (UNAUDITED) AND NOTES THERETO**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2020 (unaudited) <i>RMB'000</i>	Six months ended 30 June 2019 (unaudited) <i>RMB'000</i>
REVENUE	47,199,373	44,609,219
Cost of sales	<u>(31,764,345)</u>	<u>(28,058,303)</u>
Gross profit	15,435,028	16,550,916
Other income and gains	2,157,517	1,818,453
Research and development costs	(6,637,376)	(6,471,866)
Selling and distribution expenses	(3,940,595)	(4,025,746)
Administrative expenses	(2,474,729)	(2,766,954)
Impairment losses on financial and contract assets, net	(279,143)	(1,416,091)
Loss on disposal of financial assets measured at amortised cost	(69,797)	(84,063)
Other expenses	(438,196)	(385,973)
Finance costs	(847,922)	(823,053)
Share of profits and losses of:		
Joint ventures	(8,461)	(3,363)
Associates	<u>(55,355)</u>	<u>(154,783)</u>
PROFIT BEFORE TAX	2,840,971	2,237,477
Income tax	<u>(517,590)</u>	<u>(412,914)</u>
Profit for the period	2,323,381	1,824,563
Attributable to:		
Ordinary equity holders of the parent	1,857,289	1,470,699
Perpetual capital instruments	16,236	172,867
Non-controlling interests	<u>449,856</u>	<u>180,997</u>
	2,323,381	1,824,563

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Six months ended 30 June 2020 (unaudited) RMB'000	Six months ended 30 June 2019 (unaudited) RMB'000
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(115,505)</u>	<u>51,077</u>
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	<u>(115,505)</u>	<u>51,077</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(115,505)</u>	<u>51,077</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>2,207,876</u></u>	<u><u>1,875,640</u></u>
Attributable to:		
Ordinary equity holders of the parent	1,738,217	1,522,528
Perpetual capital instruments holders	16,236	172,867
Non-controlling interests	<u>453,423</u>	<u>180,245</u>
	<u><u>2,207,876</u></u>	<u><u>1,875,640</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	<u><u>RMB0.40</u></u>	<u><u>RMB0.35</u></u>
Diluted	<u><u>RMB0.40</u></u>	<u><u>RMB0.35</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	11,159,679	10,555,204
Investment properties	1,960,864	1,957,242
Right-of-use assets	3,551,894	3,468,949
Goodwill	186,206	186,206
Other intangible assets	7,521,269	7,190,061
Investments in joint ventures	106,054	114,515
Investments in associates	2,186,398	2,212,773
Financial assets at fair value through profit or loss	1,530,232	1,594,254
Long-term trade receivables	3,110,970	2,819,606
Factored long-term trade receivables	310,393	200,671
Deferred tax assets	2,472,641	2,511,372
Pledged deposits	3,108,302	2,928,810
Long-term prepayments, deposits and other receivables	2,974,212	2,895,298
Total non-current assets	40,179,114	38,634,961
CURRENT ASSETS		
Inventories	37,179,092	27,688,508
Contract assets	10,203,533	9,537,850
Trade receivables	16,898,230	19,778,280
Factored trade receivables	252,220	308,710
Prepayments, deposits and other receivables	9,767,113	8,847,363
Financial assets at fair value through profit or loss	1,066,532	560,662
Derivative financial instruments	31,147	106,065
Debt investments at fair value through other comprehensive income	3,987,386	2,430,389
Pledged deposits	2,116,777	3,343,511
Time deposits with original maturity of over three months	6,776,208	1,460,036
Cash and cash equivalents	36,975,012	28,505,800
Total current assets	125,253,250	102,567,174

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
CURRENT LIABILITIES		
Trade and bills payables	35,567,404	27,728,550
Contract liabilities	14,562,034	14,517,057
Other payables and accruals	12,775,433	14,059,625
Provision	2,008,730	1,966,464
Derivative financial instruments	131,527	126,223
Short-term bonds payables	8,000,000	—
Interest-bearing bank borrowings	16,905,177	26,738,019
Bank advances on factored trade receivables	254,444	310,024
Dividend payables	924,012	5,222
Tax payable	423,464	399,124
Current portion of lease liabilities	432,638	520,208
Total current liabilities	91,984,863	86,370,516
NET CURRENT ASSETS	33,268,387	16,196,658
TOTAL ASSETS LESS CURRENT LIABILITIES	73,447,501	54,831,619
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	21,835,076	10,045,093
Bank advances on factored long-term trade receivables	310,727	200,858
Deferred tax liabilities	139,938	172,060
Provision for retirement benefits	142,296	144,505
Lease liabilities	660,325	645,294
Other non-current liabilities	6,082,344	5,669,511
Total non-current liabilities	29,170,706	16,877,321
Net assets	44,276,795	37,954,298

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
EQUITY		
Equity attributable to ordinary equity holders of the parent		
Issued capital	4,613,435	4,227,530
Reserves	36,542,681	24,599,338
	41,156,116	28,826,868
Perpetual capital instruments	—	6,252,364
Non-controlling interests	3,120,679	2,875,066
Total equity	44,276,795	37,954,298

Li Zixue
Director

Xu Ziyang
Director

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with HKAS 34: Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

1.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 16	Covid-19-Related Rent Concessions (early adopted)
Amendments to HKAS 1 and HKAS 8	Definition of Material

The nature and impact of the new and revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their customers and products and has three reportable operating segments as follows:

- (a) The Carriers' Network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer networks, core networks, telecommunication software systems and services and other innovative technologies and product solutions.
- (b) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry clients through the development, production and sales of products such as smart phones, mobile data terminals, home information terminals and innovative fusion terminals, as well as the provision of related software application and value-added services.
- (c) The Government and Corporate business is focused on meeting requirements of government and corporate clients, providing informatization solutions for the government and corporations through the application of products such as communications networks, IOT, big data and cloud computing.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, pledged deposits, cash and cash equivalents, investments in a joint ventures and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds payable, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

An analysis of the Group's revenue and profit by operating segment is set out in the following table:

	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Six months ended 30 June 2020				
Segment revenue:				
Sales to external customers	34,969,589	7,413,186	4,747,816	47,130,591
Rental income	—	—	68,782	68,782
	<u>34,969,589</u>	<u>7,413,186</u>	<u>4,816,598</u>	<u>47,199,373</u>
Segment results	9,558,202	1,042,922	927,505	11,528,629
Bank and other interest income				581,860
Dividend income and unallocated gains				1,575,657
Unallocated expenses				(9,978,398)
Finance costs				(802,961)
Share of profits and losses of:				
Joint ventures				(8,461)
Associates				(55,355)
Profit before tax				<u>2,840,971</u>
30 June 2020				
Segment assets	54,150,990	10,332,253	7,458,581	71,941,824
Investment in joint ventures				106,054
Investment in associates				2,186,398
Unallocated assets				91,198,088
Total assets				<u>165,432,364</u>
Segment liabilities	11,768,197	1,738,095	1,620,913	15,127,205
Unallocated liabilities				106,028,364
Total liabilities				<u>121,155,569</u>
Six months ended 30 June 2020				
Other segment information:				
Impairment losses recognised in profit or loss	(104,986)	(22,256)	(14,461)	(141,703)
Impairment losses on financial and contract assets	(206,815)	(43,843)	(28,485)	(279,143)
Depreciation and amortisation	1,263,094	267,763	450,140	1,980,997
Capital expenditure*	2,213,218	469,179	454,903	3,137,300

* Capital expenditure included the increase in property, plant and equipment, intangible assets, prepaid land lease payments and investment properties.

	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government & Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2019				
Segment revenue:				
Sales to external customers	32,485,158	7,424,030	4,549,262	44,458,450
Rental income	—	—	150,769	150,769
	<u>32,485,158</u>	<u>7,424,030</u>	<u>4,700,031</u>	<u>44,609,219</u>
Segment results	11,164,485	454,661	1,249,742	12,868,888
Bank and other interest income				322,233
Dividend income and unallocated gains				1,496,220
Unallocated expenses				(11,468,665)
Finance costs				(823,053)
Share of profits and losses of:				
Joint ventures				(3,363)
Associates				<u>(154,783)</u>
Profit before tax				<u>2,237,477</u>
31 December 2019				
Segment assets	46,843,989	9,479,379	6,440,646	62,764,014
Investment in joint ventures				114,515
Investment in associates				2,212,773
Unallocated assets				<u>76,110,833</u>
Total assets				<u>141,202,135</u>
Segment liabilities	11,511,610	1,933,582	1,582,747	15,027,939
Unallocated liabilities				<u>88,219,898</u>
Total liabilities				<u>103,247,837</u>
Six months ended 30 June 2019				
Other segment information:				
Impairment losses recognised in profit or loss	342,260	78,219	49,519	469,998
Impairment losses on financial and contract assets	1,031,221	235,671	149,199	1,416,091
Depreciation and amortisation	979,104	223,761	352,569	1,555,434
Capital expenditure*	2,171,090	496,173	585,376	3,252,639

Geographical information

(a) Revenue from external transactions

	Six months ended 30 June 2020 <i>RMB'000</i>	Six months ended 30 June 2019 <i>RMB'000</i>
The PRC (place of domicile)	31,751,164	27,421,729
Asia (excluding the PRC)	6,923,102	7,807,728
Africa	2,522,750	2,715,340
Europe, Americas and Oceania	6,002,357	6,664,422
Total	<u>47,199,373</u>	<u>44,609,219</u>

Information on revenue set out above is analysed by geographical locations where the customers are located.

(b) Non-current assets

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
The PRC (place of domicile)	18,253,766	17,439,577
Asia (excluding the PRC)	1,705,524	1,651,432
Africa	539,127	562,167
Europe, Americas and Oceania	143,395	49,331
Total	<u>20,641,812</u>	<u>19,702,507</u>

Figures for non-current assets set out above is based on the locations of the assets and excludes financial instruments, deferred tax assets, goodwill, investments in joint ventures, investments in associates and other non-current assets.

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June 2020 RMB'000	Six months ended 30 June 2019 RMB'000
Revenue		
Revenue from contracts with customers	47,130,591	44,458,450
Rental income	68,782	150,769
	<u>47,199,373</u>	<u>44,609,219</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

Six Months ended 30 June 2020

Segments	Carriers' Networks RMB'000	Consumer Business RMB'000	Government and Corporate Business RMB'000	Total RMB'000
Type of goods or services				
Sale of goods	2,977,565	7,278,988	2,284,177	12,540,730
Sale of services	5,625,640	134,198	517,812	6,277,650
Telecommunication system construction contracts	26,366,384	—	1,945,827	28,312,211
Total revenue from contracts with customers	<u>34,969,589</u>	<u>7,413,186</u>	<u>4,747,816</u>	<u>47,130,591</u>
Geographical markets				
The PRC (place of domicile)	26,428,281	2,877,740	2,376,361	31,682,382
Asia (excluding the PRC)	5,078,163	1,140,121	704,818	6,923,102
Africa	1,767,785	296,463	458,502	2,522,750
Europe, Americas and Oceania	1,695,360	3,098,862	1,208,135	6,002,357
Total revenue from contracts with customers	<u>34,969,589</u>	<u>7,413,186</u>	<u>4,747,816</u>	<u>47,130,591</u>
Timing of revenue recognition				
Transferred at a point in time	29,343,949	7,278,988	4,230,004	40,852,941
Transferred over time	5,625,640	134,198	517,812	6,277,650
Total revenue from contracts with customers	<u>34,969,589</u>	<u>7,413,186</u>	<u>4,747,816</u>	<u>47,130,591</u>

Six months ended 30 June 2019

Segments	Carriers’	Consumer	Government and	Total
	Networks	Business	Corporate Business	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Type of goods or services				
Sale of goods	4,666,095	7,352,068	2,071,498	14,089,661
Sale of services	6,372,364	71,962	830,937	7,275,263
Telecommunication system construction contracts	21,446,699	—	1,646,827	23,093,526
Total revenue from contracts with customers	32,485,158	7,424,030	4,549,262	44,458,450
Geographical markets				
The PRC (place of domicile)	21,663,736	3,526,101	2,081,123	27,270,960
Asia (excluding the PRC)	6,195,497	673,751	938,480	7,807,728
Africa	2,011,499	228,684	475,157	2,715,340
Europe, Americas and Oceania	2,614,426	2,995,494	1,054,502	6,664,422
Total revenue from contracts with customers	32,485,158	7,424,030	4,549,262	44,458,450
Timing of revenue recognition				
Transferred at a point in time	26,015,071	7,351,694	3,694,971	37,061,736
Transferred over time	6,470,087	72,336	854,291	7,396,714
Total revenue from contracts with customers	32,485,158	7,424,030	4,549,262	44,458,450

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

**Six months
ended
30 June 2020
RMB'000**

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

6,643,607

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of hardware products

The performance obligation is satisfied upon delivery of the hardware products and payment is generally due within 60 to 120 days from delivery.

Installation services

The performance obligation is satisfied when the services are rendered and accepted by customer.

A bundle of sales of equipment and installation services

The sale of equipment and installation services are highly interdependent, thus, customers cannot benefit from the equipment or installation services either on their own or together with other resources that are readily available to the customer. A bundle of sales of equipment and installation services is accounted for as a single performance obligation. The performance obligation is satisfied upon the completion of equipment and installation and acceptance.

Maintenance services

Revenue from the provision of maintenance services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

	Six months ended 30 June 2020 RMB'000	Six months ended 30 June 2019 RMB'000
Other income		
Bank interest income	448,939	295,065
Finance income on the net investment in a lease	32,897	—
Interest income arising from revenue contracts	100,024	27,168
VAT refunds and other tax subsidies [#]	526,169	730,378
Dividend income from equity investments at fair value through profit or loss	5,769	9,972
Others ^{##}	389,661	204,730
	<u>1,503,459</u>	<u>1,267,313</u>
Gains		
Gain on disposal of financial assets at fair value through profit or loss	100,596	407,010
Gain on disposal of derivative financial instruments	70,475	49,382
Gain on disposal of equity interests	—	90,772
Fair value gains, net:		
Equity investments at fair value through profit or loss	479,365	—
Wealth management products	—	656
Fair value gains on investment properties	3,622	3,320
	<u>654,058</u>	<u>551,140</u>
	<u><u>2,157,517</u></u>	<u><u>1,818,453</u></u>

[#] VAT refund for software products represents tax payments by subsidiaries of the Group on any effective VAT rate in excess of 3% in respect of software product sales which are immediately refundable upon payment pursuant to the principles of the State Council document entitled “Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry” and the approval reply of the state taxation authorities.

^{##} “Others” included other income, contract penalty income and other miscellaneous income.

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting) :

	Six months ended 30 June 2020 <i>RMB'000</i>	Six months ended 30 June 2019 <i>RMB'000</i>
Cost of goods and services	28,596,539	24,638,913
Depreciation of property, plant and equipment	648,956	602,416
Depreciation of right-of-use assets charged to profit or loss	293,837	287,365
Amortisation of intangible assets other than deferred development costs	246,930	162,529
Research and development costs:		
Deferred development costs amortised	791,274	562,157
Current period expenditure	6,958,795	6,926,255
Less: Deferred capitalised development costs	<u>(1,112,693)</u>	<u>(1,016,546)</u>
	<u>6,637,376</u>	<u>6,471,866</u>
Fair value losses/(gains), net*:		
Derivative instruments	80,671	23,278
Investment properties	(3,622)	(3,320)
Equity investments at fair value through profit or loss	(454,850)	122,832
Wealth management products	77	(186)
Impairment of financial and contract assets, net:		
Impairment of short-term trade receivables	205,715	1,074,003
Impairment of long-term trade receivables	4,738	(1,172)
Impairment of contract assets, net	4,382	341,058
Impairment of other receivables	63,165	2,974
Impairment of debt investments at fair value through other comprehensive income	1,013	204
Impairment of factored trade receivables	(17)	(778)
Impairment of factored long-term trade receivables	147	(198)
Dividend income from equity investments at fair value through profit or loss	(5,769)	(9,972)
Provision for onerous contract**	1,712,320	434,513

	Six months ended 30 June 2020 RMB'000	Six months ended 30 June 2019 RMB'000
Provision for warranties**	66,456	86,132
Provision for legal obligation*	2,504	22,737
Write-down of inventories to net realisable value**	134,538	469,998
Impairment of investments in associates*	7,165	—
Lease payments not included in the measurement of lease liabilities	98,266	177,029
Contingent rental income in respect of operating leases	(843)	(1,623)
Auditors' remuneration	700	700
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	9,786,762	9,344,178
Equity-settled share option expense	52,162	150,266
Retirement benefit scheme contributions:		
Defined contribution pension schemes	304,766	614,065
	<u>10,143,690</u>	<u>10,108,509</u>
Foreign exchange loss*	257,510	59,823
Loss on disposal of items of property, plant and equipment*	26,618	16,975
Loss/(gain) on disposal of subsidiaries*	12,970	(90,772)
Gain on disposal of derivative financial instruments	(70,475)	(49,382)
Gain on disposal of financial assets at fair value through profit or loss	(100,596)	(407,010)
Loss on disposal of financial assets measured at amortised cost	<u>69,797</u>	<u>84,063</u>

* The fair value losses, provision for legal obligation, the impairment of investments in associates, foreign exchange loss, loss on disposal of items of property, plant and equipment, and loss on disposal of subsidiaries are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

** The provision for onerous contract, provision for warranties and write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

5. FINANCE COSTS

	Six months ended 30 June 2020 <i>RMB'000</i>	Six months ended 30 June 2019 <i>RMB'000</i>
Interest on bank loans and other loans	611,904	557,399
Interest on lease liabilities	44,961	32,669
Interest on other non-current liabilities	31,643	—
Interest on short-term bonds payable	23,414	—
Finance costs on trade receivables factored and bills discounted	136,000	232,985
Total interest expense on financial liabilities not at fair value through profit or loss	<u>847,922</u>	<u>823,053</u>

6. INCOME TAX

	Six months ended 30 June 2020 <i>RMB'000</i>	Six months ended 30 June 2019 <i>RMB'000</i>
The Group:		
Current — Hong Kong	1,271	2,807
Current — Mainland China	307,145	296,650
Current — Overseas	202,565	229,677
Deferred	<u>6,609</u>	<u>(116,220)</u>
Total tax charge for the period	<u>517,590</u>	<u>412,914</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company was subject to an enterprise income tax rate of 15% for the years of 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen, the application for national-grade hi-tech enterprise certificate for 2020 to 2022 is still ongoing and will be completed before year 2020's tax filing, hence the company applied enterprise income tax rate of 15% from January 2020 to June 2020.

7. DIVIDEND

During the six months ended 30 June 2020, a dividend of RMB0.2 per share totalling RMB922,687,000 (2019:nil), was declared by the Company to its shareholders as the final dividend for the year ended 31 December 2019.

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings per share amount is computed by dividing the profit for the period attributable to holders of ordinary shares of the Company by the weighted average number of ordinary shares in issue.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are as follows:

	Six months ended 30 June 2020 RMB'000	Six months ended 30 June 2019 RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	<u>1,857,289</u>	<u>1,470,699</u>

	Six months ended 30 June 2020 000 shares	Six months ended 30 June 2019 000 shares
Shares		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	4,612,335	4,192,672
Effect of dilution — weighted average number of ordinary shares:	<u>22,143</u>	<u>30,440</u>
Adjusted weighted average number of ordinary shares in issue	<u><u>4,634,478</u></u>	<u><u>4,223,112</u></u>

The 2017 share options granted by the Company gave rise to 22,143,000 potential dilutive ordinary shares during the reporting period.

9. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables	30,332,956	35,766,089
Impairment	<u>(10,323,756)</u>	<u>(13,168,203)</u>
	20,009,200	22,597,886
Current portion	<u>(16,898,230)</u>	<u>(19,778,280)</u>
Long-term portion	<u><u>3,110,970</u></u>	<u><u>2,819,606</u></u>

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is normally 90 days, and is extendable up to one year depending on customers' creditworthiness customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is set out as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 6 months	16,864,375	18,838,561
6 to 12 months	1,742,643	2,331,934
1 to 2 years	1,157,884	1,061,611
2 to 3 years	244,298	365,780
	<u>20,009,200</u>	<u>22,597,886</u>
Less: Current portion of trade	<u>(16,898,230)</u>	<u>(19,778,280)</u>
Long-term portion	<u>3,110,970</u>	<u>2,819,606</u>

The movements in the provision for impairment of trade receivables are as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
At beginning of year	13,168,203	12,412,280
Impairment losses, net	210,453	1,817,629
Amount written off as uncollectible	(3,174,252)	(1,359,859)
Fluctuation in exchange	119,352	298,153
Closing balance	<u>10,323,756</u>	<u>13,168,203</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 30 June 2020

	Past due					Total
	Within 6 months	6 to 12 months	1 to 2 years	2 to 3 years	Over 3 years	
Expected credit loss rate	8%	15%	47%	92%	100%	34%
Gross carrying amount	18,281,519	2,044,401	2,170,856	3,113,691	4,722,489	30,332,956
Expected credit losses	1,417,144	301,758	1,012,972	2,869,393	4,722,489	10,323,756

As at 31 December 2019

	Past due					Total
	Within 6 months	6 to 12 months	1 to 2 years	2 to 3 years	Over 3 years	
Expected credit loss rate	11%	13%	76%	81%	100%	37%
Gross carrying amount	21,102,244	2,675,234	4,353,567	1,956,298	5,678,746	35,766,089
Expected credit losses	2,263,683	343,300	3,291,956	1,590,518	5,678,746	13,168,203

The balances due from the controlling shareholder, joint ventures, associates and other related companies included in the above are analysed as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
The controlling shareholder	—	33
Joint ventures	9,513	17,772
Associates	275,134	339,276
Other related companies	10,143	10,494
	<u>294,790</u>	<u>367,575</u>

The balances are unsecured, non-interest-bearing, repayable on demand and on credit terms similar to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payable as at the end of the reporting period, based on the invoice date, is set out as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 6 months	34,460,284	26,928,446
6 to 12 months	499,655	398,107
1 to 2 years	303,096	194,548
2 to 3 years	232,982	166,176
Over 3 years	71,387	41,273
Total	<u>35,567,404</u>	<u>27,728,550</u>

The balances due to the controlling shareholder, joint ventures, associates and other related companies included in the above are analysed as follow:

	30 June 2020 RMB'000	31 December 2019 RMB'000
The controlling shareholder	2,199	6,494
Joint ventures	—	30
Associates	661,967	772,207
Other related companies	65,393	86,840
Total	<u>729,559</u>	<u>865,571</u>

The balances are unsecured, non-interest-bearing and repayable on demand.

Trade payables are non-interest-bearing and are normally settled on within 180 days.