

ZTE 中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

2022
ANNUAL REPORT

Important

1. The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that the contents of this report are true, accurate and complete without any false information, misleading statements or material omissions, and collectively and individually accept legal responsibility therefor.
2. This report has been considered and approved at the Tenth Meeting of the Ninth Session of the Board of Directors of the Company held on 10 March 2023. All Directors have attended the meeting in person.
3. Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in this report.
4. The annual financial reports of the Group for 2022 have been audited by Ernst & Young Hua Ming LLP, which has issued an unqualified auditor's report in connection therewith.
5. The Company's proposal for profit distribution for 2022 is as follows: distribution of RMB4 in cash (before tax) for every 10 shares to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. The aforesaid matter is subject to consideration and approval at the general meeting.
6. This report contains forward-looking statements in relation to subjects such as future plans and development strategies, which do not constitute any specific undertakings to investors by the Company. Investors are asked to beware of investment risks and their attention is drawn to the description of the potential risks inherent in the operations of the Company set out in the section headed "3.3.2 Risk exposures" in this report.
7. All monetary amounts set out in this report are amounts in RMB unless otherwise specified.
8. This report has been prepared in Chinese and English, respectively. In case of any ambiguity in meaning, the Chinese version shall prevail.

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Definitions

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

Company or ZTE	ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
Group	ZTE and its subsidiaries
Board of Directors	The board of directors of the Company
Directors	Members of the board of directors of the Company
Supervisory Committee	The supervisory committee of the Company
Supervisors	Members of the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
Shenzhen Stock Exchange	The Shenzhen Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Company Law	Company Law of the People’s Republic of China
Securities Law	Securities Law of the People’s Republic of China
Companies Ordinance	Companies Ordinance (Chapter 622 of the laws of Hong Kong)
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shenzhen Listing Rules	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
PRC ASBEs	PRC Accounting Standards for Business Enterprise (Generally accepted accounting principles in China)
Articles of Association	ZTE Corporation Articles of Association (June 2021)
The Reporting Period	1 January 2022 to 31 December 2022

Glossary

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

Heterogeneous computing	A technology that allocates processing to accelerated hardware to reduce the burden of the Central Processing Unit (CPU), replacing software algorithm with hardware modules to achieve performance enhancement and cost optimisation. A computing structure that employs hardware acceleration is called heterogeneous computing.
Distributed database	A logically coherent database formed by the interconnection of multiple data storage units located in different physical locations using a high-speed computer network, so as to enable larger storage capacity and higher volume of simultaneous visits.
TPS	Transactions Per Second handled by the server.
UBR product	Ultra Broadband Radio, the most complete dual-band/tri-band UBR series products in the industry launched by ZTE catered to integrated multiple frequencies and multiple modes of wireless mobile networks, with one base station simultaneously supporting work over multiple frequency bands and supporting coverage of multiple modes including GSM/UMTS/LTE/NR.
AAU	Active Antenna Unit, the principal equipment at a 5G base station mainly responsible for receiving and transmitting 5G radio frequency signals.
AI	Artificial Intelligence, the use of machine to aid or replace human in doing certain tasks by simulating the sight, hearing, senses and thinking of human.
PowerPilot	ZTE's 5G green energy efficiency solution.
Definitive network	A network with large bandwidth, low latency, low jitters and definitive capability created with the use of network resources, which is capable of providing definitive service experience in response to different industry requirements.
TSN	Time Sensitive Networking, as defined by the Institute of Electrical and Electronics Engineers Association (IEEE), is a solution for the provision of definitive service based on standard ethernet technology which facilitates the completion of data packet transmission within a definite time latency to meet the rigid transmission requirements of the industrial sector.
uRLLC	Ultra-Reliable Low-Latency Communications is one of the three major application scenarios of 5G, supporting services that are highly sensitive to time latency and stability and protected through network chip technology. Examples include applications which are extremely sensitive to time latency, such as the Internet of Vehicles, remote controls in smart factory and remote operation in smart medicine.
RIS	Reconfigurable Intelligent Surface, adjustment of signal phases passing through the RIS through reflective components constructed with ultra-materials so as to align/setoff signal phases on the other receiving ends of other links, in order to strengthen useful signals and weaken harmful ones.
Beamforming	Signal processing technology using sensor arrays to facilitate designated transmission and reception of signals.
Intrinsic safety base station	Mine intrinsic safety base station is an Internet access device that facilitates communication at critical locations in a coal mine well. It is suitable for use at a corrosive gas scene in coal mine wells where explosive mixtures such as methane and coal dust are present but where insulation is uncompromised. It does not require the addition of metal cases or fillings to avoid explosion, and the level of energy generated from sparks or thermal effect occurring during normal use or breakdown complies with national standards applicable to mines. The device is characterised by its small size, light weight and high safety level.
Communication-sense-algorithm integration	Network with spatial sense, communication and computation capabilities at the same time which acquire senses of targets or the environment by analysing the transmission of wireless signals.

Glossary

Integrated core network	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility. An integrated core network supports multi-modal core network functions on a simultaneous basis.
5G NSA	The Non-Standalone network architecture model as defined under 3GPP, where the 4G base station is used in conjunction with the 5G base station on the wireless side, while the core network could be a 4G core network or 5G core network. As a transitional network architecture model, NSA allows full utilisation of existing 4G network resources.
5G SA	The Standalone network architecture model as defined under 3GPP, where the 5G base station is used on the wireless side and 5G core network is used. SA is the target infrastructure of 5G network evolution.
Integrated cloud-net cabinet	Integrated deployment of equipment such as edge cloud, wireline access and private wireless net through a centralised cabinet with default typical applications, supporting feature functions such as integrated wireline and wireless access, private net voice and news and capable of flexibly submerged to the access server rooms of corporate business zones or carriers.
Algorithm-net integration	A base resource layer oriented towards algorithm and the network that achieves succinct, swift, open, integrated, safe and intelligent resource supply for novel information infrastructure by implementing the technical architecture of integrated deployment, integrated coordination and scheduling of infrastructure.
NGN	Next Generation Network is a-next generation network based on soft switch capable of providing a wide array of services such as integrated multimedia services including voice, video and data using an open and standardised architecture.
Single carrier	In a dense wavelength-division multiplexing (DWDM) system that facilitates the use of multiple wavelengths on one optical fibre, each wavelength is known as a single-carrier, the speed of which has been increasing with the evolution of optical technology such as single carrier 2.5G, 10G, 100G, 200G, 400G, 800G and 1.2T.
C+L bands	Conventional band and long-wavelength band, the two commonly used wavelength-division frequency bands in the usable wavelengths of optical fibre. In the DWDM system, the C band has already been put to wide applications, while with the increasing demand for bandwidth, the L band has now also been put to trial runs for commercial applications.
QPSK	Quadrature Phase Shift Keying, a form of digital modulation characterised by higher frequency utilisation rate and stronger counter-interference properties.
OTN	Optical Transmission Net, a next-generation backbone transmission network within the optical zone organisational network based on WDM technology.
PON	Passive Optical Network, a network that provides optical access services to users through the use of passive optical network technology and facilitates conservation of optical fibre resources on the main line through the adoption of a point-to-multipoint topological structure. It also offers flow management and security control functions.
FTTR	FTTR (Fiber to The Room) is a networking mode connecting different indoor AP with the indoor all-optical node through optical fibre to achieve a 1000M+ coverage throughout the house.
MEC	Mobile Edge Computing, through which services and cloud computing functions required by telecom users IT can be provided from a nearby point using wireless access networks to create a telecom service environment featuring high performance, low latency and high bandwidth, accelerating the fast download of contents, services and applications in the network to allow uninterrupted premium network experience on the part of consumers.
TECS	Tulip Elastic Cloud System, the IaaS (Infrastructure as a Service) cloud computing and management platform in the Cloud series ICT integrated cloud product solution developed by ZTE on the basis of the OpenStack cloud management platform with the integration of an NFV (Network Functions Virtualization) architecture.

Glossary

NEO	Native Enhanced-cloud Orchestration, the enhancement of the performance and security of the native cloud system through hardware enhancement, software coordination and full-system native design, supporting bare machine, virtual machine and container to provide supreme service experience in native cloud evolution.
DPU	Data Processing Unit, a specialised processor for the data centre providing functions such as SD network, SD storage and SD accelerator to solve loading required by protocol transaction, data security and algorithmic acceleration, offering better performance than CPU in data IO processing.
Low bitrate HD	Transmitting contents and providing experience of HD display using lower video bit rates to enhance user experience while reducing the requirement for network transmission.
vSTB	Virtualization Set Top Box, the upshifting of services traditionally processed in a physical set-top box to the cloud and the transmission of the processed data back to the set-top box by way of video stream, thereby reducing the requirement for set-top box upgrade and software compatibility.
Algorithmic network	A novel information infrastructure that allocates and flexibly modulates computing resources, storage resources and network resources among the cloud, the network and the edge on an as-needed basis according to business requirements.
CDN	Content Delivery Network, a network structure capable of redirecting on a real-time basis a user's request to the closest service node available to such user based on network flow and information of various service nodes such as connection, load, distance from the user and response time.
XR	Extended Reality, a collective reference to AR (Augmented Reality), VR (Virtual Reality) and MR (Mixed Reality), which is an environment featuring the combination of reality and simulation and human-machine interaction enabled by computer technology and wearable device.
VR	Virtual Reality, a simulated environment that allows the creation and experience of a virtual world. VR technology is the technology that expresses the environment and objects in real life through a 3D model, which is a reality simulated by computer technology.
AR	Augmented Reality, a technology that integrates virtual information and the real world by applying virtual information such as text, graphic, 3D model, music and video to the real world, thereby augmenting the real world.
CPE	Customer Premise(s) Equipment, equipment responsible for connecting and handling at the customer's location when the service is provided to users.
sPV	Smart Photovoltaic is a direct-current overlay solution deployed at the station point. Its power conversion unit allows the application of maximum power tracking technology on the solar battery panel unit component to maximise the power generation efficiency of solar components while increasing the flexibility of photovoltaic deployment at station points.
5G private network	Corporate or industry wireless private network built according to 5G standards and separated from the 5G public network operated by carriers.
High-precision time protocol	Time protocol refers to the process of disseminating standard time information to synchronise local clocks with the standard time. High-precision time protocol means time protocol with a higher level of accuracy and precision.
Private chip	An approach to form a network on an as-need basis by segregating multiple virtual end-to-end networks from uniform basic network facilities to cater to the safety, separation and protection requirements of different services.
Differential protection	Protection for power transmission circuits and electrical equipment. In normal operation, the electric current entering the protected equipment is equivalent to that exiting the equipment, and the differential current equals to zero. When the differential current is higher than the default value set in the differential protection device, the circuit breaker on the sides of the protected equipment will be activated and power will be cut off from the malfunctioning equipment.





Chairman's Statement



**DEAR
SHAREHOLDERS,**

I hereby present the annual report of the Group for the year ended 31 December 2022 to all shareholders, and express sincere gratitude on behalf of the Board of Directors for your concern and support for ZTE.

Li Zixue
Chairman

Year 2022 is the opening year for the Company's strategic expansion phase. In retrospect, this was a year subject to austere external conditions, underpinned by complicated geopolitical developments and increasing downside pressure for the global economy. Nevertheless, bravery is best manifested at times of ordeal and tribulation, and a precious gem is born only from meticulous polishing. Given multiple challenges faced by our operation owing to the uncertainties, we firmly grasped the opportunities presented by the global trend of digitalisation and low-carbon green principles, pursuing steady development according to our stated strategic routes as we persisted in committing our best endeavours to the most difficult tasks and increased our investment in R&D on an ongoing basis to consistently improve our core competitiveness in

critical technologies and products. We continued to reinforce our core strengths and develop new ones, as we reported stable growth in both the domestic and the international markets, as well as year-on-year growth in carriers' network, government and corporate business and consumer business. In the meantime, rapid growth was sustained in innovative business primarily represented by "server and storage, 5G industry application, automobile electronics, digital energy and smart home". During the year, ZTE staff strived for progress as they overcame difficult hurdles against all odds to forge a solid foundation for the smooth commencement of the Company's period of overtaking.

Chairman's Statement

Looking to the future, the external environment could only become more unpredictable, while the digital economy has grown into an irreversible trend and a crucial force in the attempt of global nations to drive economic recovery and rebuild competitive advantages. Committed to the positioning as a path-builder for the digital economy, ZTE will maintain its strategic focus, persist in the innovation-driven approach and seize opportunities for industrial transformation presented by algorithm, new energy and digitalised industries and press tirelessly forward to achieve its goals for the strategic expansion phase.

In 2023, we will aspire to greatness and maintain steady growth. We will assure that our technological edge in crucial sectors is maintained and strive to top the market for our principal products in terms of competitiveness. In connection with carriers' network, we will steadily increase our domestic market share, consistently enhancing our competence in customer servicing to assist on all fronts the strategic transformation and sustainable development of carriers. In the overseas market, we will persist in focused effort to enhance efficiency and assure prudent operation, seeking effective breakthroughs in major nations, big Ts and large networks. In the government and corporate sector, we will focus on high-worth industries and customers such as the Internet, finance, electricity and transportation as well as mainstream products and solutions in server and storage and transmission, persisting in joint efforts to develop advantageous business to ensure rapid growth. In connection with the consumer business, we will maintain stable development and enhance our effort in differentiated innovation with a view to continuously improving product experience. In the meantime, we will increase our effort in the development of innovative businesses with a special emphasis on the rapid singular-point breakthrough in terms of resources.

In 2023, we must adhere to practical efforts and persist in "precision and pragmatism". Precision means staying focused and taking actions without hesitation. Pragmatism refers to an issue-oriented approach that identifies and solves the critical problems to achieve expansion in an increasingly challenging environment. We must plan ahead and be prepared for all kinds of adverse conditions and enhance our awareness for constraints in resources, such that we allocate our resources with precision on the basis of accurate business positioning, maintain soundness and flexibility in financial indicators, while acknowledging and striving to improve our deficiencies in prudent and pragmatic operation. We must seek strategic growth in a proper pace while accelerating innovation and seizing opportunities to attain qualitative growth.

In 2023, we must stay vigilant against issues of any measure and continue to enhance compliance and internal control as our strategic cornerstones, in order to persist in sustainable development. To address the evermore challenging external business environment, we must persist in the comprehensive development of our compliance regime and facilitate proactive identification of compliance risks and emphasise preventive measures in a major effort to enhance the efficiency of compliance management. We must also further strengthen our internal control management to effectively drive solid and in-depth risk management and improve our risk management regime in the systematic construction of a defensive net against corporate risks. Meanwhile, deeper efforts will be devoted to the digital reform with a view to continuous enhancement of operating efficiency, while our organisational competence and internal synergy will also be strengthened to forge a highly resilient organisation. The Company implements ESG principles with intensive execution of the dual carbon strategy to promote harmony and co-existence for the community, environment and stakeholders in persistent pursuit of sustainability.

Chairman's Statement

In anticipation of all kinds of testing moments that we might encounter in future, I dare all ZTE staff to chart unknown horizons with vigour, drive and dauntless courage, pressing forward steadily with relentless perseverance to usher in the strategic expansion phase. I wish to thank our global customers, partners, investors and members of the public for supporting and assisting the Company over the years. Let us work together to embrace the new age and chart our new future!

Li Zixue
Chairman
ZTE Corporation

March 2023

Corporate Information

1.1	Legal name (in Chinese) Chinese abbreviation Legal name (in English) English abbreviation	中興通訊股份有限公司 中興通訊 ZTE Corporation ZTE
1.2	Legal representative	Li Zixue
1.3	Authorised representative at Hong Kong Stock Exchange	Gu Junying, Ding Jianzhong
1.4	Secretary to the Board of Directors/Company Secretary Securities affairs representatives Correspondence address Telephone Facsimile E-mail	Ding Jianzhong Qian Yu No. 55, Keji Road South, Shenzhen, Guangdong Province, The People's Republic of China +86 755 26770282 +86 755 26770286 IR@zte.com.cn
1.5	Registered and office address Postal code Uniform social credit code Website E-mail Principal place of business in Hong Kong	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China 518057 9144030027939873X7 http://www.zte.com.cn IR@zte.com.cn 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
1.6	Media designated for information disclosure by the Company Authorised websites on which this report is made available Place where this report is available for inspection	China Securities Journal, Securities Times, Shanghai Securities News http://www.cninfo.com.cn http://www.hkexnews.hk No. 55, Keji Road South, Shenzhen, Guangdong Province, The People's Republic of China
1.7	Listing information	A shares Listed on the main board of the Shenzhen Stock Exchange in November 1997 Abbreviated name of stock: 中興通訊 Stock code: 000063 H shares Listed on the main board of the Hong Kong Stock Exchange in December 2004 Abbreviated name of stock: ZTE Stock code: 763
1.8	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Corporate Information

- 1.9 Legal advisers
- As to Chinese law*
- Beijing Jun He Law Offices
20th Floor, China Resources Building,
8 Jianguomen North Street, Beijing,
The People's Republic of China
- As to Hong Kong law*
- Paul Hastings
22/F, Bank of China Tower, 1 Garden Road, Hong Kong
- 1.10 Auditor
- Ernst & Young Hua Ming LLP
Level 16, Ernst & Young Tower, Oriental Plaza,
No.1 East Chang An Avenue, Dongcheng District, Beijing,
The People's Republic of China
Signing Accountants: Li Jianguang, Zeng Cihua
- 1.11 Independent financial advisor
to share issuance for
asset acquisition
- China Securities Corporation
35/F, Shenzhen Media Group (SZMG) Tower, Pengcheng 1st Road,
Futian District, Shenzhen, Guangdong Province
Principals of the financial advisor: Wu Chunlei, Bao Antai,
Lin Jianshan
Period of ongoing supervision: 10 November 2021 to
31 December 2022
- 1.12 Industry in which
the Group operates
- Communication equipment manufacturing
- 1.13 Principal operations
- The Group owns complete end-to-end products and integrated solutions in the ICT industry, 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 in 2022.

Highlights of Accounting Data and Financial Indicators

2.1 ACCOUNTING STANDARDS ADOPTED

The Company prepares its financial report and discloses relevant financial information in accordance with PRC ASBEs. Hence there is no difference in accounting data arising from the adoption of both domestic and international accounting standards.

2.2 CHANGES IN ACCOUNTING POLICIES OR ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS

Applicable N/A

2.3 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST THREE YEARS

Unit: RMB in millions

Item	2022	2021	Year-on-year change	2020
Operating results				
Operating revenue	122,954.4	114,521.6	7.36%	101,450.7
Net profit attributable to holders of ordinary shares of the listed company	8,080.3	6,812.9	18.60%	4,259.8
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	6,166.9	3,305.9	86.54%	1,035.6
Net cash flows from operating activities	7,577.7	15,723.5	(51.81%)	10,232.7
Size				
Total assets	180,953.6	168,763.4	7.22%	150,634.9
Total liabilities	121,410.4	115,475.8	5.14%	104,512.4
Owners' equity attributable to holders of ordinary shares of the listed company	58,641.2	51,482.1	13.91%	43,296.8
Per share basis (RMB/share)				
Basic earnings per share	1.71	1.47	16.33%	0.92
Diluted earnings per share ^{Note}	1.71	1.47	16.33%	0.92
Basic earnings per share after extraordinary items	1.30	0.71	83.10%	0.22
Net cash flows from operating activities per share	1.60	3.32	(51.81%)	2.22
Net asset per share attributable to holders of ordinary shares of the listed company	12.38	10.88	13.79%	9.39
Financial ratios (%)				
Weighted average return on net assets	14.66%	14.49%	Increased by 0.17 percentage point	10.18%
Weighted average return on net assets after extraordinary items	11.19%	7.03%	Increased by 4.16 percentage points	2.47%
Gearing ratio	67.09%	68.42%	Decreased by 1.33 percentage points	69.38%

Note: As share options granted by the Company have given rise to 107,742, 2,568,160 and 21,153,000 potentially dilutive ordinary shares for 2022, 2021 and 2020, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

Highlights of Accounting Data and Financial Indicators

2.4 THE GROUP'S MAJOR FINANCIAL INDICATORS FOR 2022 ANALYSED BY QUARTER

Unit: RMB in millions

Item	The first quarter of 2022	The second quarter of 2022	The third quarter of 2022	The fourth quarter of 2022
Operating revenue	27,930.3	31,888.0	32,740.7	30,395.4
Net profit attributable to holders of ordinary shares of the listed company	2,216.7	2,349.1	2,254.2	1,260.3
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	1,952.5	1,772.9	1,825.4	616.1
Net cash flows from operating activities	1,187.2	2,312.4	223.4	3,854.7

The above accounting data is consistent with the relevant accounting data disclosed in the Group's quarterly reports and interim report.

2.5 EXTRAORDINARY GAINS OR LOSSES ITEMS AND AMOUNTS OF THE GROUP FOR THE PAST THREE YEARS

Unit: RMB in millions

Item	2022	2021	2020
Gain/loss from disposal of non-current assets	11.0	231.7	—
Investment gain from disposal of long-term equity investment	(27.2)	1,251.7	955.2
Gain/loss from fair-value change of derivative financial assets and derivative financial liabilities held and investment gain from disposal of derivative financial assets and derivative financial liabilities, excluding the effective value protection hedge business relating to the ordinary business of the Company	16.1	53.9	(199.8)
Write-back of provision for individually tested receivable impairment	186.2	295.0	127.6
Gain/loss from fair-value change of investment properties	(3.3)	(2.6)	1.8
Impairment of long-term equity investment	—	—	(7.7)
Other gains other than income from software VAT rebate and income from refund of handling charge for withholding personal tax	536.4	681.7	613.9
Net of other non-operating income and expenditure other than the above	(43.2)	(177.2)	(406.6)
Other gains/losses falling under the definition of extraordinary gain/loss	1,578.4	1,781.3	2,760.7
Less: Effect of income tax	338.2	617.3	576.8
Effect of non-controlling interest (after tax)	2.8	(8.8)	44.1
Total	1,913.4	3,507.0	3,224.2

Highlights of Accounting Data and Financial Indicators

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

Unit: RMB in millions

Item	2022	Reasons
Income from VAT rebate for software products	1,334.2	Operational on an ongoing basis
Income from refund of handling charge for withholding personal tax	22.4	Operational on an ongoing basis
Gain from disposal of equity interests in Shenzhen ZTE Capital Management Company Limited (“ZTE Capital”) and gain/loss from fair-value change	102.9	Business with the scope of operation of ZTE Capital

Report of the Board of Directors

In 2022, the Group achieved stable growth as it persisted in R&D investment in ongoing improvement of its key technologies and product competitiveness to seize opportunities presented by the global trends of digitalisation and low-carbon green development while keeping business risks under control. The operation of the Group is founded on consistent investment in R&D. This chapter begins with a discussion of the innovation of the Group's core technologies in 2022, followed by a detailed account of its operating results in 2022 and business outlook for 2023.

3.1 INNOVATIONS IN CORE TECHNOLOGIES IN 2022

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

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

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

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

(1) Persisting in long-term investment to master core technologies at base level

In the chip sector, the Group has continued to increase investment in advanced process technique design, core IP, architecture and seal packaging design and digitalised efficient development platform on the back of close to 30 years' R&D build-up. We are an industry leader in terms of the ability to design the whole process of chip production. We have developed a solid foundation in the R&D of base-level technology for 5G communication network chip. In the meantime, given the development of algorithm-network integration, the Group has explored customised technologies and products based on heterogeneous computations to meet the diversified scenario requirements of cloud, edge and terminal, with a view to enhancing its product competitiveness.

Report of the Board of Directors

In connection with database, the Group continued to invest in its proprietary GoldenDB (distributed database) and launched the GoldenDBv7.0 annual version which would meet the business requirements of banks and carriers in core scenario such as “11.11” and charging. It supports TPS at the million level and a card issue volume of 10 billion and its reliability is comparable to the database of large-scale computers. In further enhancement of our leading position in the finance and carriers’ market. In the finance market, Bank of China, Everbright Bank, Minsheng Bank, Hengfeng Bank and Zheshang Bank were signed up as new clients in 2022, while we assisted the commissioning of the new-generation core trading system of Guotai Jun’an Securities to present the first successful demonstration of core service conversion in the domestic securities sector. In the carriers’ market, we won bids for the centralised procurements of China Mobile and China Unicom with the largest shares. GoldenDB continued to be a leader in distributed conversion of core service systems at financial companies and carriers, ranking first for the second year in terms of comprehensive market competitiveness in the “2021 report on the market for finance-grade distributed database in China” published by Frost & Sullivan and LeadLeo Research Institute in late 2022.

In connection with operating systems, the Group has achieved a range of results in core technologies such as internal core, virtualisation and R&D tools, on the back of more than 20 years of proprietary R&D effort. Systems developed by us are at the forefront of the industry in terms of real-time performance, reliability and security, with a complete range of solutions for operating systems of equipment types such as built-in device, server, desk-top system and terminal. The products have been extensively used in the communication, automobile, electricity and railway transportation sectors, as more than 200 million sets have been delivered worldwide by far, providing solid and reliable base software platforms with robust functions to global customers. Our products have won the Class I Science and Technology Award of China Institute of Communications and the Fourth China Industry Award. Our automobile operating system products have attained the ISO 26262 ASIL-D accreditation, the highest-level certification in the area of electronic functional safety for automobiles. In 2022, we became the first domestic corporation to attain the POSIX PSE52 accreditation.

(2) Ongoing enhancement in product competitiveness driven by technological innovation

In connection with wireless products, the Group is committed to creating high-performance, intelligent, minimal and green mobile communication networks catered to carrier customers and industry customers. On the back of enhanced core infrastructure capabilities in chip, algorithm and architecture, we have launched the new-generation ultra-minimal station UniSite NEO solution, including innovative products such as the integrated OmniUBR product with three frequencies and three fans, large power output UBR products and the new Generation 5 series AAU. While supporting multiple frequencies and modes, large power output and large bandwidth, the equipment is an industry leader in terms of its significantly reduced size, weight and power consumption. The Group has been engaged in intensive cooperation with carriers to create “5G pilot cities” in Beijing, Guangzhou, Chengdu and Dalian, where a number of premium networks featuring consecutive coverage, outstanding performance and advanced technologies have been constructed. PowerPilot, the Group’s network energy conservation scheme, has continued to evolve with a “dual smart” feature, namely the combination of platform intelligence and intelligence generated within the base station. We have also introduced the AAU automatic start/stop function, the first of its kind in the industry, which reduces AAU power output to below 5W when voice is not in use. Large-scale commercial applications have commenced with notable results in energy conservation. In wireless intelligence, we have advanced towards version 2.0, where unused base station algorithm can be allocated to fill up blind spots through algorithmic arrangement. Our definitive network solution safeguards definitive low latency and jitters through 5G TSN+ uRLLC enhancement. Meanwhile, the Group worked with China Mobile and NR Electric to launch the industry’s first end-to-end 5G TSN based on green power net to accelerate the commercial application of 5G in key industries, and the product received “the Most Innovative Private Network Project Award” at the 2022 Network X Conference. We have also achieved a lot in the future evolution and exploration of wireless technologies. We have completed verification of the industry’s first 5G base station and dynamic RIS synergised beamforming technology prototype in an assurance of our pole position in

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technological advancement. We have also completed the industry's first Sbfd prototype device and functional verification, enabling at the same time a 1.4Gbps uplink speed and ultra-low loopback latency of less than 4ms within the 100M single carrier. Verification of the first NTN IoT of carriers has also been completed, marking a milestone in omnipresent network coverage. Verification of the integration of communication, sensor and algorithm has been conducted to confirm sensory functions beyond 1 km at a sub-metre level, while investigations have also been made in multi-scenario applications such as drone security protection and vehicle-road coordination. The Common Core fully integrated core network solution launched by the Group supporting 2G/3G/4G/5G NSA/5G SA full access serves to simplify network complexities and helps to reduce network construction cost by more than 40% while increasing delivery speed by 30% to facilitate smooth evolution of networks. Taking into account requirements of the industry, the Group has launched products such as nomad base station, intrinsic safety station, chemical base station and serialised gateway through product innovation and customisation. The iCube serialised 5G private network solution developed by the Group provides "large-scale, speedy, good quality and cost-effective" one-stop private network services through the i5GC lightweight private core network for industries, one-stop integrated cloud-net cabinet and NodeEngine base station edge computing engine solutions to meet the requirements of different industries. The Group has launched the smallest Mini5GC new product in the industry that enables the deployment of lightweight 5G core network through a single 1U server, boasting the best performance among peer products with similar measurement. It is created to meet the requirements of 5G private network construction for mining pits, high-speed rail, aircraft, flexible work station, oil and gas prospecting and emergency rescue, among others.

In the IP segment, the Group has completed the nation's first live network trial of the centralised algorithmic router solution in association with China Mobile to advance the development of novel information infrastructure through algorithm-network integration. Our core router has served the super core nodes of a carrier's backbone network and ordered for large-scale deployment in more than 20 provinces nationwide. We have been appointed the sole supplier to construct the NGN IP CORE network of Telekom Malaysia, the country's first high-speed mobile service transmission backbone bearer network. We have teamed up with China Mobile to formulate 5G bearer small pellet solution, introducing a stratum hard chip mechanism to the ethernet for the first time and successfully reducing the size of the chip from 5Gbps to 10Mbps to support Nx10Mbps flexible chip pellet that offers definitive latent forwarding and circuit-grade physical isolation in fulfilment of the safeguarding requirements of time-latent sensitive services and high-worth government and corporate private lines in the vertical sector under different bandwidth, while enhancing the utilisation of network resources. The product has won the "Most Innovative Network Chip Case" award at the 2022 Network X Conference.

In connection with optical transmission, the new optical network with intelligent features and wide bandwidth has provided an ultra-wide, flexible and intelligent high-speed information passage for the inter-connection among clouds. The single carrier 1.2T system solution, the first of its kind among peers, allows the doubling of single-fibre capacity to 96T+ when applied in connection with C+L bands. We teamed up with China Mobile to complete the world's first "400G QPSK simulated live network transmission verification", achieving 3,038km transmission without power relay, a 50% improvement in transmission distance compared to the 400G solutions supplied by peers, to support foundation building for "East-to-West Data Computing". We have assisted Turkcell in its deployment of the world's first commercial C+L wave division system. The Group has garnered the "2022 Best Data Centre Connection Equipment Supplier Award" presented by NGON&DCI World. Our new-generation compact, metropolitan edge OTN product has been named for the 2022 Lightwave Optical Transmission Core Sector Award. ZXONE 9700 among our OTN flagship series has been given a Leader rating by GlobalData. We ranked second globally in terms of annual market shares for OTN cross connection products and among global top two for 200G port dispatch in 2022. Our OXC products has been put to large-scale deployment in the provincial backbone and local networks of more than twenty provinces, including Guangdong, Shandong, Zhejiang, Jiangsu and others.

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In fixed-line access, we have launched the world's first precision 50G PON template and the first ONU prototype supporting 50G PON and Wi-Fi 7, marking a milestone in the development of 50G PON technologies and products. TITAN, our flagship product in optical access has continued to be given a Leader rating by GlobalData, as it claims the largest capacity and highest level of integration among peers. Our CEM+A-SA end-to-end service sensor analysis contributes to network quality improvement and GB-grade operation. The light-weight and flexible Light PON is targeted at new occupation or conversion scenarios in remote villages or commercial buildings. More than 500,000 sets of our FTTR (Home Optical LAN) solutions were dispatched in aggregate, ranking among the top two in the country. Our PON OLT and 10G PON ranked second in global dispatch.

In connection with algorithmic infrastructure, the Group has continued to enhance its R&D of relevant infrastructure hardware and software products. For server and storage, serialised products have been launched to provide robust algorithmic support for the digital transformation of a variety of different industries. In 2022, we have dispatched more than 240,000 units globally. A new-generation TECS cloud platform built upon software-hardware co-design has been launched to provide a diverse range of resources such as virtual machine, container and bare machine. Through the NEO cloud card, a novel computational architecture built around the DPU has been constructed to provide top-notch algorithmic capacity for the smooth evolution of 5G cloud native. For exchange, we have launched a new-generation core switch product featuring large capacity, high performance and strong reliability to provide ultra-large exchange capacity and high-density, large-capacity ports for the construction of large-scale and highly scalable data centre networks catered to cloud computation. Our data centre exchange ZXR10 9900X has received the 2022 Award for Innovative Applications of Financial Technology. For data centre, as a leader in green smart data centre, we have launched a new-generation data centre with high availability which is conducive to energy conservation, easy to fabricate, catered to smart management and safe and reliable. Innovative energy-saving products such as power modules and liquid cooling systems have been launched to attain the optimal PUE level, which has gone down to a low of 1.15. The innovative energy-saving products has been put to application in Jiangsu, Henan and Guizhou. In active support of the East-to-West Data Computing policy, we have launched a full range of solutions for the eight principal core node data centre to assist in East-to-West data computing. Focused on the domestic market, we have negotiated breakthroughs securing a number of large-scale data centre integration projects from carriers to achieve large-scale growth. Meanwhile we have increased our effort in overseas market expansion and succeeded in making major breakthroughs in container piling solutions, having scored tenders for 5 consecutive phases in the Philippines market where we have continued to be deeply engaged.

In the video business, the Group has developed general competitiveness in video through ongoing investment in multiple aspects such as innovative terminal, platform and network to enhance our competence in servicing technology, with a special focus on key technologies such as low bitrate HD/8K, ultra-low latency, enhancing user experience in countering network weakness, machinery vision and VR/AR/MR. W600D, the first notebook-size cloud computer product in the industry, has reported rapid growth, while W100D, the name card-size cloud computer product has also been launched in batch dispatch in a revolutionary move for home computers and new model for safe office work. Our vSTB (virtualization Set Top Box), the first of its kind in the industry which enhances user experience through the cloudification of end services, has been put to extensive applications at China Mobile, while the video intermediary platform has continued to register breakthroughs with China Mobile Group and provincial branches, including the construction of the industry's first video algorithmic network in collaboration with China Mobile. Our integrated CDN product has continued to stay ahead in terms of competitiveness and progress in commercial application, deployed at more than 151 bureau outlets globally with over 220 million users for the Big Video system and a CDN capacity in excess of 300Tbps. Through our XR products, we have entered into cooperation with a number of leading enterprises such as China Telecom, China Mobile, CCTV and Xinhua News Agency, as the project has received the Gold Award at the Fifth Blooming Cup Contest, the Golden Spintop Most Influential Product of the Year Metaverse Platform

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Award and the Outstanding AR Application Award of the Year. We have teamed up with CCTV in the employment of XR virtual recording in a real-time programme show, which has recorded two million viewers during its live broadcast.

In connection with the smart home sector, the Group has reported leaping growth, ranking first in the global dispatch of PON CPE and DSL CPE, while maintaining its leading position in market shares for set-top box, including a solid global top ranking for IP set-top box. In the international market, our Android TV set-top box products has continued to be dispatched in large volumes to carriers in major nations in the Asia Pacific, Europe and South America, while we have also maintained top position in the market in terms of new customers for Android TV. The new-generation cloud AI home security camera Pro features the innovative use of cloud-based synergising technologies enabling the addition of AI applications in massive volumes as and when needed to enhance the efficiency of scenario analysis. The product has received the 2022 GLOMO Best Connected Consumer Device. Our series of smart medium-screen products have been employed in large-scale commercial applications, as they have deployed in the market segment of the secondary screen of the home, becoming a brand new feature at home offering the threefold function of contents supply, control and security.

In connection with terminal, the Group has continued to forge the “1+2+N” smart ecosystem built around the smart handset. Through the MyOS super bus, we have achieved seamless connection covering the four major scenarios of sports and health, audio visual entertainment, business travels and home education in the construction of a full-scenario smart ecosystem 2.0. The products, applications, contents and service provided by ZTE terminals have facilitated a full-scenario smart lifestyle. For the handsets, we have continued to drive innovation in the double pivots of mobile image and screen display. ZTE Axon 40 Ultra has enhanced the Company’s advantage in under-screen camera with its world-leading features of third-generation under-screen full display and triple main cameras for computational photography. Nubia has been deeply engaged in professional imaging, underpinned by the Nubia Z40 and Z50 series featuring the industry debut of its exclusive customised 35mm optical system. Meanwhile, Red Magic continued to explore and gain grounds in e-games, seeking top standards comprehensively in aesthetics, ecology and imaging in addition to excellence in e-game performance. For the mobile Internet, we have maintained our global first ranking in market shares for MBB & FWA. As a leader in 5G mobile broadband terminal, the Group will continue to press forward towards broader dimensions in line with the call to be “green, smart and safe.” For the vehicle applications, the Group will seize opportunities presented by the preference for domestic manufacturing of automobiles and the development of smart vehicles to intergrate the full-scenario intelligence of people, vehicles, roads and clouds.

In connection with vehicular electronics, the Group has been making active efforts to establish its presence in operating system, software engineering, chip, hardware, supply chain and digitalisation on the back of its strong elementary-level technologies and innovative ability in the communication equipment segment as part of its commitment to becoming a provider of digital infrastructure capabilities for vehicles and a partner for domestically manufactured proprietary high-performance products to assist in the development of Internet-based interconnection and intelligentisation for vehicles. On the back of its fully proprietary automobile operating system and technology, the Group has provided important support for the construction of the total smart automobile and application scenarios by delivering real-time, safe and open operating system solutions in the smart auto sector, covering complete scenarios such as smart vehicle control, smart driving and smart driving cabins. The ZTE auto operating system has been highly recognised in the industry, as evidenced by a number of industry awards including the “Lingxuan Award Prospective Auto Software Gold Prize, Top 100 Novel Supply-chain for the Auto Industry in China in the Jinji Award and Intelligent Automobile Golden Globe Award, in addition to cooperation with a number of auto manufacturers and suppliers. The 4G/5G vehicle-grade modular products developed and designed by the Group has been closely followed and highly recognised by mainstream auto manufacturers in China, as project cooperation with manufacturers and partners including China FAW, SAIC Motor and GAC Group have been implemented. In future, the Group will continue to build on its core base-level

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technologies and implement the “software + chip” paradigm in association with its partners to assist in the technological innovation of automobile manufacturers and provide customers with premium experiences.

In connection with the energy sector, the Group has established a Digital Energy Operations Department to provide green power generation, efficient power conversion, smart power storage, smart power consumption and energy management products and solutions to carriers and industry customers around the world. As a world-leading supplier of communications energy, the Group has completed large-scale deployment of 5G power source and minimal station point solutions to safeguard power supply for 550,000 5G base stations worldwide. We have also launched the sPV solar energy power supply solution that enables smooth overlay at station points to facilitate low-carbon development of carriers’ networks. In recent years, the Group has continued to make intensive efforts in the development of communication energy storage and proposed the new idea of “tiered intelligentisation of communication energy storage, as we have launched the world-leading L3 intelligent lithium battery products, which have been adopted for large-scale application.

In connection with the security segment, the Group has received the “Communication Network Security Servicing Competence (Safety Design and Integration) Class I” certificate. We have also launched the industry’s first quantum integrated encryption key management system which has been officially put to commercial application in the Bishan Quantum Trusted Cloud Project in Chongqing. Other innovations include a 5G private network terminal and asset security management solution providing 5G asset security services to Tianyi Security Corporation under China Telecom. Our 5G private network security solution received the 2022 Security Solution Award in the GIOTEL AWARDS hosted by Telecoms.com. Elsewhere, our Moutai 5G Private Network Project has passed the national network security rating assessment according to version 2.0 of the protection standards.

(3) Enabling industrial transformation in a joint effort with industries to add value

In connection with industrial digitalisation, the Group launched the digital star cloud platform in 2022 to provide swift, flexible and customised solutions for corporate digital transformation. The first batch of smart operation centre based on digital star cloud have 100% passed the corporate smart operation service competence assessment conducted by China Academy of Information and Communications Technology. The Group has provided top-level design for digital transformation to large companies such as CITIC Offshore Helicopter and Nanjing Port Group, while teaming up with more than 500 partners in 15 sectors, including industrial manufacturing, steel and metallurgy, mining, power, transport, government affairs and large corporations, to launch more than one hundred innovative applications for digital transformation, creating a series of benchmark projects that have garnered honours such as the MIIT Blooming Cup and the United Nations WSIS Champions Award.

On the industrial front, the Group has implemented the concept of “manufacturing 5G with 5G”, as the intelligent manufacturing base in Binjiang, Nanjing has produced 24 main types and more than 110 5G+ integrated industrial innovative applications. The solar energy manufacturing sector exemplar built successfully built in collaboration with JA Solar Qujing Base has been included in the “Fortune League of Most Influential IoT Innovation 2022”. Elsewhere, we have continued to assist in the corporate empowerment of companies such as China Resources Cement, Chongqing Changan Automobile, Deli Group and Huifeng Petrochemical.

In connection with steel and metallurgy, the Group has launched the 5G industrial control algorithmic base components such as 5G smart smelting independent private network 2.0, 5G centralised control edge cloud and industrial control cloud computer to achieve the innovative integration of CT+IT+OT and create an integrated control platform for metallurgical smelting. We have worked with industry giants such as State Power Investment Corporation, Baowu Group, Ansteel Group, Jinchuang Group and Yunnan Shenhua to assist in the digital and intelligent transformation of the metallurgical smelting industry.

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On the mining front, the Group is committed to the building of a mining-friendly network with the rapid construction of a smart mining system under the industrial Internet platform architecture and launch of new products such as the world's first 700MHz intrinsic safety base station and 5G coal machine gateway, as well as the 700MHz+2.6GHz hybrid networking and 700MHz+2.6GHz+4.9GHz triple frequency networking solution, teaming up with carriers to build a number of exemplary projects for industry leaders such as China Energy Investment, Pingdingshan Coal Group, Shandong Energy Group, Shaanxi Coal Group, CCTEG and China Coal Energy Group.

In connection with electricity, the Group has teamed up with Southern Power Grid and China Mobile to build a 5G digital power grid demonstration zone and completed verification of 54 scenarios in end-to-end commercial applications covering the full process of power generation, transmission, transformation, distribution and consumption. We have introduced the industry's first 5G high-precision time-protocol power distribution grid service, first commercial power grid private chip, and first 5G differential protection service, alongside the joint submission of more than 20 3GPP international standards. We have also assisted State Grid Shandong Electric in the construction of China's first provincial 5G demonstration power grid, which is currently the nation's largest 5G power virtual private network. As one of the first companies in the industry to have passed the 5G commercial system security test and assessment conducted by the Information Security Rating and Protection Assessment Centre under the Ministry of Public Security, we have forged a solid foundation for the large-scale 5G applications in power grids.

In connection with transportation, the full-scenario smart city rail based on the "city rail cloud — city rail digital smart platform" supplied by the Group has improved maintenance efficiency at Hangzhou Metro Line No. 3 by 70%. Our small station 5G on-board solution, the first of its kind in the industry, has been put to commercial application at Shentong Metro. At Guangzhou Metro Line No. 18, the fastest metro line in China, we have built a 5G+ smart metro application pole. At Tianjin Container Port, 5G quayside gantry remote control has been put to large-scale commercial application as part of our effort to facilitate port automation in collaboration with China Unicom Tianjin and other partners. We have entered into full strategic cooperation with Jiangsu Port Group, while providing Nanjing Port Group with services in relation to digital transformation.

In connection with government affairs and large corporations, the digital industry park solution has been launched and successfully gone online at the Jiangjunshan Smart Park in Nanjing, while the city lifeline solution is aimed at protecting urban safety. The digital twin smart water conservancy solution meanwhile has assisted in the construction of a smart water conservancy regime in Siyu. The provincial government cloud for Hunan covering three locations and four centres, the first of its kind in China, provides data services across different levels, regions and departments.

(4) Extensive participation in the formulation of standards while gaining highly valuable patents

The Group is positioned within the first quadrant in terms of global patents as a major contributor and participant in the research and standard formulation for global 5G technology. As at 31 December 2022, the Group had filed applications for approximately 85,000 patents globally, among which approximately 43,000 patents had been licensed over the years. According to the report published by internationally renowned patent data company IPlytics in November 2021, ZTE ranked fourth globally in terms of the number of declared 5G SEP (standard essential patents) disclosed to ETSI. In 2022, the Group won a gold award in the 23rd China Patent Award. The Group has by far garnered 10 gold awards, 2 silver awards and 38 excellence awards in the China Patent Awards and 27 awards in the Guangdong Provincial Patent Awards.

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

3.2 BUSINESS REVIEW FOR 2022

3.2.1 Industry development

(1) Domestic market

China's digital economy continued to grow in 2022. With a market worth of RMB50,000 billion, growing approximately 10%, year-on-year, and accounting for more than 41% of the nation's GDP, the digital economy has been playing an increasingly significant role as an economic growth driver.

In the communication infrastructure sector, as an important component of the domestic digital economy, developments were underpinned by positive growth, optimised mix and growing dynamics. For 2022, the domestic telecommunications business reported revenue of RMB1,580 billion, representing year-on-year growth of 8.0%. The three telecom carriers and China Tower together completed fixed asset investments of telecom with a worth of RMB419.3 billion, representing year-on-year growth of 3.3%. China has completed the construction of the world's largest mobile broadband network and optical network. As at 31 December 2022, there were 2,312,000 5G base stations in the country, including 887,000 5G base stations built in 2022. There were 15.23 million 10G PON ports capable of GB-grade network servicing, a net increase by 7,371,000 ports compared to the previous year. Meanwhile, novel businesses such as Data Centre, Big Data, Cloud Computing and Internet of Things reported rapid development, achieving revenue of RMB307.2 billion, representing year-on-year growth of 32.4% and accounting for 19.4% of the total revenue of the telecommunications sector in an increase that provided new driving force for revenue growth in the telecommunications sector.

In the industrial digitalisation sector, the in-depth integrated development of the government and corporate sector, the digital economy and the real economy has facilitated upgrades in the digitalisation and intelligentisation in vertical sectors to drive digital transformation of the society. In 2022, a wide range of achievements in the integrated application of smart manufacturing, smart medicine, smart education and digital government affairs were reported, as the nation committed investments to construct more than 4,000 "5G+ industrial Internet" projects and established a number of 5G full-connection plants.

In the consumer terminal sector, there was an ongoing expansion in the user base. As at 31 December 2022, the number of 5G mobile phone users reached 561 million, accounting for 33.3% of the nation's mobile phone users and representing 2.75 times of the world's average level (12.1%). A total of 91.75 million users subscribed for fixed broadband access with a rate of GB-grade or above, a 2.7-fold increase compared to the end of last year accounting for 15.6% of the total user population. Meanwhile, smart terminals have been extensively applied in sectors such as Public Services, Internet of Vehicles, Smart Retail and Smart Home.

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(2) International market

While the slowdown in global economic growth and inflationary pressure in 2022 posed challenge for telecom carriers, persistent market demand for telecom services alleviated the impact on the industry, resulting in essentially stable telecom investment on a global basis.

In connection with wireless network, the booming development of 5G networks had a revolutionary impact on the market. New applications based on 5G, such as AR and cloud-based games, were gaining attention from mainstream consumers. As a key technology in the digital transformation of corporations, 5G was gradually making its way into the core business models of enterprises. More telecom carriers in emerging markets were launching 5G services. As at 31 December 2022, 515 telecom carriers in 155 countries and regions were investing in 5G, while 1,431 models of 5G commercial terminals were on the market globally, increasing by 67% versus the end of 2021.

In connection with wireline network, the worldwide trend of replacing copper wires with optical wires in fixed-line networks continued, as carriers were actively engaged in the evolution from GPON to 10G PON in an irreversible transition to optical fibres. The resumption of production and the development of 5G services gave rise to greater demands for bandwidth in existing bearer networks, compelling carriers to conduct ongoing network upgrades and conversion to meet the demand for bandwidth growth in the digital era.

In connection with new business, enterprises placed an increasing emphasis on digital transformation, fully capitalising on new-generation information technologies such as Big Data, Cloud Computing, Internet of Things and AI to optimise their business processes, enhance operating efficiency, step up with innovation and improve user experience. In 2022, global investment in digital transformation amounted to more than USD1,800 billion, which figure is estimated to exceed USD2,800 billion by 2025.

Source: PRC Ministry of Industrial and Information Technology, CAICT, GSA (Global Mobile Suppliers Association), Statista

3.2.2 Analysis of the Group's business

Year 2022 was the opening year of the Group's strategic expansion phase. The Group's revenue grew 7.36% year-on-year to RMB122.95 billion. Year-on-year growth in revenue was reported in both the domestic market and the international market, in the three principal business segments of carriers' network, government and corporate business and consumer business. The innovative business segment, represented by server and storage, 5G industry application, vehicle electronics, digital energy and smart home, reported rapid growth in revenue to lay a solid foundation for the smooth commencement of our strategic expansion phase. In 2022, the Group's profitability continued to grow as it recorded RMB8.08 billion in net profit attributable to the holders of ordinary shares of the listed company, increasing by 18.60%, year-on-year. Net profit attributable to the holders of ordinary shares of the listed company after extraordinary items amounted to RMB6.17 billion, increasing by 86.54%, year-on-year.

(1) By market

For 2022, the Group's revenue from the domestic market and international market amounted to RMB85.24 billion and RMB37.71 billion, respectively, representing growth of 9.20% and 3.44%, respectively.

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The domestic market

In the domestic market, the Company achieved continuous revenue growth in 2022 as it assisted in the construction of efficient digital infrastructure built around connectivity and computation on the back of its competence in ICT essentials. For carrier clients, the Company was deeply involved the construction of 5G, GB-grade optical networks and computation networks. On the back of its product competitiveness, further improvements were achieved in market share and market pattern. In connection with clients in the government and corporate sector, breakthrough in scale was achieved with leading enterprises in the Internet and finance sectors as market deployment was optimised and brand influence further enhanced.

The international market

In the international market, the Company actively addressed challenges in the external environment in 2022 and seized opportunities in new 5G construction, 4G modernisation and conversion, fibreisation of fixed-line network access and home broadband products, emphasising balance, risk control and soundness in operation as it sought to fortify its presence in major nations and expand in nations with strategic opportunities to drive stable growth in international revenue.

(2) By business segment

In 2022, the Group's carriers' network, government and corporate business and consumer business reported revenue of RMB80.04 billion, RMB14.63 billion and RMB28.28 billion, respectively, representing growth of 5.72%, 11.84% and 9.93%, respectively.

Carriers' network

For the traditional networks of carriers, the Company continued to enhance its competitiveness in product solutions in terms of performance, efficiency, intelligence, low carbon and safety on the back of its R&D competence and technological prowess as well as its understanding of the market, underpinned by a strategic transformation which will see us directing instead of meeting demands and leading instead of following market trends. In connection with wireless products, as a major participant in large-scale 5G commercial applications in China, the Company has supported the extension of 5G coverage in terms of outreach and depth through innovative product solutions, whilst shifting from the management domain to the production domain in terms of 5G industrial expansion. Meanwhile, the Company teamed up with mainstream carriers to build demonstration 5G networks in Spain, Austria, Italy and Thailand. The Company ranked second globally in 2022 in terms of the dispatch of 5G base stations as well as 5G core networks. In connection with wireline products, in the fixed-line network segment, the Company maintained its lead in the market as it actively seized opportunities from the global trend of fibreisation in broadband access. In the optical transmission segment, the Company claimed a leading share in the OTN centralised procurements of domestic carriers as it further optimised its market pattern, while its OXC products were deployed in massive scale in the trunk and local networks of more than 20 provinces including Guangdong, Shandong, Zhejiang and Jiangsu. In the router segment, the Company's core routers featured in the super core nodes of the backbone networks of carriers and were deployed in large scale in more than 20 domestic provinces.

For the cloud network of carriers, the Company leveraged its strengths in ICT equipment, software development and integrated innovation in key segments such as cloud-net integration and computation networks to supply compatible products and solutions, such as servers and storage, chips, operating systems, video intermediary platforms and data centres. The Company has been on the supplier list of carriers for the procurement of server and storage products for many years and ranked first in a number of centralised server procurement tenders of domestic carriers in terms of market shares in 2022.

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Government and corporate business

Amidst the tide of digital transformation, the Company achieved swift growth by enhancing R&D investment based on the requirements of corporate clients to extend from the CT technology of traditional network to IT technologies and facilitate in-depth integration of ICT technologies into industries, with a particular focus on key sectors such as the Internet, finance, energy and transport. In the server and storage segment, the Company successfully negotiated breakthroughs with a number of leading enterprises in the Internet and finance sectors thanks to vigorous effort to forge competitiveness at the base level. In the digital energy segment, the Company supplied solutions such as prefabricated full-module data centre, micro-module data centre, and container data centre, as well as core systems for power distribution, heating and ventilation and management in an effort to guide the construction of innovative data centres in China and assist in the development of low-carbon green data centres. In connection with industrial digitalisation, the Company supplied flexible, convenient and efficient customised solutions to industry clients on the back of a 5G-centred cloud base and the “Digital Star Cloud” digital platform which afforded service resilience, system scalability and cost reduction. In connection with the distributed financial database, the Company’s GoldenDB has been underpinning the stable operation of core banking operations for over four years now as the only financial database with transformation practice in national policy banks, State-owned large-scale banks, joint-stock banks, city commercial banks, large financial institutions and telecom carriers.

Consumer business

In 2022, the Company created a “1+2+N” smart ecology built around the smart phone in a systematic integration of its capabilities in handset, mobile Internet products, home information terminal and general smart ecology to offer a rich choice of smart products to individual consumers and families. In connection with handsets, the ZTE brand continued to drive innovations in the double engines of mobile image and display. In a bid to extend its edge in under-screen camera, the flagship ZTE Axon 40 Ultra featuring the globally advanced third-generation under-screen full-screen and computerised tri-camera was launched. In connection with mobile Internet products, the Company ranked first globally for MBB & FWA in 2022. Leaping growth was achieved for home information terminal, as we continued to lead in market shares for PON CPE and set-top box in 2022. Our Wi-Fi 6 products were deployed in large-scale commercial application in Italy, Spain, Japan and Thailand. Our Android TV set-top boxes continued to be dispatched in large scale in the Asia Pacific, Europe and South America.

Source: Dell’Oro Group, TSR (Techno Systems Research)

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3.2.3 Financial analysis of the Group

3.2.3.1 Income, cost and gross profit

(1) Breakdown of indicators by industry, business segment and region

Unit: RMB in millions

Revenue mix	Operating revenue in 2022	As a percentage of operating revenue	Operating costs in 2022	Gross profit margin in 2022	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	122,954.4	100%	77,227.6	37.19%	7.36%	4.14%	1.95
Total	122,954.4	100%	77,227.6	37.19%	7.36%	4.14%	1.95
II. By business							
Carriers' networks	80,040.6	65.10%	43,046.5	46.22%	5.72%	(1.21%)	3.77
Government and corporate business	14,627.7	11.90%	10,919.8	25.35%	11.84%	14.45%	(1.70)
Consumer business	28,286.1	23.00%	23,261.3	17.76%	9.93%	10.52%	(0.44)
Total	122,954.4	100%	77,227.6	37.19%	7.36%	4.14%	1.95
III. By region							
The PRC	85,246.3	69.33%	51,434.7	39.66%	9.20%	5.20%	2.29
Asia (excluding the PRC)	14,915.2	12.13%	9,785.9	34.39%	3.73%	5.02%	(0.81)
Africa	5,512.7	4.48%	2,773.8	49.68%	11.64%	4.92%	3.22
Europe, Americas and Oceania	17,280.2	14.06%	13,233.2	23.42%	0.83%	(0.53%)	1.05
Total	122,954.4	100%	77,227.6	37.19%	7.36%	4.14%	1.95
IV. By mode of sales							
Direct marketing	90,360.1	73.49%	51,658.9	42.83%	6.60%	1.18%	3.07
Distribution	32,594.3	26.51%	25,568.7	21.55%	9.53%	10.68%	(0.82)
Total	122,954.4	100%	77,227.6	37.19%	7.36%	4.14%	1.95

Analysis of change in revenue

The Group reported RMB122,954.4 million in operating revenue for 2022, increasing by 7.36% as compared with the same period last year. Operating revenue generated from the domestic market amounted to RMB85,246.3 million, increasing by 9.20%, while operating revenue generated from the international market increased by 3.44% to RMB37,708.1 million, as compared with the same period last year.

Analysed by business segment, the carriers' networks business reported year-on-year increase in operating revenue, reflecting mainly year-on-year increase in operating revenue from carriers' networks, government and corporate service and consumer business. Carriers' networks reported 5.72% year-on-year increase in operating revenue, reflecting mainly the year-on-year increase in operating revenue from fixed-line, core network and server products; government and corporate business reported 11.84% year-on-year increase in operating revenue, reflecting mainly the year-on-year increase in operating revenue from server products; consumer business reported 9.93% increase in operating revenue, reflecting mainly the year-on-year increase in operating revenue from home information terminals and handset products.

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Analysis of operating cost and gross profit

Operating cost of the Group for 2022 increased by 4.14%, year-on-year, to RMB77,227.6 million, reflecting mainly the year-on-year growth in the cost of government and corporate business and consumer business.

The Group's overall gross profit margin increased by 1.95 percentage points, year-on-year, to 37.19% for 2022, which was attributable mainly to the growth in gross profit margin for carriers' network. Gross profit margin for carriers' network increased by 3.77 percentage points to 46.22%, compared to 42.45% for the same period last year, attributable mainly to changes in the revenue mix and its ongoing cost optimisation efforts. The gross profit margin for government and corporate business decreased by 1.70 percentage points to 25.35%, compared to 27.05% for the same period last year, attributable mainly to change in the revenue mix. The gross profit margin for consumer business was 17.76%, decreasing by 0.44 percentage points compared to 18.20% for the same period last year, attributable mainly to the decrease in gross profit margin for handset products.

(2) *Changes in the scope of consolidation 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 of 2021*

Three wholly-owned subsidiaries incorporated by the Company, Shenzhen Jingcheng Communication Technology Co., Ltd. (for the acquisition of 93.0642% equity interest in Xi'an Zhongxing Jingcheng telecommunication corporation held by the Company), Shenzhen Wantong Communication Technology Co., Ltd. (for the acquisition of 90% equity interest in Anhui Wantong Posts & Telecommunications Co., Ltd. held by the Company) and Shenzhen Yilian Digital Technology Co., Ltd. (for the acquisition of 90% equity interest in Shanghai ZXeLink Co., Ltd. held by the Company) were disposed of as to 100% equity interests by the Company in 2022. The Company disposed of 49.99% equity interest in ZTE Health Science & Technology Corporation in 2022. The aforesaid subsidiaries had been excluded from the consolidated financial statements.

During 2022, subsidiaries of the Company Foshan ZICT Technology Co., Ltd., ZTE Integration Telcom Ltd., ZTE Corporation Paraguay S.A, Wuhan Zhongxing smart city Research Institute Co., Ltd., ZTE Sweden AB., Nanjing Xingtong Zhiyuan Real Estate Management Co., Ltd., KunOcean Technologies (Shanghai) Co., LTD, Nanjing Xingtong Future Real Estate Management Co., Ltd., LeixinUS, Inc., ZTE (XI'AN) Co., Ltd., ZTEICT TECHNOLOGY UGANDA CO LIMITED, "ZTE AZERBAIJAN" LIMITED LIABILITY COMPANY and Aceland Investments Limited completed deregistration with the industrial and commercial administration authorities. Limited Liability Company "ZTE Tajikistan" commenced bankruptcy procedures and was taken over by the court. The aforesaid subsidiaries had been excluded from the consolidated financial statements.

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A comparative analysis of revenue and cost of sales for 2021 excluding the aforesaid subsidiaries which were no longer included in the consolidated statements is set out as follows:

Unit: RMB in millions

Item	2022	2021	Year-on-year increase/decrease
Revenue	122,954.4	113,670.6	8.17%
Cost of sales	77,227.6	73,426.8	5.18%
Gross profit	37.19%	35.40%	Increased by 1.79 percentage points

(3) *Breakdown of the Group's costs by principal items*

Unit: RMB in millions

Item	2022		2021		Year-on-year increase/decrease
	Amount	As a percentage of operating costs	Amount	As a percentage of operating costs	
Raw materials	61,305.4	79.38%	57,618.9	77.70%	6.40%
Engineering costs	12,374.6	16.02%	13,170.6	17.76%	(6.04%)
Others	3,547.6	4.60%	3,370.3	4.54%	5.26%
Total	77,227.6	100%	74,159.8	100%	4.14%

(4) *Major customers and suppliers*

The Company provides innovative ICT technology and product solutions to telecom carriers and government and corporate clients and terminal products to personal consumers. Suppliers of the Group include suppliers of raw materials and outsourcing manufacturers around the world, which have established stable business relationships with the Group.

Sales by the Group in 2022 to its largest customer amounted to RMB37,132.4 million, accounting for 30.20% of the total sales of the Group, while sales to its top five customers amounted to RMB75,163.7 million, accounting for 61.13% of the total sales of the Group.

Purchases by the Group from its largest supplier in 2022 amounted to RMB6,430.5 million in 2022, accounting for 9.12% of the total purchases of the Group, while the purchases made from its top five suppliers amounted to RMB16,203.7 million, accounting for 22.98% of the total purchases of the Group.

The top five customers and top five suppliers were not connected to the Company in any way. None of the Directors, Supervisors of the Company or their close associates, senior management, key technical personnel, or to the knowledge of the Board of Directors, any of the shareholders holding 5% or more of the shares and other connected parties of the Company had any direct or indirect interest in any of the aforesaid top five customers or top five suppliers.

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(5) *Status during 2022 of material sales and purchase contracts entered into during and prior to 2022*

Applicable N/A

3.2.3.2 Expenses

Unit: RMB in millions

Item	2022	2021	Year-on-year increase/ decrease
R&D expenses	21,602.3	18,804.0	14.88%
Selling and distribution expenses	9,173.3	8,733.2	5.04%
Administrative expenses	5,332.7	5,444.6	(2.06%)
Finance expenses	163.2	962.9	(83.05%)
Income tax	960.0	1,463.0	(34.38%)

The Group's research and development expenses for 2022 amounted to RMB21,602.3 million, increasing by 14.88% year-on-year, which was attributable mainly to ongoing investments in technologies for 5G-related products, chip, server and storage and innovative business. Research and development expenses as a percentage of operating revenue increased by 1.15 percentage point to 17.57%.

The Group's selling and distribution expenses for 2022 amounted to RMB9,173.3 million, increasing year-on-year by 5.04% and accounting for 7.46% of operating revenue, a decrease by 0.17 percentage points year-on-year attributable mainly to the increase in business travelling expenses and advertising expenses.

The Group's administrative expenses for 2022 amounted to RMB5,332.7 million, decreasing year-on-year by 2.06% and accounting for 4.34% of operating revenue, a decrease by 0.41 percentage points year-on-year attributable mainly to improved management efficiency.

The Group's finance expenses for 2022 amounted to RMB163.2 million, decreasing year-on-year by 83.05%, which was attributable mainly to the increase in net interest income and decrease in exchange loss from exchange rate volatility.

The Group's income tax for 2022 amounted to RMB960.0 million, decreasing year-on-year by 34.38%, which was attributable mainly to the increase in deferred income tax assets.

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3.2.3.3 Investment in research and development**(1) R&D investment**

Unit: RMB in millions

Item	2022	2021	Year-on-year increase/ decrease
Amount of R&D expense	21,602.3	18,804.0	14.88%
R&D expense as a percentage of operating revenue	17.57%	16.42%	Increased by 1.15 percentage points
Amount of capitalised R&D expense	1,821.4	1,806.5	0.82%
Capitalised R&D expense as a percentage of R&D expense	8.43%	9.61%	Decreased 1.18 percentage points

(2) R&D personnel

Item	2022	2021	Year-on-year increase/ decrease
Headcount of R&D personnel	36,300	33,422	8.61%
R&D personnel as a percentage of total headcount of the Group	48.52%	46.05%	Increased by 2.47 percentage points
<i>Academic qualification profile of R&D personnel</i>			
Doctorate degree	424	325	30.46%
Master's degree	22,194	20,235	9.68%
Bachelor's degree	12,342	11,618	6.23%
Others	1,340	1,244	7.72%
<i>Age profile of R&D personnel</i>			
Under 30	13,761	12,103	13.70%
30-40	13,919	14,208	(2.03%)
40-50	7,797	6,483	20.27%
Over 50	823	628	31.05%

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3.2.3.4 Other components in the profit mix

Unit: RMB in millions

Item	2022	2021	Year-on-year increase/ decrease
Other gains	1,893.0	1,941.4	(2.49%)
Investment returns	1,087.5	1,564.2	(30.48%)
Gains and losses from changes in fair value	(1,141.8)	1,099.4	(203.86%)
Credit impairment loss (loss indicated as a negative value)	(369.3)	(268.9)	37.34%
Asset impairment loss (loss indicated as a negative value)	(1,190.0)	(1,521.3)	(21.78%)
Gains from asset disposal	11.0	231.7	(95.25%)

The Group's other gains for 2022 amounted to RMB1,893.0 million, decreasing 2.49% year-on-year which was attributable mainly to the increase in deferred income received but not qualified for recognition for the period.

The Group's investment income for 2022 amounted to RMB1,087.5 million, decreasing 30.48% year-on-year which was attributable mainly to investment income arising from transfer of equity interest in subsidiary for the same period last year. The Group's loss from changes in fair value for 2022 amounted to RMB1,141.8 million, compared to gain from changes in fair value of RMB1,099.4 million for the same period last year, which was mainly attributable to the transfer of disposal of listed equity interests held by a subsidiary fund partnership of ZTE Capital from fair-value gain/loss to investment gain for the period and gain from fair-value change in equity held for the same period last year.

The Group's credit impairment loss for 2022 amounted to RMB369.3 million, increasing 37.34% year-on-year which was attributable mainly to the increase in impairment provision for receivables. The Group's asset impairment loss for 2022 amounted to RMB1,190.0 million, decreasing 21.78% year-on-year which was attributable mainly to the reversal of contract asset impairment for the period and the charge of goodwill impairment for the same period last year.

The Group's gain/loss from asset disposal for 2022 amounted to RMB11.0 million, decreasing 95.25% year-on-year which was attributable mainly to the year-on-year decrease in gain from disposal of non-current assets.

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3.2.3.5 Cashflow

Unit: RMB in millions

Item	2022	2021	Year-on-year increase/ decrease
Sub-total of cash inflows			
from operating activities	150,483.4	130,218.5	15.56%
Sub-total of cash outflows			
from operating activities	142,905.7	114,495.0	24.81%
Net cash flows from operating activities	7,577.7	15,723.5	(51.81%)
Sub-total of cash inflows			
from investing activities	14,697.7	12,201.4	20.46%
Sub-total of cash outflows			
from investing activities	15,989.1	22,793.8	(29.85%)
Net cash flows from investing activities	(1,291.4)	(10,592.4)	87.81%
Sub-total of cash inflows			
from financing activities	149,114.1	67,398.2	121.24%
Sub-total of cash outflows			
from financing activities	147,659.3	64,619.7	128.51%
Net cash flows from financing activities	1,454.8	2,778.5	(47.64%)
Net increase in cash and cash equivalents	8,001.1	7,667.5	4.35%

The year-on-year decrease in the Group's net cash flows from operating activities was attributable mainly to the comprehensive impact of the increase in cash paid for purchase of goods and labour services and cash received from sale of goods or rendering of services for 2022. For the reasons underlying the difference between the Group's net cash flows from operating activities and net profit for 2022, please refer to Note V.54. Notes to major items in cash flow statement to the Financial Statements in this report.

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

The year-on-year decrease in the Group's net cash flows from financing activities was attributable mainly to the increase in the cash paid for dividend distribution by the Company and ZTE Capital for 2022.

Cash and cash equivalents of the Group as of 31 December 2022 amounted to RMB47,071.7 million held mainly in RMB, with the remaining held in USD, EUR, JPY and other currencies.

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3.2.3.6 Assets and liabilities**(1) Change in major assets and liabilities**

Unit: RMB in millions

Item	31 December 2022		31 December 2021		Year-on-year increase/decrease as a percentage of total assets (percentage points)
	Amount	As a percentage of total assets	Amount	As a percentage of total assets	
Total assets	180,953.6	100.00%	168,763.4	100.00%	—
Cash	56,346.4	31.14%	50,713.3	30.05%	1.09
Trade receivables	17,751.4	9.81%	17,509.1	10.37%	(0.56)
Contract assets	4,851.1	2.68%	6,585.3	3.90%	(1.22)
Inventories	45,235.0	25.00%	36,316.8	21.52%	3.48
Investment properties	2,010.6	1.11%	2,013.9	1.19%	(0.08)
Long-term equity investment	1,754.0	0.97%	1,684.9	1.00%	(0.03)
Fixed assets	12,913.3	7.14%	11,437.0	6.78%	0.36
Construction in progress	964.0	0.53%	1,372.9	0.81%	(0.28)
Right-of-use assets	1,079.5	0.60%	815.3	0.48%	0.12
Short-term loans	9,962.3	5.51%	8,946.9	5.30%	0.21
Contract liabilities	17,699.9	9.78%	16,101.7	9.54%	0.24
Non-current liabilities					
due within one year	661.7	0.37%	977.3	0.58%	(0.21)
Long-term loans	35,126.0	19.41%	29,908.4	17.72%	1.69
Lease liabilities	788.6	0.44%	532.0	0.32%	0.12

For details of the Group's assets subject to restricted ownership or right of use as at 31 December 2022, please refer to Note V.55. Assets under restrictions on ownership or right of use to Financial Statements in this report.

(2) Change in fixed assets

As at 31 December 2022, the carrying value of the Group's fixed assets was RMB12,913.3 million, representing a 12.91% growth compared to the end of last year which was mainly attributable to the transfer to fixed assets of infrastructure projects upon completion. Details of changes in fixed assets of the Group for the year are set out in Note V.13. Fixed assets to the Financial Statements.

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(3) Assets and liabilities at fair value

Assets of the Group are stated at historical costs, except for derivative financial instruments, equity and debt investments at fair value through profit or loss, investment properties and receivables at fair value through other comprehensive income, which are measured at fair value. There was no material change to the measurement attributes of the principal assets of the Company in 2022.

Unit: RMB in millions

Item	Gains/losses arising from fair value		Cumulative fair value change dealt with in equity	Impairment charge for the year	Amount purchased for the year	Amount disposed of for the year	Other movements	Closing balance
	Opening balance	change for the year						
Financial assets								
Including: 1. Trading financial assets (excluding derivative financial assets)	1,360.7	(884.0)	–	–	1.3	1,123.5	98.7	513.8
2. Derivative financial assets	209.4	(79.7)	–	–	–	–	2.4	132.1
3. Receivable financing	5,196.5	–	–	(0.9)	17,769.6	19,254.9	–	3,712.1
4. Other non-current financial assets	1,175.2	(0.9)	–	–	–	73.9	(76.4)	1,028.3
Sub-total of financial assets	7,941.8	(964.6)	–	(0.9)	17,770.9	20,452.3	24.7	5,386.3
Investment properties	2,013.9	(3.3)	–	–	–	–	–	2,010.6
Total	9,955.7	(967.9)	–	(0.9)	17,770.9	20,452.3	24.7	7,396.9
Financial liabilities	27.7	206.3	–	–	–	–	0.1	234.1

(4) Major overseas assets

Applicable N/A

(5) Charges on assets

As at 31 December 2022, the carrying value of the Group's assets under charge was RMB734.5 million, which was applied mainly to acquire bank loans. For details, please refer to Note V. 21. Short-term loans and 30. Long-term loans to the Financial Statements in this report.

(6) Contingent liabilities

For details of the Group's contingent liabilities as at 31 December 2022 required to be disclosed under the Hong Kong Listing Rules, please refer to Note XII. 2. Contingent Liabilities to the Financial Statements in this report.

3.2.3.7 Liquidity and capital structure**(1) Source and application of capital**

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

(2) 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).

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The Group's debt-equity ratio as at 31 December 2022 was 44.0%, increasing by 0.6 percentage point as compared to 43.4% for 31 December 2021, attributable mainly to the increase in interest-bearing liabilities.

(3) Analysis of debt

The Group's bank loans were mainly settled in RMB, USD and EUR without any notable seasonality. As at 31 December 2022, the Group's bank loans amounted to RMB45,358.5 million in aggregate applied mainly as working capital. All due bank loans had been settled. Bank loans subject to interests at fixed rates amounted to approximately RMB9,334.6 million, while the remaining portion was subject to floating interest rates, the details of which are as follows:

Short-term/long-term bank loans

Unit: RMB in millions

Item	31 December 2022	31 December 2021
Short-term bank loans	10,232.5	9,535.1
Long-term bank loans	35,126.0	29,908.4
Total	45,358.5	39,443.5

Short-term bank loans included short-term borrowings and long-term borrowings due within one year.

Analysed by security

Unit: RMB in millions

Item	31 December 2022	31 December 2021
Secured bank loans	137.6	75.5
Unsecured bank loans	45,220.9	39,368.0
Total	45,358.5	39,443.5

For details of the Group's bank loans and other borrowings as at 31 December 2022, please refer to Note V. 21. Short-term loans and 30. Long-term loans to the Financial Statements in this report.

(4) Contractual obligations

As at 31 December 2022, the Group's total bank loans amounted to RMB45,358.5 million, increasing by RMB5,915.0 million compared to RMB39,443.5 million as at 31 December 2021, which was mainly applied towards working capital.

Unit: RMB in millions

Item	31 December 2022	31 December 2021
Less than one year	10,232.5	9,535.1
Less than two years	7,437.8	13,467.7
Three to five years	27,688.2	16,384.7
Beyond five years	—	56.0
Total	45,358.5	39,443.5

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(5) Capital expenditure

The Group's capital expenditure for 2022 amounted to RMB5,813.6 million, compared to RMB4,982.0 million for 2021, which was mainly applied in the purchase of equipment assets, construction of office buildings for its own use and internal R&D investment, among others.

(6) Capital commitments

Unit: RMB in millions

Item	31 December 2022	31 December 2021
Contracted but not provided of		
Capital expenditure commitments	2,291.0	2,534.0
Investment commitments	191.3	26.5
Total	2,482.3	2,560.5

3.2.3.8 Shares and reserves*(1) Share capital and shares and debentures**Share capital and change*

As at 31 December 2022, the total share capital of the Company was 4,736,112,508 shares (including 3,980,609,974 A shares and 755,502,534 H shares), increasing by 5,316,536 shares versus the previous year-end mainly as a result of the exercise of share options by participants under the share option incentive scheme.

Issue of shares and debentures

Save for the 5,316,536 A shares issued as a result of the exercise of share options by participants and the Company received a total of RMB89,033,000 from the participants to exercise the option, the Company and its subsidiaries did not issue any shares or debentures as defined under the Company Ordinance during the reporting period.

Repurchase, sale and redemption of securities

Neither the Company nor its subsidiaries repurchased, sold or redeemed any listed securities of the Company during the reporting period.

Equity-linked agreement

Save as disclosed in the sections headed "4.8 SHARE SCHEMES" in this report, the Group did not enter into any equity-linked agreement, nor was there any relevant agreement subsisting during the reporting period.

Preferential options

There are no clauses on preferential share options under the Company Law or the Articles of Association that provide for the issue of new shares to existing shareholders by the Company on a pro-rata basis.

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*(2) Reserve, proposed dividend and taxation***Reserve**

As at 31 December 2022, the Group's and the Company's reserves amounted to RMB53,905.1 million and RMB48,453.5 million, respectively. For details of the reserve, please refer to the "Consolidated Statement of Change of Equity" and "Statement of Change of Equity". As at 31 December 2022, the Company's reserve available for distribution to shareholders amounted to RMB19,383.2 million.

Proposed dividend

The Company's proposal for profit distribution for 2022 recommended by the Board: distribution of RMB4 in cash (before tax) for every 10 shares to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. The aforesaid matter is subject to consideration and approval at the general meeting.

Taxation

In accordance with the relevant dividend tax laws and regulations, dividends and bonuses of individual A shareholders and securities investment funds are taxed on a differentiated basis. Personal income tax is withheld and paid on behalf of the shareholders according to their shareholding period; dividend income from shareholders of Non-resident Enterprise Holders of A Shares is subject to a 10% corporate income tax rate for such deduction and payment; dividend income from Hong Kong market investors (including enterprises and individuals) holding A shares of the Company through Shenzhen-Hong Kong Stock Connect is subject to a 10% income tax rate for such deduction and payment.

Dividend income of Non-resident Enterprise Holders of H Shares is subject to a 10% corporate income tax rate for such deduction and payment. Non-resident individual H shareholders who are residents in Hong Kong or Macau are subject to a 10% personal income tax rate for such deduction and payment; residents of countries or regions with which the PRC has a tax treaty on dividend income are subject to a corresponding personal income tax rate for such deduction and payment; residents of countries or regions with which the PRC does not have a tax treaty on dividend income are subject to a 20% personal income tax rate for such deduction and payment. Dividend income of mainland individual investors holding H shares of Company through Hong Kong Stock Connect and securities investment funds is subject to a 20% personal income tax rate for such deduction and payment, while mainland corporate investors holding H shares of the Company through Hong Kong Stock Connect are required to declare and pay the income tax for dividends and bonuses voluntarily.

For shareholders who are eligible for preferential treatment under the tax treaty, they may apply for such treatment on their own or through the Company on their behalf. Shareholders are advised to seek advice from their tax advisors regarding the tax implications for owning and disposing of the Company's shares.

3.2.3.9 Subsequent events

For details of events of the Company subsequent to the reporting period, please refer to Note XIII. POST-BALANCE SHEET DATE EVENTS to the Financial Statements in this report.

Report of the Board of Directors

3.2.4 Investment of the Group

As at 31 December 2022, the Company's long-term equity investments amounted to approximately RMB1,754.0 million, representing increase of 4.10% compared to approximately RMB1,684.9 million as at the previous year-end. Other third-party investments amounted to approximately RMB1,542.0 million, representing decrease of 39.19% compared to approximately RMB2,535.9 million as at the previous year-end. The change was attributable mainly to the disposal of listed equities held by subsidiary fund partnership enterprises of ZTE Capital.

(1) The Group did not acquire any material equity investments in subsidiaries, associates or joint ventures or conduct any material non-equity investments in 2022.

(2) Principal subsidiaries and investee companies

In 2022, net profit of Shenzhen Zhongxing Software Company Limited ("Zhongxing Software") accounted for more than 10% of net profit on the face of the Group's consolidated income statement. Zhongxing Software reported year-on-year growth in net profit of more than 30%, attributable mainly to the increase in revenue.

Unit: RMB in millions

Name of company	Corporate type	Principal operations	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	51.1	14,910.5	2,900.7	20,164.1	1,981.1	1,997.4

For details of other subsidiaries, associates and joint ventures of the Group, please refer to Note VII. INTERESTS IN OTHER ENTITIES and Note XV. 4. Long-term equity investments to the Financial Statements in this report. For details of the Group's acquisition and disposal of subsidiaries in 2022 and its impact please refer to Note VI. CHANGES TO THE SCOPE OF CONSOLIDATION to the Financial Statements in this report.

(3) Structured entities under the control of the Company

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

(4) Investment in securities

Details of shares in other listed companies held by the Group are as follows:

Unit: RMB in ten thousands

Stock code	Stock name	Book value at		Gain/loss arising from fair value change for the year	Cumulative fair value change accounted for in equity	Amount purchased for the year	Amount disposed for the year	Gain/loss for the year	Shareholding		
		Initial investment	the beginning of the year						at the end of the year	Shareholding percentage at the end of the year	
002579	China Eagle Electronic	1,286.4	936.7	193.5	–	134.4	944.1	222.4	343.8	31.9	0.05%
688639	Huaheng Biotech	2,396.9	69,929.9	(67,533.0)	–	–	75,314.7	1,600.8	–	–	–
835237	Lijia Technology	1,000.0	3,381.7	(383.7)	–	–	–	(293.7)	2,988.0	200.0	3.89%
688019	Anji Technology	1,490.6	21,667.5	(14,780.8)	–	–	17,429.8	709.1	5,831.0	32.4	0.43%
688630	Circuit Fabology	2,000.0	31,963.4	(4,069.9)	–	–	13,724.2	8,344.4	27,197.3	326.0	2.70%
301160	Xianglou New Material	1,350.0	2,201.1	1,122.5	–	–	–	1,227.5	3,323.6	100.0	1.34%
301319	Vital New Material	1,080.0	4,285.4	2,029.2	–	–	–	2,029.2	6,314.6	120.0	2.05%
301000	Hajime	3,037.5	11,572.2	(4,964.4)	–	–	4,932.5	(793.0)	5,380.1	202.0	2.10%
ENA.TSV	Enablence Technologies	3,583.3	414.0	317.8	–	–	–	317.8	731.8	79.2	4.26%
Total		17,224.7	146,351.9	(88,078.8)	–	134.4	112,345.3	13,364.5	52,110.2	–	–

Report of the Board of Directors

Note 1: The Company and Jiaxing Xinghe Venture Investment Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 31.79% equity interests in Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) ("Jiaxing Fund"). The Company and Changshu Changxing Capital Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 25.83% equity interests in Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership) ("Zhonghe Chunsheng Fund III"). Jiaxing Fund and Zhonghe Chunsheng Fund III are both partnerships reported in the consolidated financial statements of the Company. Figures corresponding to China Eagle Electronic, Huaheng Biotech and Lijia Technology are provided with Jiaxing Fund as the accounting subject. Figures corresponding to Anji Technology, Circuit Fabology, Xianglou New Material and Vital New Material are provided with Zhonghe Chunsheng Fund III as the accounting subject. Figures corresponding to Hajime are provided with Jiaxing Fund and Zhonghe Chunsheng Fund III as the accounting subject. The aforesaid shareholdings were measured at fair value and accounted for as trading financial assets. Investments in the aforesaid securities were funded by issue funds.

Note 2: ZTE HK, a wholly-owned subsidiary of the Company, acquired a total of 95 million shares in Enablence Technologies on January 2015 and February 2016. Following the asset reorganisation and share consolidation of Enablence Technologies in 2021, ZTE HK held 791,700 shares in Enablence Technologies. Such shareholdings were measured at fair value and accounted for as other non-current financial assets. Investments in the aforesaid securities were funded by internal resources.

(5) Derivative trading*Exchange volatility risk and related hedge*

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates. Based on end-to-end exchange risk management throughout its business processes, The Group seeks to reduce the impact of exchange rate volatility on the Group's operations at source through the use of measures such as business strategic guidance, internal settlement management, financing mix optimisation and value-protected derivative products on exchange rates. The Group also strengthens liquidity risk management in countries practicing exchange control and facilitates RMB pricing and settlement for overseas projects to lower its exchange risks in the long term.

Derivative trading for the purpose of hedge value-protection

As considered and passed at the Forty-fifth Meeting of the Eighth Session of the Board of Directors of the Company and the 2021 Annual General Meeting held on 8 March 2022 and 21 April 2022, respectively, the Group has conducted derivative trading for value-protection hedging purposes with its internal funds since 2022. Details are as follows:

Unit: RMB in ten thousands

Type of derivative trading	Initial investment amount	Fair-value gain/loss for the year	Cumulative fair-value change included in equity	Investment gain	Amount purchased for the year	Amount disposed for the year	Closing balance	Closing balance as a percentage of net assets at the end of year
Foreign exchange derivative	755,358.7	(25,390.8)	—	30,492.3	6,440,878.1	5,485,901.1	1,710,335.7	29.17%
Interest rate derivative	1,589.8	27.8	—	(21.0)	—	1,589.8	—	—
Total	756,948.5	(25,363.0)	—	30,471.3	6,440,878.1	5,487,490.9	1,710,335.7	29.17%

Report of the Board of Directors

Items	Statement
Accounting policy and accounting audit principles	<p>The Group's derivative trading is accounted for by adopting the financial instrument standard, under which derivative financial instruments are measured at fair value prevailing on the date of contract execution at initial recognition and subsequently measured at fair value. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product. Derivative financial instruments with a positive fair value are recognised as an asset and those with a negative fair value as liability. Gain/loss from change in fair value is directly dealt with in current profit or loss.</p> <p>In 2022, there was no material change in the Group's accounting policy and accounting principles for derivatives compared to the previous year.</p>
Actual gain/loss for 2022 and effectiveness of value-protection hedging	<p>The Company has recognised gains/losses from investments in derivatives for 2022. Total gain recognised amounted to RMB50 million, comprising loss from fair-value change of RMB250 million and recognised investment gain of RMB300 million. The hedged items incurred loss of RMB140 million for 2022 owing exchange rate movements. In summary, the Company recorded net loss of RMB90 million for 2022 on aggregation of value movements of the derivative hedge instruments and hedged items.</p> <p>The Group has conducted derivative trading for value-protection hedging purposes. Hedge items included foreign exchange assets and liabilities and hedge instruments included foreign exchange derivatives and interest rate derivatives. The value movements in the hedge instruments during the reporting period effectively hedged the risk of value movements in the hedged item and basically achieved the expected goals in risk management.</p>

Report of the Board of Directors

Items	Statement
Risk analysis and control measures	<p data-bbox="639 331 975 356">1. Analysis of major risks:</p> <p data-bbox="703 394 1449 741">(1) Market risks: Gains or losses arising from the difference between the exchange rate for settlement of derivative trading contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the derivative. Effective gains or losses shall be represented by the cumulative gains or losses on revaluation on the maturity date; movements in the fair value of trade contracts provides a hedge against movements in the value of the corresponding risk assets, although there is still possibility that loss will be incurred.</p> <p data-bbox="703 779 1449 992">(2) Liquidity risks: The derivative trading was based on the budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on current assets was insignificant;</p> <p data-bbox="703 1030 1449 1182">(3) Credit risks: The counterparties of the derivative trading of the Group are banks with sound credit ratings and long-standing business relationships with the Group therefore the transactions were basically free from performance risks;</p> <p data-bbox="703 1220 1449 1411">(4) Other risks: Failure of personnel in charge to operate derivative trading in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks.</p> <p data-bbox="639 1449 1233 1473">2. Control measures adopted for risk prevention</p> <p data-bbox="703 1512 1449 1792">The Group addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Group has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.</p>

Report of the Board of Directors

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

(6) Subscription for fund units by the Company

The Company subscribed for shares in Shenzhen Hongtu Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership) (finalised title as approved by the industrial and commercial registration authorities: Qingdao Hongtu Zhanlu II Private Equity Investment Fund Partnership Enterprise (Limited Partnership) ("Hongtu Zhanlu Fund Tranche II")) as limited partner with a capital contribution of not more than RMB400 million. The fund size of Hongtu Zhanlu Fund Tranche II shall be not more than RMB1,000 million (subject to the finalised amount of proceeds raised) and the initial issue amount shall be RMB300 million. Hongtu Zhanlu Fund Tranche II has completed industrial and commercial registration and filing and registration as a private equity investment fund. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Subscription for Hongtu Zhanlu Fund Tranche II" and "Overseas Regulatory Announcement Announcement on the completion of filing and registration of Hongtu Zhanlu Fund Tranche II that participates in subscription" published by the Company on 25 April 2022 and 13 December 2022, respectively.

ZTE Zhongchuang (Xi'an) Investment Management Company Limited, a wholly-owned subsidiary of the Company, has subscribed for Shaanxi Zhongtou Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership) ("Zhongtou Zhanlu Fund Tranche II") as general partner with a capital contribution of RMB2.50 million. ZTE has subscribed for Zhongtou Zhanlu Fund Tranche II as limited partner with a capital contribution of RMB78 million. The fund size of Zhongtou Zhanlu Fund Tranche II was RMB200 million. Zhongtou Zhanlu Fund Tranche II has completed industrial and commercial registration and filing and registration as a private equity investment fund. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Subscription for Zhongtou Zhanlu Fund Tranche II" and "Overseas Regulatory Announcement Announcement on the completion of filing and registration of Zhongtou Zhanlu Fund Tranche II that participates in subscription" published by the Company on 15 December 2022 and 16 January 2023, respectively.

(7) Use of proceeds

Applicable N/A

(8) Plans for material investments or acquisition of capital assets

In 2022, the Group did not conduct material investment or acquisition of capital assets. The performance and prospects of the Group's external investments have been disclosed in this chapter. The Group will arrange future plans for investment or acquisition of capital assets according to its strategic planning and the actual conditions of its operations.

Report of the Board of Directors

(9) Material asset and equity disposal

The Group did not conduct any material equity disposal of subsidiaries, associates or joint ventures or material asset disposal in 2022.

3.2.5 Directors, Employees and Stakeholders**(1) Directors***List of Directors*

The Ninth Session of the Board of Directors of the Company comprised nine Directors, including three Executive Directors: Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying. Mr. Li Zixue is Chairman; three Non-executive Directors: Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong; and three Independent Non-executive Directors: Ms. Cai Manli, Mr. Gordon Ng and Mr. Zhuang Jiansheng.

Service agreements

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any Director or Supervisor.

Competing interests

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Interests in transactions, arrangements or contracts

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2022.

Approved indemnity clause

The Company has made appropriate arrangements for insurance in connection with the duties of the Directors, Supervisors and senior management of the Company with a view to procuring timely and proper compensation for any economic loss incurred by third parties as a result of the performance of duties in office by the Directors, Supervisors and senior management. The aforesaid approved indemnity clause based on Directors' interests was in effect during the financial year ended 31 December 2022 pursuant to Section 470 of the Company Ordinance (Chapter 622 of the Laws of Hong Kong) and remained in effect at the time of the approval of the Report of the Board of Directors prepared by the Directors pursuant to Section 391(1)(a) of the Company Ordinance (Chapter 622 of the Laws of Hong Kong).

(2) Employees

As at 31 December 2022, the Group had 74,811 employees (including 70,399 employees of the parent company). Total staff remuneration of the Group for 2022 amounted to approximately RMB27.7 billion. For details of employees' training programme, remuneration policy and share scheme, please refer to the section headed "4.7 STAFF OF THE GROUP", "4.8 SHARE SCHEMES" in this report.

(3) Management agreements

During the reporting period, the Company did not enter into or maintain any contract for the management or administration of all or all material part of the Company's business with any parties other than the Directors or any full-time employee of the Company.

Report of the Board of Directors

(4) Stakeholders

The Company respects the rights of stakeholders such as customers, suppliers, employees, banks, other creditors and the community, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.

3.2.6 Legal compliance and environmental policy and donations**(1) Compliance with laws and regulations**

The Group is one of the world's leading listed manufacturers of integrated communications equipment and providers of global integrated communications and information solutions. The laws and regulations which have a material impact on the business and operations of the Group include, but are not limited to, those pertaining to corporations, contracts, product safety, privacy and data protection, intellectual property laws and other pertinent laws and regulations of relevant countries and regions and trade rules of relevant international organisations, countries and regions. The Group is committed to ensuring compliance of its businesses and operations with applicable domestic and international laws and regulations.

As a dedicated functional organisation responsible for the operation of compliance management regimes and policymaking relating to compliance matters in areas including export control, anti-commercial bribery and data protection, the Group's Compliance Management Committee monitors the Group's overall conformity with compliance laws and regulations which have a material impact on the Group's business and operations and reports its work to the Board.

For details of the Group's compliance with the Corporate Governance Code and the regulatory document for corporate governance of listed companies, please refer to the section headed "Corporate Governance Report" in this report.

During the reporting period, so far as known to the Company, the Group complied in material respects with laws and regulations having a significant impact on the Group's business and operations.

(2) Environmental policy and donations

In profound implementation of the green development philosophy, ZTE participated in full force the global transformation towards a decarbonised economy by building a "shaded pathway for digital economy" in four aspects, namely, green corporate operation, green supply chain, green digital infrastructure and green industry enabling: we have continued to enhance energy conservation and reduce emission, assist in the building of end-to-end low-carbon green networks by carriers, actively enable energy conservation and emission reduction in vertical industries and assist various sectors to expedite access to the green development pathway, in order to facilitate future sustainable development characterised by green and low-carbon features. For details of the Group's environmental performance, please refer to the "2022 Sustainability Report" published on the same date as this report.

The Group made charitable donations amounting to approximately RMB23.45 million in 2022.

(3) Prospects and market risks for new business development

For details of the prospects and market risks of the Group's new businesses, please refer to the section headed "3.3 BUSINESS OUTLOOK OF 2023 AND RISK EXPOSURES" in this report.

(4) Impact of the COVID-19 pandemic

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

Report of the Board of Directors

3.2.7 Summary of financial data for the past five years of the Group

Unit: RMB in millions

Item	2022	2021	2020	2019	2018
Results					
Operating revenue	122,954.4	114,521.6	101,450.7	90,736.6	85,513.2
Operating profit	8,794.8	8,676.1	5,470.7	7,552.2	(612.0)
Total profit	8,751.7	8,498.9	5,064.2	7,161.7	(7,350.2)
Net profit attributable to holders of ordinary shares of the listed company	8,080.3	6,812.9	4,259.8	5,147.9	(6,983.7)
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	6,166.9	3,305.9	1,035.6	484.7	(3,395.5)
Net cash flows from operating activities	7,577.7	15,723.5	10,232.7	7,446.6	(9,215.4)
Size					
Total assets	180,953.6	168,763.4	150,634.9	141,202.1	129,350.7
Total liabilities	121,410.4	115,475.8	104,512.4	103,247.8	96,390.1
Owners' equity attributable to holders of ordinary shares of the listed company	58,641.2	51,482.1	43,296.8	28,826.9	22,897.6
Per share (RMB/share)					
Basic earnings per share	1.71	1.47	0.92	1.22	(1.67)
Diluted earnings per share	1.71	1.47	0.92	1.22	(1.67)
Basic earnings per share after extraordinary items	1.30	0.71	0.22	0.12	(0.81)
Net cash flows from operating activities per share	1.60	3.32	2.22	1.76	(2.20)
Net assets per share attributable to holders of ordinary shares of the listed company	12.38	10.88	9.39	6.82	5.46
Financial ratios (%)					
Weighted average return on net assets	14.66%	14.49%	10.18%	19.96%	(26.10%)
Weighted average return on net assets after extraordinary items	11.19%	7.03%	2.47%	1.88%	(12.69%)
Gearing ratio	67.09%	68.42%	69.38%	73.12%	74.52%

Report of the Board of Directors

3.3 BUSINESS OUTLOOK OF 2023 AND RISK EXPOSURES

3.3.1 Business outlook of 2023

Looking to 2023, uncertainties will continue to prevail in the global political and economic landscape. In the meantime, the digital economy has become a critical force for driving economic recovery and reshaping competitive strengths among global nations. The further development of digital economy in China is bringing about sophisticated changes in production methods as well as lifestyles, playing an increasingly significant role in driving economic growth. According to the estimates of CAICT, China's digital economy will worth more than RMB60,000 billion by 2025. Positioned as a path-builder for the digital economy, ZTE will construct efficient infrastructure for the digital economy on the back of its competence in ICT essentials to promote the development of digital economy in China. In view of risks in the external environment, the Company will persist in an approach of precision and pragmatism in 2023 to seize opportunities in digital economy in the domestic market and negotiate effective breakthroughs in large T and large networks in the international market. In the meantime, we will strengthen our corporate resilience and control operating risks to achieve prudent growth.

In connection with carriers' networks, we will focus on value for customer in traditional carriers' networks as we continue to seek innovative breakthrough and strive for greater market shares and better market pattern to facilitate the change in our strategic position. In carriers' cloud network, we will continue to enhance the competitiveness of our core products with a focus on "connectivity + algorithm" to facilitate organic integration of multiple scenarios of products and technologies such as storage ability, algorithm, computational ability, application and security, in a full effort to assist domestic carriers in the construction of safe, reliable, green and efficient algorithm network infrastructure.

In connection with the government and corporate business, the Company will make a major effort to tap the market segments of Internet, finance, electricity, transport, government affairs and large corporations, increasing its investment in IT and digital energy to forge competitive advantages. Meanwhile, we will further explore industrial digitalisation based on the "5G + digital star cloud" architecture. In connection with server and storage, we will strive to join the ranks of mainstream domestic suppliers. In digital energy, we will consolidate our products and capacity in digital energy, power storage, data centre and energy management, seizing the opportunities presented by East-to-West Data Computing and Dual Carbon to expedite the proprietary research of core technologies and achieve breakthrough. In connection with industrial digitalisation, our task forces for the mining and the metallurgical smelting sectors will steer steady progress and implement replications of industrial solutions. Meanwhile, a corporate digital platform will be built to supply one-stop digital solutions on the back of our core capability in digital star cloud.

In connection with the consumer business, we will persist in the "1+2+N" product strategy in a prudent approach to enhance differentiated innovation that would bring experience in full-scenario smart living to consumers. In connection with handset, we will continue to drive product innovation on the back of mobile image and display functions. For mobile Internet products, we will seek to maintain our existing edge in market share, while pressing forward towards broader dimensions in line with the call to be "green, smart and safe." In connection with home information terminals, in addition to actively expanding our existing line of prestigious products, we will also seek rapid expansion in smart home applications such as smart ubiquitous video, smart home security, smart optical sensor and smart appliances based on our capability in smart connection (such as FTTR, MESH and Wi-Fi 7).

In the meantime, the Company will further enhance its operating efficiency to become not only an effective but rather a highly efficient enterprise. We will continue to enhance our effort to attract and incentivise core personnel, while making improvements to our compliance regime and strengthen internal control to guard against corporate risks. We will commit our resources with precision and forge a highly resilient organisation while driving implementation of the dual carbon objective to achieve corporate sustainability.

Report of the Board of Directors

3.3.2 Risk exposure**(1) Country risks**

Given the complex nature of international economic and political conditions and the presence of the Group's business and branch organisations in over 100 countries with differences in macro-economy, policy and regulation and political and social backgrounds, the Group will continue to be exposed to risks relating to legal compliance, taxation, exchange rates and political developments (such as war and domestic unrest), which might affect the operations of the Group. For the possible impact of risks relating to compliance on the operation of the Group, please refer to Note XII. COMMITMENTS AND CONTINGENT EVENTS 2. Contingent events 2.5 to the Financial Statements in this report. The Group ensures compliance primarily through the establishment of a complete compliance management regime to identify and comply with trade and taxation policy requirements in these countries (including export control and GDPR (General Data Protection Regulation)); we also work with independent professional organisations to analyse and address country risks. We take out necessary export insurance for businesses in regions with higher evaluated risks, and we also resort to financing to avoid possible losses.

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risks

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates, which might affect the operations of the Group. The Group adopts ongoing measures to strengthen foreign exchange risk management covering the entire business process and seeks to minimise 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.

Report of the Board of Directors

(4) Interest rate risk

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

(5) Customer credit risk

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

Corporate Governance Report

The Company improves its corporate governance systems and regimes and enhances the standard of regulated operations on an ongoing basis in accordance with requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies, Shenzhen Listing Rules, Hong Kong Listing Rules and regulations of CSRC pertaining to the governance of listed companies.

As at 31 December 2022, the status of corporate governance of the Company was in compliance with provisions of the laws, administrative regulations and regulations relating to the governance of listed companies published by the CSRC. 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.

4.1 CORPORATE CULTURE AND STRATEGY

The Company has developed core values, cultural ethos and an action-oriented multi-dimensional cultural regime to foster a corporate atmosphere of harmony, trust, pragmatism and progress and enhance staff sense of belonging and responsibility, while facilitating the Company's long-term sustainable development. For details of the Company's corporate culture, please refer to the column headed "About Us" on the Company's official website.

In 2018, the Company formulated a three-stage strategy comprising recovery, development and expansion. Year 2022 was the commencing year of the stage of strategic expansion phase. For details of the Company's strategic implementation in 2022, please refer to the sections headed "Chairman's Statement" and "3.2.2 Analysis of the Group's business" in this report.

4.2 SHAREHOLDERS AND GENERAL MEETINGS

The general meeting of shareholders is the highest authority of the Company and an important channel for shareholders' participation in corporate governance. The Company has established a corporate governance structure to ensure that all shareholders, minority shareholders in particular, can fully exercise their rights and enjoy equal status.

4.2.1 Shareholders' rights

As a measure to protect shareholders' interests and rights, materials matters are considered and voted upon by shareholders on a standalone basis at general meetings. All resolutions tabled at the general meetings are voted upon by way of poll. The voting results will be published by way of announcement after the general meeting.

Shareholders holding 10% or above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting in accordance with Article 74 of the Articles of Association of the Company.

Shareholders holding 3% or above of the shares of the Company alone or in aggregate shall be entitled to propose ex-tempore motions ten days prior to the convening of the general meeting by submitting the same in writing to the convener of the general meeting in accordance with Article 78 of the Articles of Association of the Company.

Upon furnishing to the Company documentation evidencing shareholdings in the Company and verification of his/her identity by the Company, a shareholder shall be entitled to inspect relevant information of the Company in accordance with the Articles of Association. Shareholders may send enquiries in writing to the Secretary to the Board of Directors/Company Secretary at the address set out in the section headed "Corporate Information" in this report for such enquiries and questions to be forwarded to the Board of Directors.

The Articles of Association of the Company is available for inspection on www.cninfo.com.cn and the respective websites of Hong Kong Stock Exchange and the Company. There were no amendments to the Articles of Association by the Company in 2022.

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4.2.2 Independence of Company from controlling shareholder and competition in same business

The Company is independent of its controlling shareholder Zhongxingxin Telecom Company Limited (“Zhongxingxin”) in respect of assets, staffing, finance, organisation and business, each being audited independently and assuming its own responsibilities and risks.

With respect to assets, the Company’s assets are fully independent with unequivocal ownership. The Company has independent production systems, supplementary production systems and purchase and sales systems. Intangible assets such as industrial property rights, trademarks, and non-patentable technologies are owned by the Company.

With respect to staffing, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company. They do not receive any remuneration from, nor have they taken up other major positions (other than as directors and supervisors) with, the controlling shareholder and other companies under its control.

With respect to finance, the Company has an independent financial department with an independent accounting and audit system and a financial management system, and maintains an independent bank account.

With respect to organisation, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence. There is no reporting relationship between the controlling shareholder (and its functional departments) and the Company (and its functional departments).

With respect to business, the Company’s business is fully independent from the controlling shareholder. The controlling shareholder and other units controlled by it were not engaged in competition in the same business with the Company.

4.2.3 Convening of general meetings

The Company held 2 general meetings in 2022, the details of which are as follows:

Session	Date	Percentage of shareholders participating	Date of announcement	Resolution
First Extraordinary General Meeting of 2022	30 March 2022	32.21%	“Announcement on Resolutions of the First Extraordinary General Meeting of 2022” dated 30 March 2022	Consideration and approval of resolutions including Resolution on the Re-election of the Board of Directors and the Election of Non-independent Directors, Independent Non-executive Directors for the Ninth Session of the Board of Directors
2021 Annual General Meeting	21 April 2022	31.49%	“Announcement on Resolutions of the 2021 Annual General Meeting” dated 21 April 2022	Consideration and approval of resolutions including the 2021 Annual Report and 2021 Proposal for Profit Distribution

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4.2.4 Profit distribution**(1) Profit distribution policy**

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

The Company did not make any adjustments or changes to its profit distribution policy in 2022.

(2) Implementation of profit distribution plan

According to the “Profit Distribution Proposal for 2021” of the Company considered and approved at 2021 Annual General Meeting held on 21 April 2022: a dividend of RMB3 in cash (before tax) for every 10 shares shall be distributed to all shareholders based on the total share capital of 4,734,044,778 shares as at the record date. The actual amount of profit distribution was RMB1,420,213,433.4 (before tax). The Company completed its dividend payment in May 2022.

(3) Proposal for profit distribution of 2022

The profit distribution proposal for 2022 recommended by the Board of the Company: distribution of RMB4 in cash (before tax) for every 10 shares to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. In the event of changes in the Company’s total share capital after the announcement of the Company’s profit distribution proposal but before its implementation, the total share capital shall be readjusted on the basis of the total share capital as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2022 according to the existing proportion for distribution. The Company’s total share capital as at 10 March 2023 was 4,736,112,508 shares. A total of 52,644,995 exercisable options for the second exercise period of the initial grant and the first exercise period of the reserved grant under the 2020 A Share Option Incentive Scheme of the Company were unexercised and outstanding. Assuming the exercise of the aforesaid options in full prior to the A share record date, there will be 4,788,757,503 shares in the Company entitled to dividend payment and the total amount of cash dividend will not exceed RMB1,920 million. The aforesaid matter is subject to consideration and approval at the general meeting. As at 31 December 2022, the profit available for distribution to shareholders amounted to approximately RMB19.38 billion on a cumulative basis.

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The exact timing of payment of the Company's 2022 dividend is dependent on when the general meeting will be held and the progress of working relating to dividend distribution, provided that the distribution will be completed no later than before 31 August 2023. There were no shareholders of the Company who have waived or agreed to waive any dividend arrangement.

The amount of profit distribution for 2022 was arrived at on the basis of the Company's total share capital of 4,736,112,508 shares as at 10 March 2023. The aggregate profit distribution of the Company in the form of cash in 2020–2022 amounted to RMB4,360 million, accounting for 68.34% of the annual average net profit attributable to holders of ordinary shares of the listed company in the past three years of RMB6,380 million, in compliance with the Articles of Association which provides for a ratio of not less than 30%.

4.2.5 Investor relations

(1) Shareholder communication policy

The Company is committed to driving investor relations initiatives and enhancing communications with its shareholders to increase investors' understanding of the Company. In addition to the regular reports and interim announcements published by the Company, the Company also publishes information and updates on the official website of the Company's solutions and products and market development to provide investors with information of the Company's latest developments in a timely manner. The Company enables investors to fully express their views by setting up investors' hotline, e-mail, the investors relations interactive platform of Shenzhen Stock Exchange and investors' questions collected prior to results presentation. At the same time, to facilitate the Company's communication with investors, the Company reports its operating conditions and financial data as well as responds to investors' and analysts' questions through results presentation. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and key senior management members attend the meeting on a best effort basis and are engaged in dialogue with the shareholders. The Board has examined and reviewed the shareholder communication policy for 2022. Taking into account the variety of existing channels for communication and participation, the Company is of the view that its shareholder communication policy has been duly and effectively implemented.

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(2) Reception of investors

Details of reception of investors by the Company in 2022:

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
Results presentation	April 2022	Shenzhen	Live Internet video broadcast + on-site meeting	Investors and securities analysts including Guotai Fund, Southern Fund, Credit Suisse, Guangdong Hengjian, China Merchants Securities, Tianfeng Securities, Zhesang Securities and Morgan Stanley.	Annual results and operating conditions of the Company	Published announcements and regular reports
	August 2022	Shenzhen	Telephone conference	174 investors, the details of which are set out in the Investor Relations Activity Record published by the Company on 1 September 2022.	Interim results and operating conditions of the Company	Published announcements and regular reports
External meeting	January to December 2022	Shenzhen	Telephone conference	Customers of Morgan Stanley, Guosheng Securities, USB, Huatai Securities, Tianfeng Securities, Credit Suisse Western Securities, CICC, Citi, CSC Financial, CMB International, Guotai Junan Securities, Haitong Securities, Guosen Securities, Essence Securities, CITIC Securities, Guoyuan Securities, Nomura, Jefferies, Great Wall Securities, Shenwan Hengyuan Securities and BOCI Securities, Zhesang Securities, China Merchant Securities.	Day-to-day operations of the Company	Published announcements and regular reports
		Shanghai	on-site meeting			
		Chengdu	on-site meeting			

4.3 BOARD OF DIRECTORS**4.3.1 Duties of the Board**

The Board of the Company is responsible for convening the general meeting, report its work to the general meeting and implement the resolutions of the general meeting in a timely manner; overseeing the Company's overall operation and strategic development; determining the operational plans and investment plans of the Company, supervising and providing guidance to the Company's management; and monitoring the Company's operational and financial performance.

(1) Corporate governance functions

The Board of Directors is charged with the duty of corporate governance. It should procure the management to establish a compliant organisational structure and system and comply with the Code of Corporate Governance and other laws and regulations pertaining to corporate governance. The Board of Directors is responsible for the following corporate governance functions:

- Formulating and reviewing the corporate governance policies and practices of the Company;
- Reviewing and monitoring training and continuous professional development of the Directors and senior management;
- Reviewing and monitoring the Company's policies and practices in relation to compliance with legal and regulatory provisions;

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- Formulating, reviewing and monitoring the code of conduct and compliance guide for employees and Directors (if any); and
- Reviewing the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures in its corporate governance report.

In 2022, the Board fulfilled its corporate governance functions in a diligent effort to improve the Company's corporate governance practices.

(2) Duties and scope of authority of the Board of Directors and the management

The respective duties and scopes of authority of the Board and the Management are clearly defined. The management conducts day-to-day operations and management and reports to the Board, and provides adequate information to the Board and its specialist committees in a timely manner to ensure that the Board makes informed decision. All Directors are entitled to require further information from the Company's management.

4.3.2 Board composition and diversity policy

(1) Board composition

The Ninth Session of the Board of Directors of the Company comprised nine Directors. The name list of the Directors are set out as follows:

Executive Directors: Mr. Li Zixue (Chairman), Mr. Xu Ziyang and Mr. Gu Junying

Non-executive Director: Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong

Independent Non-executive Directors: Ms. Cai Manli, Mr. Gordon Ng and Mr. Zhuang Jiansheng

The composition of the Board of Directors was in compliance with the provisions of Rule 3.10(1) and (2) and Rule 3.10 (A) of the Hong Kong Listing Rules. There were no financial, business, family or other material/relevant connections among members of the Board of Directors of the Company.

(2) Term of office, appointment and removal of Directors

A Director (including Non-executive Director) of the Company is appointed for a term of three years and is eligible for re-election upon conclusion of each term. An Independent Non-executive Director can hold office for a maximum of six years. Other than Ms. Cai Manli and Mr. Gordon Ng, Independent Non-executive Director of the Ninth Session of the Board of the Company, who serve a term commencing on 30 March 2022 and ending on 28 June 2024, all Directors of the Ninth Session of the Board of the Company serve a term commencing on 30 March 2022 and ending on 29 March 2025.

The appointment and removal of Directors is subject to the approval of the general meeting of the Company. Each Director has entered into a Director's Service Contract with the Company.

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(3) Board diversity policy

The Company acknowledges the importance of Board diversity for corporate governance and has formulated the Board Diversity Policy as part of the Working Rules of the Nomination Committee of the Board of Directors, which primarily provide that: the Company shall consider Board diversity from multiple aspects when determining Board composition, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All members of the Board are appointed solely on the basis of merit. The benefits of Board diversity are weighted in light of objective conditions in the consideration of candidates.

The selection of candidates for Board members by the Board and the Nomination Committee is based on a range of diverse perspectives and measurable objectives. The current Board members of the Company include two female Directors. Independent Non-executive Directors account for not less than one third of the Board membership. The Executive Directors have extensive practical, management and operational experience in the electronics/telecommunications sectors. The Non-executive Directors have extensive business and management experience. The Independent Non-executive Directors are professionally qualified and bring extensive experience in the monetary, financial, legal and compliance aspects. For details of the personal information of the Directors, please refer to the section headed “4.6.1 Brief biography of Directors, Supervisors and senior management” in this chapter. The current diversified mix of the Board of the Company has enabled a broad vision and high level of professional experience, as well as maintaining the element of independence required for the Board to ensure that the Board of the Company is capable of effectively making independent judgement and scientific decisions in the deliberation and consideration of material matters. The Nomination Committee has reviewed the composition, size and mix of the Board in 2022 and, taking into consideration the business requirements of the Company, is of the view that the incumbent Board fulfills the requirement for diversity.

4.3.3 Chairman and the President

The roles of Chairman and President of the Company are two distinctly separate positions with clearly defined respective functions under Articles 162 and 179 of the Articles of Association, respectively.

Mr. Li Zixue as Chairman is primarily responsible for providing leadership over the Board and ensure effective operation of the Board in the best interest of the Company. In respect of the Company’s operating performance and material matters, the Chairman ensures communication and deliberation between the Board and the management both on a regular basis and from time to time.

Mr. Xu Ziyang as President is primarily responsible for presiding over the production operation and management of the Company. The President presents business reports to the Board on a quarterly basis and organises the implementation of Board resolutions and maintains sound liaison with the Directors in respect of material matters.

4.3.4 Board Meetings

The Board of the Company convenes at least 4 meetings each year. Notices of regular Board meetings and interim Board meetings of the Company were given 14 days and 3 days (or such other period as might be agreed), respectively, prior to the convening of the meetings. The Secretary to the Board of Directors/Company Secretary should provide details of the meetings not later than 3 days (or other agreed periods) prior to the commencement of the meeting.

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The Company convened 23 Board meetings in 2022, including 7 meetings by way of video or telephone conference and 16 by way voting via communication, the details of which are as follows:

Session	Date of meeting	Resolutions
The First Interim Meeting of the Eighth Session of the Board of 2022	17 January 2022	Consideration and approval of resolution on acquisition of shares in subsidiary
The Second Interim Meeting of the Eighth Session of the Board of 2022	30 January 2022	Consideration and approval of resolution on replacement of general manager of an overseas branch
The Third Interim Meeting of the Eighth Session of the Board of 2022	11 February 2022	Discussion of plan to dispose of equity in an investee
The Forty-fourth Meeting of the Eighth Session of the Board of Directors	24 February 2022	Consideration and approval of resolutions including the Resolution on the Re-election of the Board of Directors and the Nomination of Non-independent Directors and Independent Non-executive Directors for the Ninth Session of the Board of Directors
The Fourth Interim Meeting of the Eighth Session of the Board of 2022	4 March 2022	Discussion of announcement to be published on the same date
The Forty-fifth Meeting of the Eighth Session of the Board of Directors of 2022	8 March 2022	Consideration and approval of resolutions including the 2021 Annual Report
The First Meeting of the Ninth Session of the Board of Directors	30 March 2022	Consideration and approval of resolutions including the election of Chairman, Executive Directors and Non-executive Directors of the Ninth Session of the Board of Directors
The Second Meeting of the Ninth Session of the Board of Directors	25 April 2022	Consideration and approval of resolutions including the 2022 First Quarterly Report
The First Interim Meeting of the Ninth Session of the Board of 2022	29 April 2022	Consideration and approval of resolutions including transfer of investee equity interests by a subsidiary
The Second Interim Meeting of the Ninth Session of the Board of 2022	31 May 2022	Consideration and approval of resolutions including transfer of equity interests in a subsidiary
The Third interim Meeting of the Ninth Session of the Board of 2022	2 June 2022	Consideration and approval of resolutions including transfer of equity interests in an investee company
The Third Meeting of the Ninth Session of the Board of Directors	24 June 2022	Consideration and approval of the Resolution on the Provision of Guarantee Limits for subsidiary Xi'an Cris Semiconductor Technology Company Limited
The Fourth Interim Meeting of the Ninth Session of the Board of 2022	22 July 2022	Consideration and approval of resolutions including measures for performance management
The Fourth Meeting of the Ninth Session of the Board of Directors	26 August 2022	Consideration and approval of resolutions including the 2022 Interim Report
The Fifth Interim Meeting of the Ninth Session of the Board of 2022	9 September 2022	Consideration and approval of resolutions including transfer of equity interests in an investee company

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Session	Date of meeting	Resolutions
The Fifth Meeting of the Ninth Session of the Board	22 September 2022	Consideration and approval of resolutions including Resolution on matters pertaining to reserved options under the 2020 Share Option Incentive Scheme
The Sixth Interim Meeting of the Ninth Session of the Board of 2022	23 September 2022	Consideration and approval of resolutions including acquisition and transfer of equity interest in subsidiary
The Sixth Meeting of the Ninth Session of the Board	10 October 2022	Consideration and approval of the Resolution on the Provision of Performance Guarantee for PT. ZTE INDONESIA, a Subsidiary
The Seventh Meeting of the Ninth Session of the Board	26 October 2022	Consideration and approval of the 2022 Third Quarterly Report
The Eighth Meeting of the Ninth Session of the Board	4 November 2022	Consideration and approval of resolutions matters pertaining to the initial grant under the 2020 Share Option Incentive Scheme
The Seventh Interim Meeting of the Ninth Session of the Board of 2022	22 November 2022	Consideration and approval of resolutions including replacement of authorised representative of overseas branch
The Ninth Meeting of the Ninth Session of the Board	15 December 2022	Consideration and approval of resolutions including continuing connected transactions in relation to the execution of “2023 Purchase Framework Agreement” with Zhongxingxin, a connected party
The Eighth Interim Meeting of the Ninth Session of the Board of 2022	27 December 2022	Consideration and approval of resolutions including introduction of investors in subsidiary and waiver of first right of refusal by the Company

Directors of the Company have not expressed any dissent in respect of matters considered in 2022, having made decisions on the resolutions in a well-informed manner. Where any matters (including connected transactions) to be considered by the Board of Directors of the Company are deemed by the Board of Directors to involve a material conflict of interest, abstention measures are adopted and the Directors who are by any means connected with such transactions would abstain from voting.

Minutes of each Board of Directors meeting should be filed after being signed by the attending Directors, the Secretary to the Board and minute-takers, and shall be made available for Directors' inspection from time to time upon their request.

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4.3.5 Directors' attendance at meetings

In 2022, the attendance of Directors of the Company at the Board meetings, meetings of the specialist committees under the Board and the general meetings is set out in the following:

	Number of attendance in person ^{Note/} number of attendance expected					
	Board meetings	Remuneration and Evaluation Committee	Nomination Committee	Audit Committee	Export Compliance Committee	General Meeting
Number of meetings held	23	6	2	7	5	2
Executive Director						
Li Zixue	23/23	–	2/2	–	5/5	2/2
Xu Ziyang	23/23	–	–	–	–	2/2
Gu Junying	22/23	6/6	–	–	–	2/2
Non-executive Director						
Li Buqing	22/23	–	–	6/7	–	2/2
Zhu Weimin	23/23	6/6	–	7/7	–	2/2
Fang Rong	22/23	–	2/2	–	5/5	2/2
Independent Non-executive Director						
Cai Manli	23/23	6/6	2/2	7/7	5/5	2/2
Gordon Ng	23/23	6/6	2/2	7/7	4/5	2/2
Zhuang Jiansheng	23/23	6/6	2/2	6/7	5/5	2/2

Note: In 2022, certain Directors attended several meetings by proxy instead of in person due to work reasons, and attendance by proxy was not counted for the percentage of attendance. Mr. Gu Junying and Ms. Fang Rong each attended the Board Meeting by proxy for once. Mr. Li Buqing attended the Board meeting and Audit Committee meeting by proxy each for once. Mr. Gordon Ng attended Export Compliance Committee meeting by proxy for once. Mr. Zhuang Jiansheng attended Audit Committee meeting by proxy for once. No Director of the Company was absent from the Board Meetings or failed to attend two consecutive Board Meetings in person.

4.3.6 Performance of duties by the Independent Non-executive Directors

The Company has received annual written confirmations of independence from all the Independent Non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules. In accordance with the guidelines on independence set out in the Hong Kong Listing Rules, the Company is of the opinion that all the Independent Non-executive Directors are independent persons. Independent Non-executive Directors accounted for the majority and served as convenor at the specialist committees of the Board. In 2022, the Independent Non-executive Directors of the Company informed themselves of the Company's important business information in a timely manner, dutifully attended the meetings of the Board and its specialist committees where they actively expressed their views and furnished suggestions, diligently reviewing matters such as the Company's profit distribution proposal and connected transactions, and furnished independent opinions of approval thereon. The Independent Non-executive Directors have fulfilled their role as much in an adequate manner.

4.3.7 Measures Taken to Ensure the Performance of Duties by Directors

- (1) In 2022, the Directors of the Company received ongoing professional training by studying relevant materials and attending training sessions or seminars. The Company provides Directors with timely and comprehensive information on listing regulation. All Directors (Executive Directors: Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying; Non-executive Director: Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong; Independent Non-executive Directors: Ms. Cai Manli, Mr. Gordon Ng and Mr. Zhuang Jiansheng) have received training on the roles and duties of Directors by studying materials, including corporate governance, ongoing Directors' responsibilities, compliance in share trading. Mr. Li Buqing and Mr. Zhuang Jiansheng have also participated in seminars and training on listing regulation and performance of Directors' duties organised by external organisations.

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- (2) The Company has established a mechanism to allow the Directors of the Company to seek independent professional opinion in respect of the performance of their duties and responsibilities at the cost of the Company to ensure that the Board of Directors can obtain independent views and opinions. The Board has examined and reviewed the relevant mechanism and is of the view that it has been duly implemented and effective.
- (3) In connection with potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management, the Company has purchased liability insurance for Directors, Supervisors and the senior management.

4.4 SPECIALISED COMMITTEES UNDER THE BOARD OF DIRECTORS

There are four specialised committees under the Board of Directors of the Company, namely the Remuneration and Evaluation Committee, Nomination Committee, Audit Committee and Export Compliance Committee. Specific working rules have been formulated for each of the specialised committees, stipulating, among other things, the duties and powers of these committees. The working rules of each of the specialised committees have been posted on www.cninfo.com.cn, the website of the Hong Kong Stock Exchange and the website of the Company. The order of meeting for the specialised committees is conducted in accordance with their respective working rules, and is implemented by reference to the statutory procedures for meetings of the Board of Directors. Members of the specialist committees discharged their duties with due diligence and performed the duties of Directors in a proactive, professional and efficient manner, reviewing carefully all documents and information relating to the meetings, conducting analysis and making judgements on various issues in a fair and objective manner, making recommendations based on the actual conditions of the Company, and providing scientific and professional opinions for reference by the Board of Directors in its decision-making. Records of Directors' attendance at the specialist committee meetings in 2022 are set out above.

4.4.1 The Remuneration and Evaluation Committee

(1) Roles and functions of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is primarily responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management of the Company based on the policies and structures for the management of remuneration and performance of Directors and senior management laid down by the Board of Directors, conducting appraisal of the performance of Executive Directors and reviewing share option incentive scheme, employee stock ownership scheme and other issues matters related to share scheme.

The Remuneration and Evaluation Committee of the Ninth Session of the Board of Directors of the Company comprised five members, including Independent Non-executive Directors Ms. Cai Manli (convenor), Mr. Gordon Ng and Mr. Zhuang Jiansheng, Executive Director Mr. Gu Junying and Non-executive Director Mr. Zhu Weimin.

(2) Meetings and work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held 6 meetings on 24 February 2022, 8 March 2022, 30 March 2022, 4 July 2022, 22 September 2022 and 4 November 2022, respectively, to consider and approve, among others, Directors' allowance, the performance of and annual bonus amount for senior management personnel and 2020 Share Option Incentive Scheme. Members of the Remuneration and Evaluation Committee have not expressed any dissent to the aforesaid businesses under consideration at the meetings.

Details of consideration of the share option incentive scheme by the Remuneration and Evaluation Committee in 2022 are as follows:

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On 22 September 2022, matters pertaining to reserved options under the 2020 Share Option Incentive Scheme were considered, fulfilment of the exercise conditions of the first exercise period for reserved options was confirmed and adjustments to the number of participants and share options for the first exercise period under the reserved grant and the cancellation of certain share options and the tabling of the aforesaid matter at the Board for consideration were approved.

On 4 November 2022, matters pertaining to initial grant under the 2020 Share Option Incentive Scheme were considered, fulfilment of the exercise conditions of the second exercise period for initial grant was confirmed and adjustments to the number of participants and share options for the second exercise period under the initial grant and the cancellation of certain share options and the tabling of the aforesaid matter at the Board for consideration was approved.

(3) Remuneration policy for Directors and senior management

The Company determines the remuneration of Directors and senior management based on their position and duties, experience, workload and performance as well as the actual operating conditions of the Company.

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the remuneration for Directors and senior management according to the aforesaid remuneration policy in the manner set out in Code E.1.2(c)(ii) of Appendix 14 to the Hong Kong Listing Rules.

4.4.2 The Nomination Committee

(1) Roles and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee identifies suitable candidates for appointment as Directors and senior management and conducts qualification vetting in accordance with relevant laws and regulations and the Articles of Association, taking into account the actual conditions of the Company. The Nomination Committee then formulates a resolution to be submitted to the Board of Directors and general meetings (if applicable) for approval, and implements accordingly.

The Nomination Committee of the Ninth Session of the Board of Directors of the Company comprises five members, including Independent Non-executive Directors Mr. Gordon Ng (convenor), Ms. Cai Manli and Mr. Zhuang Jiansheng, Executive Director Mr. Li Zixue and Non-executive Director Ms. Fang Rong.

(2) Meeting and work of the Nomination Committee during the year

The Nomination Committee held 2 meetings on 24 February 2022 and 30 March 2022, respectively, to discuss proposed candidates for Non-independent Directors and Independent Non-executive Directors, structure, size and composition of the Board and proposed senior management personnel for the new session. Members of the Nomination Committee have not expressed any dissent to the aforesaid businesses under consideration at the meeting.

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(3) Criteria and procedures for the nomination, selection and recommendation of Directors and senior management

The Nomination Committee conducts extensive searches for candidates for Directors and senior management after considering the Company's requirements. With the consent of the nominees, a meeting of the Nomination Committee will be convened to vet the qualifications of the shortlisted nominees and recommend candidates for Directors and new senior management appointments to the Board of the Directors based on the terms for appointment of Directors and senior management under the Company Law, Rules Governing Independent Directors of Listed Companies and the Hong Kong Listing Rules and furnish relevant materials.

4.4.3 The Audit Committee**(1) Roles and functions of the Audit Committee**

The Audit Committee is primarily responsible for examining the financial information of the Company and its disclosure (including the inspection of the completeness of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports, as well as the review of significant opinions on financial reporting contained in the statements and reports); making recommendations to the Board of Directors on the appointment and removal, audit fees and terms of engagement of external auditors; supervising the effectiveness of the Company's internal audit system and its implementation; reviewing the financial reporting, risk management and internal control systems of the Company, and examining material connected transactions.

The Audit Committee of the Ninth Session of the Board of Directors of the Company comprised five members, including Independent Non-executive Directors Ms. Cai Manli (convenor), Mr. Gordon Ng and Mr. Zhuang Jiansheng and Non-executive Director Mr. Li Buqing and Mr. Zhu Weimin. The composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Listing Rules.

(2) Meetings and work of the Audit Committee during the year

The Audit Committee held 7 meetings on 25 January 2022, 1 March 2022, 8 March 2022, 25 April 2022, 26 August 2022, 26 October 2022, 15 December 2022, respectively, to discuss and consider audit arrangements, regular financial reports, appointment of auditors, investment in derivatives, connected transactions and the internal control audit report of the Company, and maintained close liaison with the auditors. The Audit Committee plays an important role in ensuring scientific decision making at the Board of Directors by furnishing advice and recommendations in respect of matters such as the Company's financial information and its disclosure, internal audit system and its implementation, internal control system and risk management system. Members of the Audit Committee have not expressed any dissent in respect of matters considered at the aforesaid meeting.

The Audit Committee conducted the following important tasks in respect of the Company's 2022 annual audit and internal control development and improvement:

Issue of three review opinions on the 2022 annual financial report of the Company: The Audit Committee issued review opinions on the Company's unaudited, preliminarily audited and audited financial statements of 2022. Following thorough assessment, the Audit Committee was of the view that the financial report was a fair reflection of the Company's financial conditions as at 31 December 2022 and its operating results and cash flow for 2022 and was in compliance with PRC ASBEs and their practice guide and approved the submission of the audited financial report 2022 for consideration by the Board of Directors of the Company.

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Supervision of the audit work of the accountants' firms: to ensure the conduct of auditing work in an orderly manner, the auditors of the Company had finalised the 2022 audit timetable for the year with the auditors ahead of schedule. During the course of audit, members of the Audit Committee held three meetings with principal officers in charge of the assignment to inform themselves of the progress of audit and concerns. The Audit Committee also procured the auditors in charge of the assignment to expedite their work. The Audit Committee examined the annual audit report furnished by the auditors. The Audit Committee was of the view that the auditors of the Company were capable of performing their tasks in strict accordance with audit regulations with an emphasis on the Company's operating conditions and internal control and maintained their independence and their prudent approach.

Improving the internal control system: The Audit Committee has established an Internal Control and Audit Department as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of the Company's internal controls on behalf of the Audit Committee. In 2022, the Audit Committee received the report of the Internal Control and Audit Department on internal control and audit and furnished relevant opinion. For details of the Audit Committee's work in reviewing the Company's internal control and risk management, please refer to the section headed "4.11 INTERNAL CONTROL AND RISK MANAGEMENT" in this report.

4.4.4 Export Compliance Committee

(1) Roles and functions of the Export Compliance Committee

The Export Compliance Committee is principally responsible for regulation over matters pertaining to compliance with export control and economic sanction laws.

The Export Compliance Committee of the Ninth Session of the Board of Directors of the Company comprises five members, including Independent Non-executive Directors Mr. Zhuang Jiansheng (convenor), Ms. Cai Manli and Mr. Gordon Ng, Executive Director Mr. Li Zixue and Non-executive Director Ms. Fang Rong.

(2) Meeting and work of the Export Compliance Committee during the year

The Export Compliance Committee held 5 meetings on 11 February 2022, 25 March 2022, 29 June 2022, 20 September 2022 and 15 December 2022 to discuss and review the Company's matters relating to export compliance. Members of the Export Compliance Committee have not expressed any dissent to the aforesaid businesses under consideration at the meeting.

4.5 SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meeting. It monitors the financial affairs of the Company and inspect and supervise legal compliance in the performance of duties by the Company's Directors and senior management to safeguard the legal rights and interests of the Company and shareholders. The Ninth Session of the Company's Supervisory Committee comprises five Supervisors, including two Shareholder Representative Supervisors Ms. Jiang Mihua and Mr. Hao Bo and three Staff Representative Supervisors Mr. Xie Daxiong, Ms. Xia Xiaoyue and Ms. Li Miaona. Mr. Xie Daxiong is the chairman of the Supervisory Committee.

In 2022, the Supervisory Committee of the Company held 9 meetings to conduct diligent supervision and inspection of matters such as the Company's regulated operations, financial conditions, share option incentive scheme, connection transactions and the performance of duties by Directors and senior management and has not indicated any disapproval in the course of its supervision over such matters.

4.6 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company completed the re-election of the Board and the Supervisory Committee and the appointment of senior management for a new term on 30 March 2022.

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Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying were elected as Executive Directors of the Ninth Session of the Board of Directors of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Ninth Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Gordon Ng and Mr. Zhuang Jiansheng were elected as Independent Non-executive Directors of the Ninth Session of the Board of Directors of the Company. Mr. Li Zixue was elected as Chairman.

Ms. Jiang Mihua and Mr. Hao Bo were elected as Shareholders' Representative Supervisors of the Ninth Session of the Supervisory Committee of the Company. In addition, Mr. Xie Daxiong, Ms. Xia Xiaoyue and Ms. Li Miaona were elected as Staff Representative Supervisors of the Ninth Session of the Supervisory Committee of the Company. Mr. Xie Daxiong was elected as Chairman of the Supervisory Committee.

Mr. Xu Ziyang be re-appointed as President of the Company, each of Mr. Wang Xiyu, Mr. Gu Junying, Ms. Li Ying and Mr. Xie Junshi be re-appointed as Executive Vice President of the Company, Ms. Li Ying be concurrently re-appointed as Chief Financial Officer of the Company and Mr. Ding Jianzhong be re-appointed as the Secretary to the Board of Directors of the Company.

In accordance with the "Rules Governing Independent Directors of Listed Companies", an independent non-executive director shall not be consecutively appointed for more than six years, therefore Independent Non-executive Directors of the Ninth Session of the Board of Directors of the Company Ms. Cai Manli and Mr. Gordon Ng have been appointed for a term commencing on 30 March 2022 and ending on 28 June 2024. Other than that, the office term of the Ninth Session of the Board of Directors, Supervisory Committee and new senior management commences on 30 March 2022 and ends on 29 March 2025.

4.6.1 Brief biography of Directors, Supervisors and senior management

(1) *Brief biographies of Directors*

Mr. Li Zixue, born in 1964, is Chairman and Executive Director of the Company. Mr. Li graduated from Xi'an Jiaotong University in 1987 with a bachelor's degree in engineering majoring in electronic components and materials, and currently holds the professional title of researcher. Mr. Li joined Xi'an Microelectronics Technology Research Institute in 1987, working on research and development and management in relation to microelectronic technology. From 1987 to 2010, Mr. Li served successively as technician, deputy head, deputy chief and chief of hybrid integrated circuit department. From 2010 to 2014, Mr. Li acted successively as deputy head, deputy secretary of party committee, general secretary of discipline inspection committee and chairman of the supervisory committee of Xi'an Microelectronics Technology Research Institute. From 2014 to 2015, he was general secretary of party committee and general secretary of discipline inspection committee, chairman of the supervisory committee and deputy head of Xi'an Microelectronics Technology Research Institute. Mr. Li acted as general secretary of party committee and deputy head of Xi'an Microelectronics Technology Research Institute from 2015 to January 2019. Mr. Li has been Chairman and Executive Director of the Company since June 2018. Mr. Li has extensive experience in the operation and management of the electronics industry.

Mr. Xu Ziyang, born in 1972, is Executive Director and President of the Company. He graduated from University of Electronic Science and Technology of China with a bachelor's degree in engineering majoring in physical electronics technology in 1994. Mr. Xu joined the Company in 1998, and served successively as head of development department, product general manager of core network, regional MKT general manager, general manager of subsidiary and assistant to the President. Mr. Xu has been President of the Company since July 2018 and Executive Director of the Company since August 2018. Mr. Xu has many years of operational and management experience in the telecommunication industry.

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Mr. Li Buqing, born in 1972, is Non-executive Director of the Company. Mr. Li graduated from Jiangxi University of Finance & Economics with a bachelor's degree in economics majoring in financial accounting in 1994, and currently holds the professional title of senior economist. From 1994 to 2001, Mr. Li worked in Shenzhen Aerospace Guangyu Industrial Company Limited. From 2001 to 2009, Mr. Li served successively as deputy general manager and general manager of Shenzhen Zhenfeng Industry Limited. From 2009 to 2012, he was deputy general manager of Shenzhen Aerospace Real Estate Development Co., Ltd. From 2011 to 2017, Mr. Li worked successively as general manager and chairman of Shenzhen Aerospace Real Estate Consultation Co., Ltd. Mr. Li has successively acted as deputy chief economist, director and chief accountant of CASIC Shenzhen (Group) Company Limited since 2015, and as deputy chief economist and chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited since 2016. Mr. Li has been Non-executive Director of the Company since June 2018. Mr. Li has extensive experience in management and operations.

Mr. Gu Junying, born in 1967, is Executive Director and Executive Vice President of the Company. Mr. Gu graduated from the Department of Aerospace Engineering of Shenyang Institute of Aeronautical Industry in 1989 with a bachelor's degree in engineering majoring in aircraft manufacturing and from Beijing Institute of Technology in 2002 with a master's degree in industrial engineering majoring in management engineering, and currently holds the professional title of researcher. From 1989 to 2003, Mr. Gu served successively as process technician, workshop director, division chief, deputy plant manager, and deputy plant manager and deputy party secretary at Factory 211. From 2003 to 2009, he served successively as head of human resources department/head of party committee work department, head of managerial department and assistant to general manager of China Aerospace Times Electronics Limited. From 2009 to January 2019, Mr. Gu served as assistant to the dean of China Aerospace Electronics Technology Research Institute, and concurrently acted as director and general manager of China Times Prospect Technology Co., Ltd. From 2017 to January 2019, he acted as vice president of China Aerospace Times Electronics Co., Ltd. (a company listed on the Shanghai Stock Exchange). Mr. Gu has been Executive Director of the Company since June 2018 and Executive Vice President of the Company since July 2018. Mr. Gu has extensive experience in management and operations.

Mr. Zhu Weimin, born in 1966, is Non-executive Director of the Company. Mr. Zhu graduated from the Department of Electronic Engineering of Shanghai Jiaotong University in 1988 with a bachelor's degree in engineering majoring in electronic engineering and obtained an MBA degree from China Europe International Business School in Shanghai in 2003. Mr. Zhu served successively as a technician and deputy head of Suzhou Dongfeng Communication Equipment Factory Research Institute from 1988 to 1991; research engineer and deputy director of the development department of Shenzhen Zhongxing Semiconductor Co., Ltd. from 1991 to 1993; research engineer of Zhongxingxin, the controlling shareholder of the Company, and head of Nanjing Research Institute of Zhongxingxin from 1993 to 1997. Mr. Zhu served as Director and Deputy General Manager of the Company from 1997 to 2000; deputy general manager of Zhongxingxin from 2002 to 2003; general manager of Shenzhen Changfei Investment Co., Ltd. from 2004 to 2013; and director of Shenzhen Jufei Optoelectronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange in 2012) from 2009 to 2015. Mr. Zhu has served as director of Shenzhen Techaser Technologies Co., Ltd. since 2008 (concurrently acting as advisor from 2013 to 2018); and chairman/director of Shenzhen Zhongxing International Investment Co., Ltd. and its certain subsidiaries since 2018. At present, he is concurrently serving as director of Zhongxingxin, Shenzhen Zhongxing WXT Equipment Company Limited, Shenzhen Xinyu Tengyue Electronics Co., Ltd. and Hainan Xinghang Technology Company Limited. Mr. Zhu has been Non-executive Director of the Company since June 2018. Mr. Zhu has extensive experience in management and operations.

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Ms. Fang Rong, born in 1964, is Non-executive Director of the Company. She graduated from Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1987 with a bachelor's degree in engineering, majoring in telecommunications engineering. From 1987 to 1995, Ms. Fang worked at Wuhan Posts and Telecommunications and Science Research Institute under the Ministry of Posts and Telecommunications. She worked with Zhongxingxin from 1995 to 1997 and with the Company from 1997 to 2009, acting as Senior Vice President of the Company from 1998 to 2009. She has been director and executive vice president of Zhongxing Development Company Limited since 2009. Since September 2021, she has been chairman of Xiazhi Technology Company Limited. Ms. Fang has been Non-executive Director of the Company since June 2018. Ms. Fang has many years of operational and management experience in the telecommunication industry.

Ms. Cai Manli, born in 1973, is Independent Non-executive Director of the Company. Ms. Cai graduated from Renmin University of China in 1998 with a bachelor's degree in economics majoring in accounting and obtained a master's degree in management from Central University of Finance and Economics in 2006. She is a certified public accountant and certified tax agent of the PRC. From 2002 to 2015, Ms. Cai was involved in regulatory governance of listed companies at CSRC, holding successively the positions of deputy chief of the M&A Governance Office II and chief of the M&A Governance Office I while also serving as the leader of the accounting and evaluation group at the Department for the Governance of Listed Companies. She was formerly general manager of HEYI Rising Assets Management Co., Ltd. and independent director of Beijing Yadii Media Co., Ltd., SF Diamond Co., Ltd. and Hubei Radio & Television Information Network Co., Ltd., respectively. Since 2015, she has been senior advisor at King & Wood Mallesons. She is currently independent director of Shanghai Flyco Electrical Appliance Co., Ltd. (a company listed on the Shanghai Stock Exchange), New Hope Liuhe Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Kuangshi Technology Co., Ltd., Guangzhou Jifei Technology Corporation, Lianchu Securities Co., Ltd. and Allmed Medical Products Co., Ltd. (a company listed on the Shenzhen Stock Exchange), supervisor of China Communications Services Corporation Limited (a company listed on Hong Kong Stock Exchange), and external supervisor of Sichuan Xinwang Bank Co., Ltd. She has been Independent Non-executive Director of the Company since June 2018. Ms. Cai has extensive experience in consultation and equity investments relating to capital markets.

Mr. Gordon Ng, born in 1964, is Independent Non-executive Director of the Company. He graduated with a bachelor's degree in microbiology and biochemistry in 1987 and further obtained a master's degree in intellectual property rights in 1988 from the University of London. He is a solicitor admitted in England and Wales and in Hong Kong. Mr. Ng has been the head of the Corporate Finance/Capital Markets Department at the Hong Kong Office of Dentons, an international law firm, since July 2013. He is currently an independent non-executive director of China Energine International (Holdings) Limited and Mainland Headwear Holdings Limited (both companies listed on the Hong Kong Stock Exchange), respectively. Mr. Ng has been Independent Non-executive Director of the Company since June 2018. Mr. Ng brings with him extensive experience in corporate listing and merger and acquisition.

Mr. Zhuang Jiansheng, born in 1965, is Independent Non-executive Director of the Company. Mr. Zhuang graduated from East China University of Political Science and Law with a bachelor's degree in law in 1988, and obtained a master's degree in international and economic law from the University of International Business and Economics in 1991. Mr. Zhuang has been admitted as a PRC Attorney. Mr. Zhuang has worked in Shanghai WGQ Free Trade Zone Development Corporation, PricewaterhouseCoopers Consulting Firm, and Baker & McKenzie LLP in the United States. Mr. Zhuang has been the advisory partner of Shanghai Huiye Law Firm with respect to the business of trade compliance and customs since January 2016. He has been independent Non-executive Director of the Company since June 2020. Mr. Zhuang has extensive experience in the laws and practices in areas like international trade compliance, corporate regulatory matters, customs and tax laws.

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(2) Brief biographies of Supervisors

Mr. Xie Daxiong, born in 1963, is Chairman of the Supervisory Committee of the Company. Mr. Xie is a professor-grade senior engineer. He graduated from the Nanjing University of Science and Technology in 1986 with a master's degree in engineering, specialising in applied mechanics. Mr. Xie joined Zhongxingxin, controlling shareholder of the Company, in 1994 and had been the head of the Nanjing Research Institute. From 1998 to 2004, Mr. Xie had been CDMA Product Manager and General Manager of CDMA Division of the Company. From 2004 to 2012, he was Executive Vice President of the Company in charge of the Company's technology planning and strategy. He has been Chairman of the Supervisory Committee of the Company since March 2013. Mr. Xie is a national-level candidate of the talent programme entitled to special government grants awarded by the State Council. He was also a recipient of the first Shenzhen Mayor Prize. Mr. Xie is currently the director of the National Key Laboratory for Mobile Networks and Mobile Multi-media Technologies and a standing member of the Communications Science and Technology Committee under the Ministry of Industry and Information Technology. Mr. Xie has many years of operational and management experience in the telecommunications industry.

Ms. Xia Xiaoyue, born in 1975, is a Supervisor of the Company. Ms. Xia graduated from the Department of Finance of Nankai University in July 1998 with a bachelor's degree in economics. She joined the Company in the same year and has since served as Head of the Supplies Department and Head of the Planning Department. She is currently Deputy Head of the Human Resources Department of the Company. Ms. Xia has been Supervisor of the Company since March 2016. She has extensive experience in management and operations.

Ms. Li Miaona, born in 1974, is a Supervisor of the Company. Ms. Li graduated from Renmin University of China in 1997 with a bachelor's degree in History, majoring in Archival Science. Ms. Li joined the Company in 2000 and worked with the Quality Section of the Network Business Department and the ZTE News Editorial Section under the Human Resources Department from 2000 to 2005. Ms. Li was Head of the Shenzhen Platform of the Administrative Department of the Company from 2005 to 2010, principal of the Cloud Service Centre under the financial organisation from 2010 to 2017, Head of the Administrative Platform under the Administrative Department, Head of Operations and Management of Administrative Properties and Head of the Administrative Properties Staff Service Management Department of the Company from 2017 to July 2021. Since July 2021, she has been chairman of the Trade Union and Head of the Office of Trade Unions Directly Affiliated with the Headquarters of the Company. She is concurrently the chairman of Shenzhen Zhongxing Yihe Investment and Development Company Limited. She has been Supervisor of the Company since March 2022. Ms. Li has extensive management and operational experience.

Ms. Jiang Mihua, born in 1976, is a Supervisor of the Company. Ms. Jiang graduated from Shenzhen University in July 1999 with a bachelor's degree in Economics majoring in international accounting and holds the title of senior accountant. Ms. Jiang worked as accountant and deputy manager of the finance department at Shenzhen Qiaoshe Industrial Corporation from July 1999 to October 2007, finance manager at Shenzhen Port CTS Company Limited from October 2007 to August 2011, assistant financial controller at Shenzhen Pengai Hospital Investment Management Company Limited from August 2011 to May 2013, chief financial officer at Shenzhen Caimeng Technology Company Limited from May 2013 to June 2020, general manager at Shenzhen Chengyian Machinery and Equipment Company Limited from September 2020 to March 2021, chief accountant of Shenzhen Aerospace Guangyu Industrial Company Limited from April 2021 to January 2022. Since January 2022, she has been deputy head (operations) of the finance department of Shenzhen Aerospace Industrial Technology Research Institute Limited. Since February 2022, she has been supervisor of Zhongxingxin. Since March 2022, she has been director of Shenzhen Aerospace Guangyu Industrial Company Limited. She has been Supervisor of the Company since March 2022. Ms. Jiang has extensive financial and management experience.

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Mr. Hao Bo, born in 1989, is a Supervisor of the Company. Mr. Hao graduated from Wuhan University with a bachelor's degree in Economics in 2010 and a doctorate degree in Management in 2015. From July 2015 to March 2019, Mr. Hao worked in various capacities including investment director at the Investment Management Department of the Company, during which he also served as director/supervisor of certain subsidiaries of the Company; since March 2019 he has acted as head of the strategic planning department, amongst others, of Zhongxingxin the controlling shareholder of the Company. Since December 2020 he has been appointed a tutor to post-graduate students at Zhongnan University of Economics and Law and Wuhan University. Mr. Hao is currently chairman of the supervisory committee of Pylon Technologies Co., Ltd. (a subsidiary of Zhongxingxin listed on the Shanghai Stock Exchange) and director/supervisor of certain other subsidiaries of Zhongxingxin. He has been Supervisor of the Company since March 2022. Mr. Hao brings with him a wealth of experience in financial operations and investment management.

(3) Brief biographies of senior management

Mr. Xu Ziyang, President of the Company. Please refer to the section headed "Brief biography of Directors" for his biography.

Mr. Wang Xiyu, born in 1974, is Executive Vice President of the Company. Mr. Wang graduated from Northern Jiaotong University (now renamed as "Beijing Jiaotong University") in 1995 with a bachelor's degree in engineering, majoring in power traction and transmission control, and further obtained a master's degree in engineering from Northern Jiaotong University in 1998 majoring in railway traction electrification and automation. Mr. Wang joined the Company in 1998 and served successively as engineer, project manager, head of development division and deputy general manager at the CDMA Department of the Company from 1998 to 2007. From 2008 to 2016, he was Head of the Wireless Structure Division and Deputy Head/Head of the Wireless Research Institute at the Wireless Department of the Company. He was Deputy CTO and Assistant to the President of the Company from 2016 to July 2018. Mr. Wang has been Executive Vice President of the Company since July 2018. He has many years of operational and management experience in telecommunications industry.

Mr. Gu Junying, Executive Vice President of the Company. Please refer to the section headed "Brief biography of Directors" for his biography.

Ms. Li Ying, born in 1978, is Executive Vice President and Chief Financial Officer of the Company. Ms. Li graduated from Xi'an Jiaotong University in 1999 with a bachelor's degree in management and a bachelor's degree in engineering, and from Xi'an Jiaotong University in 2002 with a master's degree in management majoring in management science and engineering. Ms. Li joined the Company in 2002 and acted successively as Principal of the Cost and Strategy Office, Chief of the Logistics Finance Department, Chief of the Production Research Finance Department, Deputy Chief of the Finance Management Department and Deputy Head of the Finance Management Department from 2002 to January 2018. From January to July 2018, she was Head of Finance Management Department. She has been Executive Vice President and Chief Financial Officer of the Company since July 2018. Ms. Li has many years of experience in finance and the operation and management of the telecommunication industry.

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Mr. Xie Junshi, born in 1975, is Executive Vice President of the Company. Mr. Xie graduated from Tsinghua University in 1998 with a bachelor's degree in engineering majoring in engineering mechanics and further obtained a master's degree in engineering majoring in fluid mechanics in 2001, also from Tsinghua University. Mr. Xie joined the Company in 2001 and had successively served as the Company's Technology Manager (International Markets), Regional Business Technology Manager (Europe and South Asia) and Regional Deputy General Manager (Europe and North America), and Regional Deputy General Manager (Europe) from 2001 to 2013. From 2014 to July 2018, he was the Company's General Manager (Europe and America) for MKT and Solutions. He was Senior Vice President and Chief Operating Officer from July 2018 to September 2019. Since September 2019, he has been Executive Vice President and Chief Operating Officer of the Company. Mr. Xie has many years of experience in the operation and management of the telecommunication industry.

Mr. Ding Jianzhong, born in 1976, is Secretary to the Board of Directors and Company Secretary of the Company. Mr. Ding holds a master's degree in management and is a certified public accountant of the PRC and an Associate Member of China Certified Tax Agents Association. Mr. Ding joined the Company in 2003. From 2003 to March 2019, he had served successively as Financial Principal of the Business Department, Principal of the Cost and Strategy Office, Financial Principal of the Engineering Service Operation Department, Deputy Head of the Engineering Business Department, Deputy Head of the Business Centre, Head of Financial Division II under the Financial Management Department, Head of Supply Chain Procurement Division III and Head of Work Outsourcing Division under the Engineering Service Operation Department. He has been Head of the Securities Department under the Finance Department of the Company since April 2019, Secretary to the Board of Directors of the Company since July 2019 and Company Secretary since November 2019. Mr. Ding has many years of experience in finance and the operation and management of the telecommunication industry.

4.6.2 Offices held by Directors, Supervisors and senior management

(1) Position held at shareholder unit

Name	Name of shareholder	Position with the shareholder	Commencement of term of office	Conclusion of term of office	Whether receiving remuneration from Zhongxingxin
Zhu Weimin	Zhongxingxin	Director	August 2021	August 2024	Yes
Jiang Mihua	Zhongxingxin	Supervisor	February 2022	August 2024	Yes
Hao Bo	Zhongxingxin	Head of Strategic Planning Department	March 2019	/	Yes

Note: Mr. Zhu Weimin's term of appointment commences and ends concurrently with the tenth session of the board of directors of Zhongxingxin. Ms. Jiang Mihua was appointed as supervisor of the tenth session of the supervisory committee of Zhongxingxin in February 2022. The term of her appointment will end concurrently with the term of the tenth session of the supervisory committee of Zhongxingxin.

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(2) Positions held at other entities

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Li Buqing	Shenzhen Aerospace Industrial Technology Research Institute Limited	Chief accountant	Yes
	CASIC Shenzhen (Group) Company Limited	Director, chief accountant	No
	Shenzhen Aerospace Property Management Co., Ltd.	Director	No
	Shenzhen Aerospace Liye Industry Development Co., Ltd.	Chairman	No
	Shenzhen Zhongxing Information Company Limited	Director	No
Gu Junying	Shenzhen Hangxin Property Management Co., Ltd.	Director	No
	JINZHUAN Information Technology Co., Ltd.	Chairman, general manager	No
	Nanjing Zhongxing Jinyi Digital Technology Company Limited	Chairman	No
Zhu Weimin	Shenzhen ZTE International Investment Limited	Chairman	Yes
	Held positions in 5 subsidiaries of Shenzhen ZTE International Investment Limited including Beijing United ZTE International Investment Limited	Chairman/director	No
	Shenzhen Zhongxing WXT Company Limited	Director	No
	Shenzhen Techaser Technologies Co., Ltd.	Director	No
	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	Director	No
	Hainan Xinghang Technology Co., Ltd.	Director	No
Fang Rong	Zhongxing Development Company Limited	Director, executive vice president	Yes
	Held positions in 9 subsidiaries or investees of Zhongxing Development Company Limited including Xiazhi Technology Company Limited	Chairman/director	No
	Shenzhen ZTE International Investment Limited	Director	No
Cai Manli	Beijing United ZTE International Investment Limited	Director	No
	Beijing King & Wood Mallesons	Senior consultant	Yes
	Shanghai Flyco Electrical Appliance Co., Ltd.	Independent director	Yes
	New Hope Liuhe Co., Ltd.	Independent director	Yes
	Kuangshi Technology Co., Ltd.	Independent director	Yes
	Guangzhou Jifei Technology Co., Ltd.	Independent director	Yes
	Lianchu Securities Co.,Ltd.	Independent director	Yes
	Allmed Medical Products Co., Ltd.	Independent director	Yes
	Sichuan Xinwang Bank Co., Ltd.	External supervisor	Yes
China Communications Services Corporation Limited.	Supervisor	Yes	

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Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Gordon Ng	Dentons Hong Kong LLP	Partner	Yes
	China Enginve International (Holdings) Limited	Independent non-executive Director	Yes
	Mainland Headwear Holdings Limited	Independent non-executive Director	Yes
Zhuang Jiansheng	Shanghai Huiyue Law Firm	Partner	Yes
Xie Daxiong	Guangdong Newstart Technology & Service Company Limited	Chairman	No
	Guangzhou Huijian Testing Technology Company Limited	Chairman	No
Li Miaona	深圳市中興宜和投資發展有限公司	Chairman	No
Jiang Mihua	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy head of finance department	Yes
	Shenzhen Aerospace Guangyu Industrial Company Limited	Director	No
	Aerospace Yinshan Electrical Company Limited	Director	No
Hao Bo	Held positions in 6 subsidiaries or investees of Zhongxingxin including Pylon Technologies Co., Ltd.	Chairman of supervisory committee/director/supervisor/ executive director, general manager	No
	Shenzhen Haina Jingying Management Consultant Company Limited	Executive director	No
Wang Xiyu	Sanechips Technology Co., Ltd.	Chairman	No
	ZTE Optoelectronics Technology Company Limited	Chairman	No
	JINZHUAN Information Technology Co., Ltd.	Vice-chairman	No
Li Ying	ZTE Group Finance Company Limited	Chairman	No
	ZTE (H.K.) Limited	Chairman	No
	Shenzhen ZTE Jinkong Commercial Factoring Company Limited	Chairman	No
	Sanechips Technology Co., Ltd.	Director	No

Note 1: Change in positions held by Directors:

Mr. Gu Junying has been appointed as the chairman and general manager of JINZHUAN Information Technology Co., Ltd. with effect from January 2022 and chairman of Nanjing Zhongxing Jinyi Digital Technology Company Limited from September 2022.

Mr. Zhu Weimin has ceased to be director of Sanya Zhongxing Real Estate Company Limited as from September 2022.

Ms. Fang Rong has ceased to be director of Zhongxing Herun Investment (Shenzhen) Company Limited, Shenzhen Jinghui Heyuan Equity Investment Management Company Limited and Heyihui (Shenzhen) Health Service Company Limited as from May, July and September 2022, respectively.

Ms. Cai Manli has been appointed independent director of Lianchu Securities Co., Ltd. and Allmed Medical Products Co., Ltd. with effect from June and September 2022, respectively, and supervisor of China Communications Services Corporation Limited from June 2022.

Note 2: Change in positions held by Supervisors:

Ms. Jiang Mihua has been appointed director of Aerospace Yinshan Electrical Company Limited with effect from November 2022.

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Mr. Hao Bo has been appointed director of Sindi Technologies Co., Ltd. and Shenzhen Zhongxingxin Cloud Service Company Limited with effect from January and September 2022, respectively, and chairman of the supervisory committee of Pylon Technologies Co., Ltd. since October 2022 and has ceased to be executive director and general manager of Shenzhen Xinshangke Management Consultant Company Limited as from June 2022.

Note 3: Change in positions held by senior management:

Mr. Wang Xiyu has been appointed as vice-chairman of JINZHUAN Information Technology Co., Ltd. with effect from January 2022.

4.6.3 Bases for determination of remuneration for Directors, Supervisors and senior management

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

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

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

4.6.4 Shareholdings in the Company and annual remuneration of the Directors, Supervisors and senior management

Name	Gender	Age	Title	Status of office	Term of office commencing on ^{Note 1}	Term of office ending on ^{Note 1}	Number of shares held at beginning of year (shares)	Increase in the number of shares held in 2022 (shares)	Decrease in the number of shares held in 2022 (shares)	Number of shares held at end of year (shares)	Total amount of remuneration received from the Company in 2022 (RMB10,000)	Whether remuneration or subsidy is received from connected parties ^{Note 3}
Li Zixue	Male	58	Chairman	Incumbent	3/2022	3/2025	–	–	–	–	948.1	No
Xu Ziyang	Male	50	Director and President	Incumbent	3/2022	3/2025	84,000	84,000	–	168,000	1,229.5	No
Li Buqing	Male	50	Director	Incumbent	3/2022	3/2025	–	–	–	–	17.5	Yes
Gu Junying	Male	55	Director and Executive Vice President	Incumbent	3/2022	3/2025	–	–	–	–	961.9	No
Zhu Weimin	Male	57	Director	Incumbent	3/2022	3/2025	–	–	–	–	17.5	Yes
Fang Rong	Female	58	Director	Incumbent	3/2022	3/2025	–	–	–	–	17.5	Yes
Cai Manli	Female	49	Independent Non-executive Director	Incumbent	3/2022	6/2024	–	–	–	–	36.3	Yes
Gordon Ng	Male	58	Independent Non-executive Director	Incumbent	3/2022	6/2024	–	–	–	–	36.3	Yes
Zhuang Jiansheng	Male	57	Independent Non-executive Director	Incumbent	3/2022	3/2025	–	–	–	–	36.3	Yes
Xie Daxiong	Male	59	Chairman of Supervisory Committee	Incumbent	3/2022	3/2025	371,903	–	–	371,903	694.6	No
Xia Xiaoyue	Female	47	Supervisor	Incumbent	3/2022	3/2025	50,927	–	–	50,927	220.4	No
Li Miaona	Female	48	Supervisor	Incumbent	3/2022	3/2025	Note 2	–	–	–	204.6	No
Jiang Mihua	Female	46	Supervisor	Incumbent	3/2022	3/2025	Note 2	–	–	–	–	Yes
Hao Bo	Male	33	Supervisor	Incumbent	3/2022	3/2025	Note 2	–	–	–	–	Yes
Li Quancai	Male	61	Supervisor	Resigned	3/2019	3/2022	–	4,000	–	4,000	33.7	No
Shang Xiaofeng	Male	47	Supervisor	Resigned	3/2019	3/2022	–	–	–	–	–	Yes
Zhang Sufang	Female	48	Supervisor	Resigned	3/2019	3/2022	–	–	–	–	–	Yes
Wang Xiyu	Male	48	Executive Vice President	Incumbent	3/2022	3/2025	51,566	87,468	–	139,034	1,187.5	No
Li Ying	Female	44	Executive Vice President and Chief Financial Officer	Incumbent	3/2022	3/2025	42,700	52,800	–	95,500	972.9	No
Xie Junshi	Male	47	Executive Vice President	Incumbent	3/2022	3/2025	30,000	82,468	–	112,468	976.5	No
Ding Jianzhong	Male	46	Secretary to the Board of Directors	Incumbent	3/2022	3/2025	–	33,160	–	33,160	393.4	No
Total	–	–	–	–	–	–	631,096	343,896	–	974,992	7,984.5	–

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Note 1: The term of appointment of the incumbent Directors, Supervisors and senior management commences and ends concurrently with the term of appointment of the Company's Directors and Supervisors with the Ninth Session of the Board of Directors and Ninth Session of the Supervisory Committee of the Company, and the term of appointment of the Company's senior management under the Ninth Session of the Board of Directors.

Note 2: Ms. Li Miaona, Ms. Jiang Mihua and Mr. Hao Bo did not hold any A shares in the Company when they were elected as Supervisors of the Company on 30 March 2022.

Note 3: Pursuant to the Shenzhen Listing Rules, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company act as directors and senior management (other than the said listed company and its subsidiaries) are deemed as connected parties of such listed company.

Note 4: All shares in the Company held by the Directors, Supervisors and senior management personnel of the Company in office were A shares and none of them held any H shares. The increase in A shares held by the Directors and senior management of the Company in 2022 was attributable to the exercise of 2017 A share options. Mr. Li Quancai acquired an additional 4,000 A shares in the Company following the conclusion of his term of office.

The Directors, Supervisors and senior management of the Company did not hold any equity interests in the subsidiaries of the Company.

Note 5: As at 31 December 2022, Mr. Zhang Changling, the spouse of Ms. Li Ying, held 13,334 2020 A shares options of the Company. Such share options have been recorded in the register required to be kept under the SFO.

Note 6: There was no financial, business, family or other material/connected relationships among the Directors, Supervisors and senior management of the Company.

For details of the A share options of the Company held and exercised by the Directors and senior management of the Company, please refer to the section headed "4.8 SHARE SCHEMES" in this report.

Save as disclosed above, as at 31 December 2022, 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 31 December 2022, 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.

The Directors and Supervisors of the Company confirmed that the Company has adopted the Model Code. Upon due enquiry with all Directors and Supervisors of the Company, the Company is not aware of any information that reasonably indicates non-compliance with code provisions set out in the Model Code by any Director or Supervisor in 2022.

4.6.5 Company Secretary

The Company Secretary (Mr. Ding Jianzhong) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management and compliance with Board policies and procedures. In 2022, the Company Secretary received more than 15 hours of training to update his professional skills and expertise.

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4.7 STAFF OF THE GROUP

4.7.1 Staff headcount and diversity

As at 31 December 2022, the Group had 74,811 employees (including 70,399 as employees of the parent company), with an average age of 34. The Group had 17,936 female staff accounting for approximately 24.0% and 56,875 male staff accounting for approximately 76.0% of the total staff headcount. The Group had 187 retired employees in 2022, including 122 retired employees in respect of which expenses were payable by the Company. The Group's staff breakdown by specialisation and academic qualifications is set out as follows:

Classification by specialisation

Type	Headcount	As an approximate percentage of total headcount
Research and development	36,300	48.5%
Marketing and sales	8,191	11.0%
Customer service	8,214	11.0%
Manufacturing	16,486	22.0%
Financial	1,319	1.8%
Administration	4,301	5.7%
Total	74,811	100%

Classification by academic qualifications

Type	Headcount	As an approximate percentage of total headcount
Doctorate degree	512	0.7%
Master's degree	28,839	38.5%
Bachelor's degree	26,756	35.8%
Others	18,704	25.0%
Total	74,811	100%

The Group's recruitment strategy is underpinned by the appointment of the right staff for the right position, in order to achieve staff diversity for all employees (including the senior management) in terms of gender, age, cultural and educational background, expertise, skills and know-how. As at 31 December 2022, the number of the female staff of the Group accounts for approximately 24.0% of the total staff headcount in realisation of gender diversity.

4.7.2 Remuneration policy and regime and retirement benefits

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees are also entitled to accident insurance, business travel insurance, housing allowance, retirement and other benefits. In accordance with relevant regulations of countries where the employees are located, the Group also participates in social insurance plans organised by the relevant government authorities, under which the Group makes contributions towards each employee's social insurance fund in an amount equivalent to a specified percentage of his/her monthly salaries. Meanwhile, to develop a long-term incentive and restraint mechanism, the Group has adopted Share Option Incentive Schemes and the Management Stock Ownership Scheme to enhance motivation of the management and core employees. Information on the five highest paid employees of the Company for 2022 is set out in Note XIV.3 Five highest paid employees of the Group for the year to the Financial Statements in this report. Details of the staff retirement benefits provided by the Group are set out in Note V.27 Salary and welfare payables and provision for retirement benefits to the Financial Statements in this report.

4.7.3 Training programme

Staff training provided by the Group includes induction training, general vocational aptitude training, job-specific business skill training, compliance training for all staff and leadership training. Such training sessions are conducted in the forms of class lessons, public lectures, shared book studies, case discussion, themed seminars, sand table drilling, project assignments and online learning via PC terminals or mobile phones or remote learning. Training programmes will be arranged for new employees upon their induction according to their job positions, and instructors will be assigned to provide supervision. In-service staff may take part in group training, workshops or project assignment organised by the Group based on their job requirements, qualifications required for various positions and aptitude assessment results, or conduct online and offline self-learning based on their personal career planning. For management officers, the Group provides a combination of online and offline training comprising reading classes, close-ended training, guided reading, online learning and mission challenge.

4.8 SHARE SCHEMES

The A share schemes implemented by the Company included the 2017 Share Option Incentive Scheme, 2020 Share Option Incentive Scheme and Management Stock Ownership Scheme. The Company has not implemented any H share scheme.

4.8.1 The 2017 Share Option Incentive Scheme

4.8.1.1 Summary of the 2017 Share Option Incentive Scheme

(1) Objective

The 2017 Share Option Incentive Scheme aimed to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company to facilitate sustainable development of the Company.

(2) Participants and maximum limit of share options to be granted

Under the 2017 Share Option Incentive Scheme, 149,601,200 share options, accounting for approximately 3.16% of the Company's total share capital in issue and approximately 3.76% of the Company's total A share capital in issue as at the date of the publication of this report, were granted to 1,996 participants (including Directors, senior management and key employees of the Company but excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses, parents and children).

The source of shares under the 2017 Share Option Incentive Scheme comprises A shares of the Company issued to the scheme participants by the Company by way of placing. Participants were not required to pay any consideration to the Company on application or acceptance of the share options. Under the 2017 Share Option Incentive Scheme, to the extent that the offer to grant an option is not accepted within 7 days from the date upon which it is made, it shall be deemed to have been irrevocably declined and lapsed automatically.

The number of A shares granted to a scheme participant upon exercise of his or her share options under the 2017 Share Option Incentive Scheme and other effective share schemes of the Company at any time must not exceed 1% of the Company's total A share capital in issue, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and unexercised share options) and awards within any 12-month period shall not exceed 0.1% of the Company's total A share capital in issue.

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(3) *Exercise price, basis of determination, adjustment to exercise price and value of share options*

Exercise price and basis of determination

The initial exercise price of share options under the 2017 Share Option Incentive Scheme is the higher of the following:

- a. the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the draft and summary of the 2017 Share Option Incentive Scheme (i.e. 24 April 2017); or
- b. the average trading price of the A Shares for the 120 trading days immediately preceding the announcement of the draft and summary of the 2017 Share Option Incentive Scheme.

Based on the aforesaid principles, the initial exercise price of the share options granted under the 2017 Share Option Incentive Scheme is RMB17.06 per A share.

Adjustment of exercise price

During the validity period of the 2017 Share Option Incentive Scheme, in the event of any dividend distribution, capitalisation through conversion of capital reserves, bonus issue, sub-division, rights issue or consolidation of shares, etc. in relation to the Company's A shares by the Company prior to the exercise of the share options, an adjustment to the exercise price shall be made. As the implementation of the 2019 and 2020 profit distribution plans of the Company had been completed, the exercise price had been adjusted to RMB16.66 per A share following consideration and approval by the Board. As considered and approved at the Second Meeting of the Ninth Session of the Board of Directors of the Company held on 25 April 2022, the exercise price was adjusted to RMB16.36 per A shares after the implementation of the 2021 A share profit distribution plan.

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Value of share options

The Company has adopted the Binomial Tree model to calculate the value of share options under the 2017 Share Option Incentive Scheme. The date of grant (i.e. 6 July 2017) has been adopted as the measurement date and the estimated value of share options under the 2017 Share Option Incentive Scheme is RMB10.40 per A share, representing 44.73% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Initial exercise price	RMB17.06 per A share
Market price	RMB23.25 per A share, being the closing price of the A shares on the date of grant.
Expected life	The scheme participants shall exercise all his/her options exercisable in the first, second and third exercise period within the 3rd, 4th and 5th year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first, second and third exercise period being 43.35%, 42.20% and 42.90%, respectively.
Expected dividend	RMB0.18 per share
Risk-free interest rate	The risk-free interest rate for the first, second and third exercise period shall be 3.50%, 3.51% and 3.52%, respectively.
Value of share options per A share	RMB10.40

Note 1: The expected dividend was calculated based on the historical dividends of the Company.

Note 2: The Company adopted the corresponding national bond yield rates as the risk-free interest rates.

Note 3: The calculation results of the value of the share options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimated value of the share options may be subjective and is subject to uncertainties.

Corporate Governance Report

(4) Date of grant, validity period, vesting period, exercise period and exercise percentage, outstanding valid period

The 2017 Share Option Incentive Scheme of the Company shall remain in force for 5 years from the date of grant (i.e. 6 July 2017). The valid period shall be from 6 July 2017 to 5 July 2022. The closing price of the A shares on the trading date which is 1 day prior to the date of grant was RMB23.52 per share. There shall be a waiting period of 2 years from the date of grant, after which share options may be exercised in 3 exercise periods subject to the fulfilment of exercise conditions. The period from the date of grant up to the exercise date of the share options is the vesting period, which has a duration of 24 months, 36 months or 48 months, from the date of grant.

The share options may be exercised according to the following ratios if the exercise conditions have been fulfilled:

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

The exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme were fulfilled and the vesting of 39,664,153 share options was completed on 16 July 2019. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB32.87 per share. The exercise conditions for the second exercise period were not fulfilled and the corresponding 39,724,952 share options were not vested. The exercise conditions for the third exercise period were fulfilled and the vesting of 37,289,056 share options was completed on 14 July 2021. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB35.59 per share.

The 2017 Share Option Incentive Scheme has been closed upon completion of implementation (there being no outstanding valid period thereunder).

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(5) Volume of share options and adjustments

The volume of the grant under the 2017 Share Option Incentive Scheme was 149,601,200 share options.

Prior to the commencement of the first exercise period, due to certain participants ceasing to fulfil the exercise conditions or the non-compliance with share options exercise conditions under the first exercise period, the Company cancelled 30,485,609 share options in total in July 2019.

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

The exercise conditions under the second exercise period were not fulfilled and the Company cancelled a total of 39,724,952 share options which did not fulfil the exercise conditions for the second exercise period in July 2019.

Prior to the commencement of the third exercise period, due to certain participants ceasing to fulfil the exercise conditions or the non-compliance with share options exercise conditions under the third exercise period, the Company cancelled a total of 2,437,430 share options in July 2021.

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

The exercise price of the aforesaid cancelled share options was RMB0.

4.8.1.2 Share options held and exercised by participants during the reporting period

The share options under the 2017 Share Option Incentive Scheme shall be exercised on a voluntary basis. During the reporting period, a total of 5,255,902 share options were exercised and the number of the Company's A shares increased by 5,255,902 shares accordingly. The exercise prices prior to and after the implementation of 2021 profit distribution were RMB16.66 and RMB16.36, respectively. The exercise amounts were paid by the participants on the date of exercise with their own funds. The Company did not provide any loans or any other form of financial assistance. The proceeds were deposited in the Company's dedicated account for use as supplementary working capital. The closing price of the A shares as at 31 December 2022 was RMB25.86 per share. Share options held by participants and details of exercise during the reporting period are set out in the table below:

Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period	Number of options granted during the reporting period	Number of options exercisable during the reporting period	Number of options exercised during the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Number of options outstanding at the end of the reporting period	Weighted average closing price (RMB/share) ^{Note 1}
Xu Ziyang	Director and President	84,000	0	84,000	84,000	0	0	0	23.63
Sub-total of Directors^{Note 2}		84,000	0	84,000	84,000	0	0	0	23.63
Wang Xiyu	Executive Vice President	87,468	0	87,468	87,468	0	0	0	23.63
Li Ying	Executive Vice President and Chief Financial Officer	52,800	0	52,800	52,800	0	0	0	23.63
Xie Junshi	Executive Vice President	82,468	0	82,468	82,468	0	0	0	23.63
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	33,160	0	33,160	33,160	0	0	0	23.63
Sub-total of senior management		255,896	0	255,896	255,896	0	0	0	23.63
Other key employees of the Company		4,916,006	0	4,916,006	4,916,006	0	0	0	26.01
Total		5,255,902	0	5,255,902	5,255,902	0	0	0	25.86

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

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

The grant of share options under the 2017 Share Option Incentive Scheme to participants was completed on 6 July 2017 and no share options were granted to the participants during the reporting period. There was no outstanding ungranted options as at the beginning and the end of the reporting period.

As at the date of the publication of this report, the exercise of share options for the third exercise period under the 2017 Share Option Incentive Scheme has completed. The total number of shares that may be issued under the 2017 Share Option Incentive Scheme is 0. The 2017 Share Option Incentive Scheme has been concluded upon completion of implementation.

4.8.1.3 Accounting policy, accounting treatment and financial impact

Specific accounting treatments of share options are set out in Note III.18 “Share-based payment” to the financial statements in this report. Accounting treatment and its impact on the financial conditions and operating results of the Company for the reporting period are set out in Note XI “Share-based payment” to the Financial Statements in this report.

4.8.2 The 2020 Share Option Incentive Scheme

4.8.2.1 Summary of the 2020 Share Option Incentive Scheme

(1) Objective

The 2020 Share Option Incentive Scheme was aimed at improving the incentive systems of the Company, enhance the sense of responsibility and mission of the management and key business personnel of the Company for the sound and sustainable development of the Company and safeguard the realisation of development targets of the Company.

(2) Participants and maximum limit of share options to be granted

Under the 2020 Share Option Incentive Scheme, 158,472,000 share options, accounting for approximately 3.35% of the Company’s total share capital in issue and approximately 3.98% of the Company’s total A share capital in issue as at the date of the publication of this report, under the initial grant was granted to 6,123 participants (including Directors, senior management and key employees of the Company but excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company’s shares or the de facto controller, or their respective spouses, parents and children).

Under the 2020 Share Option Incentive Scheme, 5,000,000 share options, accounting for approximately 0.11% of the Company’s total share capital in issue and approximately 0.13% of the Company’s total A share capital in issue as at the date of the publication of this report, under the reserved grant was granted to 410 participants who were key employees of the Company (excluding Directors, Supervisors, senior management and substantial shareholders interested in 5% or above of the Company’s shares or the de facto controller, or their respective spouses, parents and children).

The source of shares under the 2020 Share Option Incentive Scheme comprises A shares of the Company issued to the scheme participants by the Company by way of placing. Participants were not required to pay any consideration to the Company on application or acceptance of the share options. Under the 2020 Share Option Incentive Scheme, to the extent that the offer to grant an option is not accepted within 7 days from the date upon which it is made, it shall be deemed to have been irrevocably declined and lapsed automatically.

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The number of A shares granted to a scheme participant upon exercise of his or her share options under the 2020 Share Option Incentive Scheme and other effective share schemes of the Company at any time must not exceed 1% of the Company's total A share capital in issue, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and unexercised share options) and awards within any 12-month period shall not exceed 0.1% of the Company's total A share capital in issue.

(3) *Exercise price, basis of determination, adjustment to exercise price and value of share options*

Exercise price and basis of determination

A. Share options under the initial grant

The initial exercise price of share options under the initial grant of the 2020 Share Option Incentive Scheme is the higher of the following:

- a. the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the draft and summary of the 2020 Share Option Incentive Scheme (i.e. 12 October 2020); or
- b. the average trading price of the A Shares quoted for the 20 trading days immediately preceding the announcement of the draft and summary of the 2020 Share Option Incentive Scheme.

Based on the aforesaid principles, the initial exercise price of the share options under the initial grant of the 2020 Share Option Incentive Scheme is RMB34.47 per A share.

B. Share options under the reserved grant

The initial exercise price of share options under the reserved grant of the 2020 Share Option Incentive Scheme is the higher of the following:

- a. the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the Board resolution approving the grant of reserved grant (i.e. 23 September 2021); or
- b. the average trading price of the A Shares quoted for the 20 trading days immediately preceding the announcement of the Board resolution approving the grant of reserved grant.

Based on the aforesaid principles, the initial exercise price of the share options under the reserved grant of the 2020 Share Option Incentive Scheme is RMB34.92 per A share.

Adjustment of exercise price

During the validity period of the 2020 Share Option Incentive Scheme, in the event of any capitalisation through conversion of capital reserves, bonus issue, sub-division, rights issue or consolidation of shares, etc. in relation to the Company's A shares by the Company prior to any exercise of share options, an adjustment to the exercise price shall be made.

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Value of share options

A. Share options under the initial grant

The Company has adopted the Binomial Tree model to calculate the value of share options under the initial grant of the 2020 Share Option Incentive Scheme. The date of grant (i.e. 6 November 2020) has been adopted as the measurement date and the estimated value of the 2020 share options is RMB9.12 per A share, representing 25.47% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Initial exercise price	RMB34.47 per A share
Market price	RMB35.80 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first, second and third exercise period within the 2nd, 3rd and 4th year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first, second and third exercise period being 34.40%, 33.57% and 30.33%, respectively.
Expected dividend	RMB0.20 per share
Risk-free interest rate	The risk-free interest rate for the first, second and third exercise period shall be 2.78%, 2.85% and 2.91%, respectively.
Value of share options per A share	RMB9.12

Note 1: The expected dividend was calculated based on the historical dividends of the Company.

Note 2: The Company adopted the corresponding national bond yield rates as the risk-free interest rates.

Note 3: The calculation results of the value of the share options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimated value of the share options may be subjective and is subject to uncertainties.

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B. Share options under the reserved grant

The Company has adopted the Binomial Tree model to calculate the value of the reserved share options under the 2020 Share Option Incentive Scheme. The date of grant (i.e. 23 September 2021) has been adopted as the measurement date and the estimated value of the reserved share options under the 2020 Share Option Incentive Scheme is RMB7.22 per A share, representing 20.61% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Initial exercise price	RMB34.92 per A share
Market price	RMB35.03 per A share, being the closing price of the A shares on the date of grant.
Expected life	The scheme participants shall exercise all his/her options exercisable in the first and second exercise periods within the 2nd and 3rd year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first and second exercise periods being 29.53%, and 31.46%, respectively.
Expected dividend	RMB0.20 per share
Risk-free interest rate	The risk-free interest rate for the first and second exercise periods shall be 2.39% and 2.50%, respectively.
Value of share options per A share	RMB7.22

Note 1: The expected dividend was calculated based on the historical dividends of the Company.

Note 2: The Company adopted the corresponding national bond yield rates as the risk-free interest rates.

Note 3: The calculation results of the value of the share options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimated value of the share options may be subjective and is subject to uncertainties.

(4) *Date of grant, validity period, vesting period, exercise period and exercise percentage, outstanding valid period*

A. Share options under the initial grant

The initial grant of 2020 Share Option Incentive Scheme shall remain in force for 4 years from the date of grant of the initial grant (i.e. 6 November 2020). The valid period shall be from 6 November 2020 to 5 November 2024. The closing price of the Company's A shares on the trading date which is 1 day prior to the date of grant was RMB34.80 per share. There shall be a waiting period of 1 year from the date of grant, after which share options may be exercised in 3 exercise periods subject to fulfilment of the exercise conditions. The period from the date of grant up to the exercise date of the share options is the vesting period for the initial grant which has a duration of 12 months, 24 months or 36 months from the date of grant.

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The share options may be exercised according to the following ratios if the exercise conditions have been fulfilled:

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

The exercise conditions for the first exercise period under the initial grant of the 2020 Share Option Incentive Scheme were fulfilled and the vesting of 51,442,763 share options was completed on 17 November 2021. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB31.70 per share. The exercise conditions for the second exercise period were fulfilled and the vesting of 50,190,495 share options was completed on 29 November 2022. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB23.94 per share. At the end of the reporting period, there were 50,317,018 unvested share options under the initial grant of the 2020 Share Option Incentive Scheme.

The outstanding valid period for share options under the initial grant of the 2020 Share Option Incentive Scheme is the period from the date of publication of this report to 5 November 2024.

B. Share options under the reserved grant

The reserved grant of 2020 Share Option Incentive Scheme of the Company shall remain in force for 3 years from the date of grant of the reserved grant (i.e. 23 September 2021). The valid period shall be from 23 September 2021 to 22 September 2024. The closing price of the Company's A shares on the trading date which is 1 day prior to the date of grant was RMB33.80 per share. There shall be a waiting period of 1 year from the date of grant, after which share options may be exercised in 2 exercise periods subject to fulfilment of the exercise conditions. The period from the date of grant up to the exercise date of the share options is the vesting period for the reserved grant which has a duration of 12 months or 24 months from the date of grant.

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The share options may be exercised according to the following ratios if the exercise conditions have been fulfilled:

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

The exercise conditions for the first exercise period under the reserved grant of the 2020 Share Option Incentive Scheme were fulfilled and the vesting of 2,454,500 share options was completed on 13 October 2022. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB21.27 per share. At the end of the reporting period, there were 2,454,500 unvested share options under the reserved grant of the 2020 Share Option Incentive Scheme.

The outstanding valid period for share options under the reserved grant of the 2020 Share Option Incentive Scheme is the period from the date of publication of this report to 22 September 2024.

(5) Volume of share options and adjustments

The volume of the initial grant under the 2020 Share Option Incentive Scheme was 158,472,000 share options.

Prior to the commencement of the first exercise period, in August and November 2021, the Company cancelled 3,796,661 share options previously granted to participants who were no longer qualified as such or share options for which exercise conditions under the first exercise period had not been fulfilled.

The first exercise period comprised the exercise dates within the period from 17 November 2021 to 5 November 2022, during which 67,411 share options were exercised out of a total of 51,442,763 share options exercisable by 5,956 participants (as adjusted). The 51,375,352 unexercised options as at the end of the exercisable period under the first exercise period were cancelled in November 2022.

Prior to the commencement of the second exercise period, in November 2022, the Company cancelled 2,725,063 share options previously granted to participants who were no longer qualified as such or share options for which exercise conditions under the second exercise period had not been fulfilled.

The second exercise period comprised the exercise dates within the period from 29 November 2022 to 3 November 2023, during which 50,190,495 share options are exercisable by 5,816 participants (as adjusted).

The volume of the reserved grant under the 2020 Share Option Incentive Scheme was 5,000,000 share options.

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Prior to the commencement of the first exercise period, in September 2022, the Company cancelled 91,000 share options previously granted to participants who were no longer qualified as such.

The first exercise period comprised the exercise dates within the period from 13 October 2022 to 22 September 2023, during which 2,454,500 share options are exercisable by 402 participants (as adjusted).

The exercise price of the aforesaid cancelled options was RMB0.

4.8.2.2 Share options held and exercised by participants during the reporting period

The share options under the 2020 Share Option Incentive Scheme of the Company shall be exercised on a voluntary basis. During the reporting period, a total of 60,634 share options of the initial grant under the 2020 Share Option Incentive Scheme were exercised and the number of the Company's A shares increased by 60,634 shares accordingly. The exercise price was RMB34.47. 0 share option had been exercised for the second exercise period under the initial grant. 0 share option had been exercised for the first exercise period under the reserved grant. Funds required for the exercise of options were paid on the date on which the participants exercise the share options and were financed by the participants on their own. The Company would not provide any loans or any other forms of financial assistance to the participants for exercising the options. The proceeds received were placed in a designated account of the Company for use as supplementary working capital. The closing price of the Company's A shares as at 31 December 2022 was RMB25.86 per share. Details of the holding and exercise of share options by participants during the reporting period are set out in the table below:

Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period	Number of options granted during the reporting period	Number of options exercisable during the reporting period	Number of options exercised during the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Number of unexercised options at the end of the reporting period	Weighted average closing price (RMB/share) ^{Note 1}
1. Share options under the initial grant									
Li Zixue	Chairman	180,000	0	120,000	0	60,000	0	120,000	N/A
Xu Ziyang	Director and President	180,000	0	120,000	0	60,000	0	120,000	N/A
Li Buqing	Director	50,000	0	33,332	0	16,666	0	33,334	N/A
Gu Junying	Director and Executive Vice President	180,000	0	120,000	0	60,000	0	120,000	N/A
Zhu Weimin	Director	50,000	0	33,332	0	16,666	0	33,334	N/A
Fang Rong	Director	50,000	0	33,332	0	16,666	0	33,334	N/A
Sub-total of Directors ^{Note 2}		690,000	0	459,996	0	229,998	0	460,002	N/A
Wang Xiyu	Executive Vice President	180,000	0	120,000	0	60,000	0	120,000	N/A
Li Ying	Executive Vice President and Chief Financial Officer	180,000	0	120,000	0	60,000	0	120,000	N/A
Xie Junshi	Executive Vice President	180,000	0	120,000	0	60,000	0	120,000	N/A
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	120,000	0	80,000	0	40,000	0	80,000	N/A
Sub-total of senior management		660,000	0	440,000	0	220,000	0	440,000	N/A
Other key employees of the Company		153,318,562	0	100,726,485	60,634	53,650,417	0	99,607,511	34.10
Total		154,668,562	0	101,626,481	60,634	54,100,415	0	100,507,513	34.10
2. Share options under reserved grant									
Other key employees of the Company		5,000,000	0	2,454,500	0	91,000	0	4,909,000	N/A
Total		5,000,000	0	2,454,500	0	91,000	0	4,909,000	N/A

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

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

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The grant of share options under the initial grant and reserved grant of the 2020 Share Option Incentive Scheme to participants was completed on 6 November 2020 and 23 September 2021 and no share options were granted to the participants during the reporting period. There was no outstanding ungranted options as at the beginning and the end of the reporting period.

As at the date of publication of this report, a total of 100,507,513 A share options were unexercised under the initial grant of the 2020 Share Option Incentive Scheme of the Company, accounting for approximately 2.12% of the Company's total share capital in issue and approximately 2.52% of the Company's total A share capital in issue. A total of 4,909,000 A share options were unexercised under the reserved grant, accounting for approximately 0.10% of the Company's total share capital in issue and approximately 0.12% of the Company's total A share capital in issue. As at the date of publication of this report, the total number of shares that may be issued under the 2020 Share Option Incentive Scheme is 105,416,513 shares, accounting for approximately 2.22% of the Company's total share capital in issue and approximately 2.64% of the Company's total A share capital in issue.

4.8.2.3 Accounting policy, accounting treatment and financial impact

Specific accounting treatments of share options are set out in Note III.18 "Share-based payment" to the financial statements. Accounting treatment and its impact on the financial conditions and operating results of the Company for the reporting period are set out in Note XI "Share-based payment" to the financial statements.

4.8.3 MANAGEMENT STOCK OWNERSHIP SCHEME

4.8.3.1 Summary of the Management Stock Ownership Scheme

(1) Objective

The Management Stock Ownership Scheme (the "Scheme") implemented by the Company aimed to further improve its corporate governance structure, enhance the motivation of the senior management personnel and core staff of the Company and better facilitate the Company's long-term, sustainable and healthy development.

(2) Source of funds and shares

The source of funds under the Scheme was the Management Stock Ownership Scheme Special Fund amounting to RMB114.766 million set aside by the Company. The source of shares under the Scheme was 2,973,900 A shares in the Company in the dedicated securities repurchase account of the Company and did not involve the issue of new shares.

(3) Participants and cap of entitlement

There were 27 participants under the Scheme, including the Directors, Supervisors, senior management and other core management employees of the Company.

The Scheme was subscribed in units at a price of RMB1.00 per unit for a total of 114.766 million units. The subject shares corresponding to the Scheme units were 2,973,900 A shares in the Company accounting for approximately 0.06% of the Company's total share capital in issue and approximately 0.07% of the Company's total A share capital in issue as at the date of publication of this report. The number of A shares corresponding to the units granted to participants under the Scheme were held by the appointed asset manager through the securities account of the Scheme instead of registered under the personal securities accounts of the participants.

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The number of A shares in the Company corresponding to units under the Scheme and share options under other effective share option incentive schemes of the Company held by any one participant shall not at any time exceed 1% of the Company's total A share capital in issue, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and unexercised share options) and awards within any 12-month period shall not exceed 0.1% of the Company's total A share capital in issue.

(4) *Purchase price and basis for determination and fair value*

Participants under the Scheme completed subscription (namely, accepted) of all units at a price of RMB1.00 each through the Special Fund on 10 December 2020. Participants were not required to pay any further amounts. The price for acquiring A shares under the Scheme was RMB38.59 per share, namely the average trading price of A shares repurchased by the Company. Under the Scheme, an offer shall be deemed to be irrevocably rejected and automatically lapsed if the participant does not accept such offer within 7 days from the date of offer.

In accordance with PRC ASBEs and its practice guide, the fair value of equity instruments at the date of grant shall be charged to relevant cost or expense and the capital reserve. On the record date, being the date of grant (i.e. 18 December 2020), the valuation of the Scheme was RMB32.81 per A share, equivalent to 100% of the market price of A shares on the date of grant.

(5) *Valid period, date of grant, lock-up period, vesting period and outstanding valid period*

The valid period (subsisting period) of the Scheme shall be 3 years from 6 November 2020, the date on which the Management Stock Ownership Scheme was considered and approved at the Second Extraordinary General Meeting held by the Company, to 5 November 2023.

The A shares repurchased by the Company were transferred from the Company's dedicated repurchase securities account on a non-trading basis to the Scheme on 16 December 2020. The lock-up period for Company shares transferred to the Scheme shall be 12 months from the announcement by the Company of the completion of non-trading transfer (i.e. 18 December 2020), namely from 18 December 2020 to 17 December 2021. The date of grant of units under the Scheme was 18 December 2020. The closing price of the A shares on the trading date immediately prior to the date of grant was RMB32.81 per share.

The share units under the Scheme shall be vested to the holder in 2 periods, as to 50% each with an interval of 12 months in between. The first vesting period was 18 December 2020 to 24 December 2021. The second vesting period was 18 December 2020 to 26 December 2022. As the vesting conditions for the Scheme had been fulfilled, the first vesting was completed on 24 December 2021. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB32.72 per share. The second vesting was completed on 26 December 2022. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB25.15 per share.

As at the date of publication of this report, the Scheme has been concluded upon completion of implementation and there is no outstanding valid period.

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(6) Asset management institution

On 30 November 2020, the Company appointed China International Capital Corporation Limited as the asset manager for the Scheme. The Scheme entrusted the asset manager to hold shares through the securities account of the Scheme and be in charge of subsequent share management. Following an internal business realignment of China International Capital Corporation Limited, the asset manager changed to its wholly-owned subsidiary China CICC Wealth Management Securities Company Limited on 29 August 2022.

For details of the Scheme, please refer to the “Overseas Regulatory Announcement” and “Proposed Adoption of the Management Stock Ownership Scheme”, “Overseas Regulatory Announcement” and “Overseas Regulatory Announcement” published by the Company on 12 October 2020, 17 December 2020 and 19 December 2021, respectively.

4.8.3.2 Vesting of unit shares held by participants during the reporting period

Name	Position	Total units subscribed for in December 2020 (in ten thousand)	A shares corresponding to the total units (shares)	Unvested shares at the beginning of reporting period (shares)	Shares vested during reporting period (shares)	Shares cancelled during reporting period (shares)	Shares lapsed during reporting period (shares)	Unvested shares at the end of reporting period (shares)	Weighted average closing price (RMB/ share) ^{Note 1}
Li Zixue	Chairman	1,200	310,954	155,477	155,477	0	0	0	25.15
Xu Ziyang	Director and President	1,200	310,954	155,477	155,477	0	0	0	25.15
Gu Junying	Director and Executive Vice President	900	233,215	116,607	116,607	0	0	0	25.15
Sub-total of Directors^{Note 2}		3,300	855,123	427,561	427,561	0	0	0	25.15
Xie Daxiong	Chairman of Supervisory Committee	302.6	78,407	39,204	39,204	0	0	0	25.15
Sub-total of Supervisors		302.6	78,407	39,204	39,204	0	0	0	25.15
Wang Xiyu	Executive Vice President	1,000	259,128	129,564	129,564	0	0	0	25.15
Li Ying	Executive Vice President and Chief Financial Officer	800	207,303	103,651	103,651	0	0	0	25.15
Xie Junshi	Executive Vice President	700	181,390	90,695	90,695	0	0	0	25.15
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	158	40,942	20,471	20,471	0	0	0	25.15
Sub-total of senior management		2,658	688,763	344,381	344,381	0	0	0	25.15
Total of other core management of the Company (19 employees)		5,216	1,351,607	675,804	675,804	0	0	0	25.15
Total		11,476.6	2,973,900	1,486,950	1,486,950	0	0	0	25.15
Total of top 5 employees in remuneration (5 employees, including 1 Director aforementioned)		3,600	932,862	466,431	466,431	0	0	0	25.15
Total of others other than Directors and top 5 employees in remuneration		5,776.6	1,496,869	748,435	748,435	0	0	0	25.15

Note 1: Weighted average closing price of the Company's A shares on the trading date immediately before the vesting date.

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

Grant of units under the Scheme to participants was completed on 18 December 2020 and there was no grant of units during the reporting period. There was no outstanding ungranted units at the beginning and end of the reporting period.

4.8.3.3 Disposal of shares held under the Scheme

The 2,973,900 A shares held under the Scheme were disposed in full through block trading in the secondary market during the period from 5 January 2022 to 5 January 2023. As at the date of the publication of this report, the scheme was completed and concluded and liquidation of related assets had been completed in accordance with relevant procedures.

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4.8.3.4 Accounting policy, accounting treatment and financial impact

Details of the accounting policy are set out in Note III.18 “Share-based Payment” to the Financial Statements. Details of the accounting treatment and impact on the financial conditions and operating results of the Company for the reporting period are set out in Note XI “Share-based Payment” to the Financial Statements in this report.

4.8.4 Summary of Share Schemes

During the reporting period, the number of shares in the A share capital falling to be issued by the Company under the share schemes amounted to 109,336,883 shares, accounting for 2.75% of the weighted average number of shares in the A share capital in issue of the Company during the reporting period, of which 5,316,536 shares in the A share capital were issued as a result of the exercise of options, 54,191,415 share options were cancelled and 49,828,932 share options were exercisable in future, accounting for 0.14%, 1.36% and 1.25% of the weighted average number of the Company’s A shares in issue during the reporting period.

As at the date of the publication of this report, the 2017 Share Option Incentive Scheme and Management Stock Ownership Scheme have been completed and concluded. There are a total share capital of 105,416,513 shares available to be issued under the 2020 Share Option Incentive Scheme, accounting for 2.22% and 2.64% of the Company’s total share capital in issue and total A share capital in issue, respectively.

The subsidiaries of the Company did not operate any share schemes that are required to be disclosed under Chapter 17 of the Hong Kong Listing Rules.

4.9 AUDITOR AND FINANCIAL ADVISOR**4.9.1 Information of auditor and annual report auditing****(1) Information of auditor**

Ernst & Young Hua Ming LLP (“Ernst & Young Hua Ming”) acted as the Company’s auditor. Ernst & Young Hua Ming has been appointed the Company’s auditor for 18 consecutive years since 2005. The undersigning accountants of Ernst & Young Hua Ming are Mr. Li Jianguang and Ms. Zeng Cihua. Mr. Li Jianguang has been providing audit services to the Company for three years and the year under review was the third year for which he acted in the capacity of undersigning accountant. Ms. Zeng Cihua has been providing audit services to the Company for seven years and the year under review was the second year for which she acted in the capacity of undersigning accountant.

Fees paid to Ernst & Young Hua Ming and Ernst & Young by the Group for 2022 are set out below:

RMB in ten thousand

Item	Amount	Auditor
Audit fees 2022	830.0	Ernst & Young Hua Ming
Internal control audit fees 2022	126.0	Ernst & Young Hua Ming
Audit fees 2022 for ZTE HK	60.8	Ernst & Young
Audit fees 2022 for other subsidiaries of the Group	66.8	Ernst & Young Hua Ming
Tax return and tax consultation service for ZTE HK	5.7	Ernst & Young
Total	1,089.3	—

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4.9.2 Information of financial advisor

In 2020, the Company appointed China Securities Corporation as independent financial advisor in connection with its issuance of shares for asset acquisition and raising ancillary funds. In 2022, advisory fees paid by the Company in respect of the project amounted to RMB4.96 million.

4.10 ACCOUNTABILITY AND AUDIT

The Directors of the Company confirm that they are responsible for preparing the financial statements and providing objective and clear assessments in the consolidated financial statements of the annual reports, interim reports and quarterly reports, other inside information announcements and other financial disclosures required under the Hong Kong Listing Rules, and disclosing information to regulatory authorities in accordance with statutory requirements. In preparing the financial statements for the year ended 31 December 2022, the Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards.

The Directors, having made all reasonable enquiries, confirmed that they were not aware of significant uncertainties or conditions that might have an adverse material impact on the ability of the Company to operate as a going concern as at the date of the publication of this report, and as a result it is appropriate to prepare the financial statements on an ongoing concern basis.

A statement of the Company's auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2022 is set out in the section headed "9.1 AUDITOR'S REPORT" in this report.

4.11 INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors of the Company is responsible for reviewing the Company's risk management and internal control systems to ensure their effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the risk management and internal control systems of the Company and its subsidiaries. The Board of Directors shall ensure the adequacy of resources and budget for accounting, internal audit and financial reporting functions and environmental, social and governance ("ESG") performance and reporting, and that staff are qualified, experienced and well-trained for these purposes.

The Audit Committee under the Board of Directors of the Company held four regular meetings to consider whether the risk management and internal control systems had been operating effectively in 2022 and what further improvements could be made and reported their findings to the Board of Directors of the Company, in accordance with relevant laws and regulations. Such reviews covered the financial, operational and compliance aspects.

4.11.1 Establishment of internal control departments

The Company has established an all-encompassing and multi-level structure for internal control development comprising mainly the Board of Directors, the Audit Committee, the Internal Control Committee, the internal control and audit department and the internal control teams of various business units of the Company.

The Company has formed the Internal Control Committee as a corporate-level internal control administration responsible for the soundness and effectiveness of the Company's internal control and exercises the functions of decision making, planning, supervision and instruction in respect of the Company's internal control. The Internal Control Committee is supported by a secretarial group and an internal control development group.

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The Company has developed and made ongoing improvements to the risk management and internal control systems featuring primarily a “three-tier protection” as follows: the first line of protection involves the business units and functional departments as the main units responsible for implementation of risk management and internal control. The second line of protection involves the Internal Control Committee. It is responsible for decision-making, planning, supervision, direction and enforcement in relation to risk management and internal control. The third line of protection is formed by the Audit Committee and the internal audit organisation as the supervisory unit for risk management and internal control responsible for internal audit.

4.11.2 Establishment and implementation of internal control system

The Company’s internal control establishment has basically covered production operations, financial management, organisation, personnel management, information disclosure and ESG. Taking into account its specific conditions, the Company has developed a comprehensive internal control system.

The Company has formulated and implemented the ZTE Corporation Internal Control System to define the functional institutions of the Company’s internal control and their powers, stipulate principles for internal control and key internal control factors and methods. The Company has formulated and put into implementation the ZTE Corporate Risk Management Regulations to stipulate that risk management shall be conducted in compliance with the principle of “management in accordance with regulations, assessment in accordance with standards, handling of situations in accordance with pre-determined plans, addressing changes with warning and conducting review on risk incidents”. A three-tier risk management organisation and allocation of duties comprising the Company, the business departments and primary units has been formed and risk rating has been implemented in seven dimensions including daily operation, laws and regulations, staff health and safety, corporate reputation, product competitiveness, market share and financial loss. A closed-loop management process comprising risk categorisation, identification, assessment, response, monitoring and reporting is executed. The Company has formulated and put into implementation the ZTE Administrative Measures for Driving Rectifications of Internal Control Deficiencies to regulate the entire process covering the identification and assessment of deficiencies, control over rectification plans, tracking of rectification processes and closing of rectification results. Each year, the Company will review the effectiveness of its risk management and internal control systems and the implementation processes and outcomes of the annual risk management and internal control action plans based on the ZTE Corporation Internal Control System and ZTE Risk Management Regulations with reference to the Internal Control Handbook.

The Company’s internal control includes ESG management which reviews, improves through ongoing supervision and ensures the effectiveness of the Company’s ESG risk and internal control system in accordance with the ZTE Corporation Internal Control System and ZTE Risk Management Regulations through corporate culture, key mission tracking, systematic closed-loop tracking of key ESG risk events, and regulator inspection and rectification.

The Company has formulated and put into implementation the Administrative Rules for Information Disclosure to strengthen the duty of the Company’s internal institutions and staff for information disclosure and to ensure that the information disclosure of the Company is true, accurate, complete and timely. The Company has formulated and put into implementation the System of Registration of Owners of Inside Information to regulate administration of the Company’s inside information, procure confidentiality of the inside information and safeguard the principle of fairness in information disclosure. In 2022, the Company implemented the aforesaid systems in a meticulous manner and rigorously conducted the administration of inside information.

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The Company has formulated the “ZTE Whistleblowing Handling and Investigation Procedures” to develop compliant whistleblowing channels for both internal and external parties that enable Company staff, partners and other informed parties to report conduct compromising the Company’s interest. The Company has also formulated a range of systems such as ZTE Staff Code and Accountability Measures that prohibit corruption and bribery in any form. The internal audit department of the Company reports relevant work to the Audit Committee and the Board on a quarterly basis.

In 2022, the Company’s internal control efforts were focused on the following:

- (1) The Company was engaged in ongoing intensive development of our internal control regime to further strengthen the development of internal control organisation at primary level. Internal control responsibility and awareness for management officers was enhanced with the propagation of internal control among management officers to foster a culture of integrity and probity. Activities for the promotion of internal control knowledge among all employees, seminars on internal control in business operations, sharing of internal control cases and internal control knowledge quizzes and a new round of internal control manager accreditation were organised on a continuous basis.
- (2) The risk profile overview was optimised with further classification of risks to enhance responsibilities of risk management organisations at various levels and regulate the process of risk identification, assessment and management, analysing standard business risk management actions with further breakdown and commencing implementation of risk management at primary levels.
- (3) Amendments have been made to the internal control system in accordance with the Basic Regulations for Corporate Internal Control and its supplementary guidelines and the rules and regulations of the Company. More intensive efforts in business audit and self-rectification were made, underpinned by stronger audit efforts on all business segments and an enhanced accountability management mechanism.
- (4) Key internal control tasks for various critical business segments, such as corporate contract management, procurement management, subsidiary management, file management, fixed asset management, and engineering outsourcing, were launched and the operating model of the internal control system was optimised to facilitate digitalisation of various business processes. Special internal control assessment and management optimisation in relation to customer management for system products, modifications to domestic sales contract and government and corporate electrical industries. Review of the Company’s deficiencies were completed and the rectification of quality supervision was further enhanced.
- (5) Inspection of the Company’s derivative trading and securities investment was conducted and support was given to Ernst & Young Hua Ming LLP for their audit of the Company’s internal control.

The risk management and internal control systems of the Company have been designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks associated with the malfunctioning of operating systems or failure to attain the Company’s objectives. The Board of Directors of the Company has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries and is of the view that the risk management and internal control systems had been effective and adequate throughout the financial year ended 31 December 2022.

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4.11.3 Management control over subsidiaries

The Company instructs its subsidiaries to improve its corporate governance structure and internal control regime in accordance with pertinent laws and regulations and relevant guidelines and requirements for the regulated operation of listed companies to enhance sophistication in corporate management and the ability to conduct regulated operations on a continuous basis. The reporting system and review procedures of subsidiaries for material matters have been stipulated and timely tracking of material matters of subsidiaries such as their financial conditions and production operations has been conducted. Management control is exercised over the regulated operation of investments in third parties, asset purchase/sale and guarantees for third parties by subsidiaries and information disclosure is fulfilled in a timely manner.

4.11.4 The 2022 Internal Control Assessment Report

The Company has conducted an assessment on the effectiveness of its internal control as at 31 December 2022 (being the record date for the internal control assessment report) in accordance with the Basic Rules for Corporate Internal Control, its supplementary guidelines and other internal control regulatory requirements and taking into account its internal control system and assessment methods, based on general as well as specific supervision of internal control. Based on the work of identifying significant deficiencies in the Company's internal control in relation to financial reporting and non-financial reporting, as at the record date for the internal control assessment report, the Company was not subject to any significant deficiency in internal control in relation to financial reporting, nor was any significant deficiency identified in internal control in relation to non-financial reporting.

Total assets of units being assessed accounted for more than 95% of the total assets as recorded in the consolidated financial statements of the Company, while the aggregate operating revenue of such units also accounted for more than 95% of the total operating revenue recorded in the consolidated financial statements of the Company. For the principal units under assessment and standards for assessing deficiencies in financial reports and non-financial reports and other details of the Company's internal control, please refer to the "Overseas Regulatory Announcement" published by the Company on the same date as this report.

4.11.5 Internal control audit report furnished by the auditor

Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2022 in accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the Practising Guidelines for Chinese Certified Public Accountants and is of the view that the Company has maintained effective internal control in financial reporting in all material aspects in accordance with the Basic Rules for Corporate Internal Control and pertinent provisions. For the internal control audit report of the Company, please refer to the "Overseas Regulatory Announcement" published by the Company on the same date as this report.

4.12 RECTIFICATION OF SELF-INSPECTED ISSUES UNDER SPECIFIC CORPORATE GOVERNANCE INITIATIVES FOR LISTED COMPANY

Corporate governance was generally in compliance with requirements without any material issues requiring rectification.

Environmental and Social Responsibility

5.1 ENVIRONMENTAL INFORMATION OF THE GROUP

5.1.1 Pollution discharge

In 2022, ZTE and ZTE Smart Auto Company Limited (“ZTE Smart Auto”), a subsidiary of the Company, are major pollutant discharging units in the atmospheric announced by environmental protection authorities. ZTE (Nanjing) Company Limited (“ZTE Nanjing”), a subsidiary of the Company, is a major pollutant discharging unit in the soil (hazardous waste) announced by environmental protection authorities.

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

Name of company or subsidiary	Name of major pollutants	Mode of discharge	Number of discharge outlets	Distribution of discharge outlets	Concentration of discharge	Applicable pollutant discharge standards	Total volume of discharge	Approved total discharge volume	Excessive discharge
ZTE	Total VOCs	Organised discharge	1	Plant rooftop	1.97mg/m ³	"Atmospheric Pollutant Emission Limits" (DB44/27-2001) Second Time Band Grade II Standards	0.861t	/	Compliant
	Particulates	Organised discharge	1	Plant rooftop	35.6mg/m ³	"Atmospheric Pollutant Emission Limits" (DB44/27-2001) Second Time Band Grade II Standards	0.155t	/	Compliant
	NMHC	Organised discharge	1	Plant rooftop	1.55 mg/m ³	"Atmospheric Pollutant Emission Limits" (DB44/27-2001) Second Time Band Grade II Standards	0.06789t	/	Compliant
ZTE Smart Auto Company Limited	Total VOCs	Organised discharge	8	Coating workshop, completion inspection workshop	0.63-2.93mg/m ³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	0.028767t	9.44t/a	Compliant
	Particulates	Organised discharge	21	Coating workshop	<20mg/m ³	"Atmospheric Pollutant Emission Limits" (DB44/27-2001) Second Time Band Grade II Standards	0.00021t	/	Compliant
					1.1-1.6mg/m ³	"Atmospheric Pollutant Emission Limits for Boilers" (DB44/765-2019)			
	Benzene	Organised discharge	3	Coating workshop, completion inspection workshop	0.02-0.09mg/m ³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	0.000012t	/	Compliant
	Toluene + xylene	Organised discharge	3	Coating workshop, completion inspection workshop	0.03-0.14mg/m ³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	0.000021t	/	Compliant
	Nitrogen oxides	Organised discharge	13	Coating workshop, completion inspection workshop	4-20mg/m ³	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	0.000054t	/	Compliant
					Coating workshop	13-20mg/m ³	"Atmospheric Pollutant Emission Limits for Boilers" (DB44/765-2019)		
	Sulphur dioxide	Organised discharge	13	Coating workshop	N/D	"Volatile Organic Compound Emission Standards for Surface Coating (Auto Manufacturing)" (DB44/816-2010)	/	/	Compliant
ZTE Nanjing	Waste box containing lead and tin	Entrusted treatment	/	Production line	/	/	4.1835t	8t/a	Compliant
	Waste empty container	Entrusted treatment	/	Production line	/	/	19.7465t	20t/a	Compliant
	Waste circuit board	Entrusted treatment	/	Production line	/	/	17.1025t	45t/a	Compliant
	Waste bonding agent and sealant	Entrusted treatment	/	Production line	/	/	24.595t	25t/a	Compliant
	Waste liquid containing solvent	Entrusted treatment	/	Production line	/	/	23.198t	66t/a	Compliant

Environmental and Social Responsibility

5.1.2 Environmental protection and related treatments***(1) Compliance of production operations with laws, regulations and standard pertaining to environmental protection***

The Company, ZTE Smart Auto and ZTE Nanjing conduct its production operations in strict compliance with national environmental laws and regulations and industry standards, including the Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, National Catalogue of Hazardous Wastes, Atmospheric Pollutant Emission Limits, Water Pollutant Discharge Limits, Pollution Control Standards for General Industrial Solid Waste Storage and Disposal Grounds, Pollution Control Standards for Hazardous Waste Storage, Energy Conservation Law of the People's Republic of China and Noise Emission Standards for Areas Surrounding Industrial and Corporate Boundaries. In our daily management, dedicated administrative bodies have been set up to manage the Company's environmental affairs to ensure compliance with national environmental laws and regulations and industry standards.

(2) Pertinent environmental administrative permits

ZTE, ZTE Smart Auto and ZTE Nanjing have conducted environmental impact assessment for construction projects in accordance with environmental laws and regulations and obtained environmental assessment approval documents from the environmental authorities and obtained relevant permits in accordance with environmental laws and regulations.

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

ZTE has installed VOC exhaust gas processing equipment at the outlet of exhaust gas discharge and the exhaust gas is processed through the internal adsorption unit of equipment, UV photolysis, water spraying system and discharged after meeting relevant standards, formulated administrative systems and contingency plans, enhanced regulation and control of sources of the Company's environment risks and emergency measures in response to environmental pollution, and conducted regular safety inspections in accordance with environmental protection requirements. All equipment have been operating in good conditions.

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

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

(4) Environmental self-monitoring plan

ZTE, ZTE Smart Auto and ZTE Nanjing have formulated annual environmental management and monitoring plans designating requirements such as monitoring points in respect of exhaust gas and sewage, items to be monitored and frequency of monitoring, and have appointed a qualified third-party environmental monitoring institution to conduct tests to ensure compliance in the discharge of various pollutants.

Environmental and Social Responsibility

(5) Contingency plans for unforeseen environmental incidents

ZTE, ZTE Smart Auto and ZTE Nanjing have organised identification and assessment of environmental risks and formulated risk-specific preventive and improvement measures. Respective “Contingency Plans for Environmental Emergencies” formulated and announced have passed the assessment by experts and completed filing with the environmental authorities and drills have been organised regularly.

(6) Investment in environmental treatment and protection and payment of environmental tax

In 2022, the Group’s total expenditure in environmental treatment and protection amounted to approximately RMB32.00 million, which has been applied in the handling of exhaust gas, sewage, hazardous waste and garbage, installation of environmental monitoring equipment, energy-saving conversion through R&D, production and administration, and green landscape in the plant areas. In 2022, the Group paid environmental taxes with an approximate amount of RMB1.43 million.

(7) Administrative punishments relating to environmental issues

The Group was not subjected to any administrative punishment relating environmental issues in 2022.

(8) Measures and achievements in carbon reduction during the reporting period

As a company actively practising green development, the Group takes heed of the impact of its operations on the environment and has streamlined and improved the environmental management system in relation to its production and operation on a normalised basis. In active fulfillment of our environmental duties, we give full consideration to the environmental effect of all operating segments. We emphasise environmental protection at all steps throughout the life-cycle of the product from the choice of materials, R&D, manufacturing, sales, maintenance to retirement and recycling, endeavouring to minimise the full-cycle environmental impact of our products, such that a green strategy is underpinning all business segments of the Company.

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

5.2 SOCIAL RESPONSIBILITY

For details of the Company’s performance of social responsibility, please refer to the “2022 Sustainability Report” published by the Company on the same date as this report.

Environmental and Social Responsibility

5.3 CONSOLIDATING ACHIEVEMENTS OF COUNTER-POVERTY INITIATIVES AND RURAL REVITALISATION WORK

In 2022, we took actions to consolidate the achievements of our counter-poverty initiatives and rural revitalisation work under the guidance of national policies. In addition to our long-term commitment to education assistance and services for the seniors, we have also launched 36 community welfare projects in industrial assistance, improvements to residential environment and aid through purchase in 23 counties across the nation for the direct benefit of more than 60,000 recipients. Specifically:

- (1) In connection with educational assistance, grants were provided to 1,100 senior high school students and 260 college students through two projects: “ZTE Education Assistance for China” and “ZTE Angel Education Assistance Programme”. Of the senior high school students aided by us, 296 took part in the college entrance examination for 2022 and 89.19% were qualified for undergraduate studies. Moreover, activities such as summer camps, publication of “Answering the Perplexity of Youngsters — a Handbook”, science lessons and career guidance sessions were organised to support the growth of village students into individuals with independent thinking, aptitude for collaboration, social vision and drive for action.
- (2) In connection with relief for the underprivileged, we organised visits to veteran soldiers of the war of resistance in Baoshan, Yunnan for the 17th year in a row, offering a cash gift of RMB5,000 to each while arranging senior-friendly conversion work for their homes to afford more convenience for their retirement life. Elsewhere, we supplied approximately 16 tonnes of daily supplies and close to 100 smart phones to solo seniors, seniors in the community or elderly homes across the nation to offer precise support.
- (3) In connection with industrial aid, we offered support to 8 feature industrial projects, including fresh corn processing in Heilongjiang, oil tea plantation in Zhejiang, complementary cold storage in the Economic and Industrial Demonstrative Park in Guangxi and paddy plantation in Shanlan, Hainan, creating close to 1,000 jobs for local residents and enabling farmers to increase their earnings by getting jobs locally in nearby places.
- (4) In connection with agricultural aid through purchase, we persisted in bringing aid through purchase and social relief together by donating the agricultural products purchased from assisted regions to underprivileged groups to magnify the heart-warming effect. In 2022, we purchased rice, soybean oil and nuts from Heilongjiang and sent all products to underprivileged groups in Gansu, Qinghai, Guangxi, Shandong and Hubei.
- (5) In connection with the digital village, we made donations to 8 projects such as the construction of IT-enabled classrooms, digital village control centres and terminal products donation, in order to assist in the construction of a digital service regime integrating the production, daily life and ecology at villages, while also seeking to enhance the sense of happiness for rural residents by assisting in road and bridge construction and facelifts for villages.

In 2023, the Company will continue to focus on the needs of the community and share the compassion of ZTE with a special emphasis on five major areas: education, medical aid, relief for the underprivileged, rural revitalisation and environmental protection.

Material Matters

The Group's material matters in 2022 included litigation and arbitration, connection transactions, third-party guarantees and performance of undertakings, the details of which are set out as follows:

6.1 MATERIAL LITIGATION AND ARBITRATION

In 2022, the Group did not incur any material litigation or arbitration as defined under the Shenzhen Listing Rules and Hong Kong Listing Rules. The Group's non-material litigation and arbitration proceedings are set out as follows:

1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB41,797,600). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB41,625,100) together with accrued interests and legal fees payable immediately by the Brazilian company (the "Primary Case"). In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court (the "Sued Case") alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB111 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

On 18 March 2022, the presiding judge of the Primary Case ruled that the valid period for the execution of the credit rights ruled in favour of ZTE Brazil expired on 13 June 2022. On 1 April 2022, ZTE Brazil filed an appeal against such ruling. Pursuant to Brazilian law, the valid period for an execution will not be suspended because of an appeal. Therefore, on 8 June 2022, ZTE Brazil applied to the Court of Brasilia, the court for the Primary Case, to request deliberation between the Court of Brasilia and Civil Court No. 15 of Sao Paulo City, Brazil, the court for the Sued Case, in support of the Brazilian subsidiary's application for the set-off of the credit rights ruled in favour in the Primary Case against any liabilities that may materialise in the event of an unfavourable ruling under the Sued Case. On 19 July 2022, the Court of Brasilia ruled in favour of the aforesaid application for set-off, confirming that, in the event of an unfavourable ruling against ZTE Brazil under the Sued Case, ZTE Brazil will be allowed to set off a compensation amount of BRL176,997,100 (as at the date of ruling, subject to inflationary adjustments as at the date of actual set-off, equivalent to approximately RMB236 million).

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

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2022 where BRL amounts are translated at the exchange rate of BRL1: RMB1.3331.

Material Matters

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

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

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

On 25 January 2021, the aforesaid natural person filed an appeal to the Supreme People's Court for the withdrawal of the first trial judgement and ruling in support of all the claims of the aforesaid natural person instead. On 16 August 2021, the Supreme People's Court ruled for the appeal to be automatically withdrawn and the first trial judgement to remain in effect on the grounds the aforesaid natural person had not furnished the prepayment of the second trial case admission fee within the stipulated period.

On 26 December 2021, the aforesaid natural person filed an application for retrial to the Guangdong Higher Court appealing for the withdrawal of first trial judgement and ruling in support of all the claims of the aforesaid natural person instead, and the assumption of all litigation fees for the primary trial by the Company. On 21 March 2022, the Company received the retrial ruling from the Guangdong Higher Court which rejected the natural person's application for retrial.

On 5 September 2022, the aforesaid natural person applied to Guangdong Provincial People's Procuratorate for the implementation of trial supervision procedures. On 24 November 2022, Guangdong Provincial People's Procuratorate ruled against the application for supervision, upon which the litigation procedures of this case were closed in full.

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

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

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

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

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

Material Matters

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

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

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

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

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

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

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

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

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

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

On 18 July 2022, the first trial commenced at Rencheng Court. No ruling has been issued yet.

Material Matters

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

6.2 UPDATE OF THE AGREEMENT WITH THE UNITED STATES DEPARTMENT OF JUSTICE SIGNED IN 2017 : THE TERM OF PROBATION AND THE TERM OF THE MONITOR END

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

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

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

Material Matters

6.3 MATERIAL CONNECTED TRANSACTIONS

6.3.1 Material connected transactions as defined under Shenzhen Listing Rules

(1) Connected transactions in the ordinary course of business

In 2022, the Group did not enter into any material connected transactions with a single connected party with an aggregate transaction amount of over RMB30 million and representing more than 5% of the Company's net assets as at 31 December 2022. Details of the Group's connected transactions with connected parties as considered and approved by the Board are set out as follows:

Unit: RMB10,000

Counterparty	Nature of connection	Subject matter	Price	Transaction limit for 2022 approved by the Board	Transaction amount in 2022	As a percentage of similar transactions (%)
Zhongxingxin and its subsidiaries and companies in which it held equity interests of 30% or above	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials by the Company from the connected party	Cabinets and related accessories: RMB1-RMB300,000 per unit, cases and related accessories: RMB1-RMB15,000 per unit, shelters: RMB1,000-RMB100,000 per unit; railings: RMB1,000-50,000 per piece; antenna poles: RMB200-2,000 per piece; optical products: RMB1.3-30,000 per unit; refined-processing products: RMB0.5-50,000 per unit; packaging materials: RMB0.01-5,000 per piece; FPC, R-FPC and components: RMB0.5-100 per piece; LiFePO4 battery: RMB600-8,000 per unit; battery accessories: RMB100-600 per unit; industrial cameras: RMB5,000-150,000 per unit; auxiliary installation device for image-forming systems: RMB1,000-50,000 per set; industrial lens: RMB1,000-15,000 per unit; industrial light source: RMB1,000-50,000 per set; industrial robots: RMB100,000-280,000 per set; graphic processing controllers: RMB500-50,000 per set; graphic capture systems: RMB2,000-100,000 per set; software algorithms: RMB20,000-400,000 per set; motion control systems: RMB2,000-200,000 per set; video monitoring systems: RMB20,000-100,000 per set; temperature control systems: RMB200-2,000 per set; industrial light source controllers: RMB500-20,000 per set; wiring equipment: RMB0-40,000 per unit; optical fibre patch cords: RMB0-3,000 per piece; optical cable components: RMB0-500 per piece, depending on measurement, level of sophistication, materials used and functional features.	55,000	30,310.6	0.39%
航天歌華信息技術有限公司 ("航天歌華")	Subsidiary of a company for which a connected natural person of the Company held the office of chief accountant	Sale of full range of government and enterprise products by the Company to the connected party	Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	120,000	94,000.7	0.76%
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of personnel hiring and project outsourcing services by the Company from the connected party	Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB830-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day.	9,838	5,342.9	0.07%
ZTE Software Technology (Nanchang) Company Limited ("Nanchang Software")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of personnel hiring and project outsourcing services by the Company from the connected party	Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB830-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day.	6,600	4,556.0	0.06%
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	Subsidiary of a company for which a connected natural person of the Company acted as director and its subsidiaries	Purchase of hotel services by the Company from the connected party	Purchase price not higher than prices at which Zhongxing Hetai sells products (or services) to other customers purchasing similar products (or services) in similar amounts, subject to the actual agreement signed by the two parties. Hotel services purchased by the Group from Zhongxing Hetai included mainly hotel accommodation and conference and training venue. The purchase price of hotel accommodation ranged from RMB350-800/room/day, with variation depending on factors such as room type, seasonality and the number of breakfast included. The purchase price for conference and training venue ranged from RMB1,100-10,000/room/day, depending on factors such as size and capacity of the conference room.	4,600	3,756.1	0.05%
Zhongxing Hetai or its subsidiaries	Subsidiary of a company for which a connected natural person of the Company acted as director and its subsidiaries	Lease of property and related equipment and facilities by the Company to the connected party	In 2022-2023, the rental fee was RMB60/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB53/sq.m./month for hotel properties in Nanjing; RMB72/sq.m./month for hotel properties in Shanghai; RMB41/sq.m./month for hotel properties in Xi'an. The rental fee for related equipment and facilities required by the hotel operations in Shenzhen, Shanghai, Nanjing and Xi'an was 1,050,000/year.	5,754	5,472.8	17.31%

Material Matters

The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products and services at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations. The Group does not rely on connected parties, and the connected transactions do not affect the independence of the Group.

Connected parties from which the Company made purchases were selected through the Company's accreditation and bidding or negotiation procedures. Prices at which the purchase orders were entered into by the two parties were determined through arm's length negotiations and on the basis of normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products and services of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms by reference to valuation assessed by professional property values.

(2) Other connected transactions

In 2022, the Group had no connected transactions arising from acquisitions or disposals of assets or equity interests, nor connected transactions involving joint investment in third parties, nor creditors or debtors with connected parties, nor any connected financial companies. In 2022, there was no deposit, lending, credit facilities or other financial transactions between the financial company controlled by the Company and connected parties.

6.3.2 Continuing connected transactions under the Hong Kong Listing Rules

In accordance with Chapter 14A of the Hong Kong Listing Rules, the following connected transactions are required to be disclosed in this report. The Company hereby confirms that the disclosures requirements under Chapter 14A of the Hong Kong Listing Rules have been complied with.

6.3.2.1 Continuing connected transactions for the purchase of raw materials from Zhongxingxin

As considered and approved at the Forty-third Meeting of the Eighth Session of the Board of Directors of the Company, the Group entered into the Purchase Framework Agreement with Zhongxingxin on 16 December 2021. The statutory procedures of reporting and announcement have been fulfilled in accordance with relevant clauses under Chapter 14A of the Hong Kong Listing Rules based on the estimated annual cap of connected transactions for 2022 under the said agreement. For details, please refer to the "CONTINUING CONNECTED TRANSACTIONS PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN" published by the Company on the Hong Kong Stock Exchange website and the Company's website on 16 December 2021.

(1) Counterparty and connected relationship

As the controlling shareholder of the Company, Zhongxingxin is a connected person of the Company under the Hong Kong Listing Rules. Zhongxingxin and its subsidiaries and investee companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% of shareholdings or above), are connected persons of the Company under the Hong Kong Listing Rules.

Material Matters

(2) Purpose of transaction

Zhongxing and its subsidiaries and companies in which it directly or indirectly owns 30% equity interests or above (collectively “Zhongxingxin Group”) had been selected as long-term suppliers through the Group’s qualification and bidding procedures as they had consistently been able to manufacture products in compliance with the Group’s demands and supply premium products and services at competitive prices. The Group considers it very important and beneficial to have reliable and cooperative suppliers, and purchasing raw materials required for the Group’s products from Zhongxingxin Group allows the Group to ensure the quality and timely delivery of such parts.

(3) Nature of transaction

Purchases of raw materials by the Company from Zhongxingxin Group, comprising primarily cabinets and accessories, cases and accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components, LiFePO₄ battery and accessories, industrial cameras, auxiliary installation device for image-forming systems, industrial lens, industrial light source, industrial robots, graphic processing controllers, graphic capture systems, software algorithms, motion control systems, video monitoring systems, temperature control systems, industrial light source controllers, wiring equipment, optical fibre patch cords and optical cable components.

(4) Pricing policy and other terms

Before becoming an approved supplier of the Group, Zhongxingxin Group must pass the Group’s internally formulated qualification procedures based on qualifications, competence, product quality and price. Zhongxingxin Group were selected through the Group’s qualification and bidding procedures as described above.

In general, the Group invites at least more than three qualified suppliers to submit a one-off tender for the supply of each type of raw materials prior to procurement each year based on its estimated annual requirements. The Procurement Department and Tender Department of the Group jointly rate the qualified suppliers in terms of the prices and quality of their products, service quality and credentials. Qualified suppliers are selected for tenders in order of their ratings. Based on the volume of the Group’s requirement for such raw materials, it may select one or more qualified suppliers. The price offered to the Group by a qualified supplier who have won the tender will not be higher than those who have not. The type, estimated volume and price for the purchase of raw materials from the selected qualified supplier for the coming year are determined during the stage of tendering. Purchase orders are issued to the selected qualified suppliers based on the actual volume and timing as required in day-to-day business. The qualified suppliers provide raw materials to the Group according to the tender and the actual volume of purchase will generally not exceed the estimated volume determined at the award of the tender. In the event of the actual purchase volume exceeding the estimated volume, the Group will arrange another tender in respect of the excessive requirements according to the aforesaid tender procedure. The Group performs the same tender procedure for connected suppliers and independent third parties. No special concessions are given to connected parties.

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement and bidding results, the Group will enter into individual agreements with Zhongxingxin Group by way of the issuance of purchase orders, specifying product types, agreed quantities and prices, delivery schedules, locations and modes, payment methods, packaging, receipt of delivery, default liability, quality specifications and after-sale service terms. Prices shall be determined in accordance with the pricing policy stipulated under the Zhongxingxin Purchase Framework Agreement.

Material Matters

The Directors have confirmed that the accreditation and tender procedures and pricing policy under the Zhongxingxin Purchase Framework Agreement, together with the internal procedures of the Group, can effectively ensure that the prices at which the Group conducts purchases from Zhongxingxin Group have been arrived at through arm's length negotiations and based on normal commercial terms without compromising the interests of the Company and its shareholders as a whole.

(5) *Total price of transaction and actual total transaction amount for 2022*

Pursuant to the Zhongxingxin Purchase Framework Agreement in respect of the purchase of raw materials by the Group from Zhongxingxin Group, the effective period shall be from 1 January 2022 to 31 December 2022 and the amount of purchase from Zhongxingxin and its subsidiaries and investee companies made by the Group for 2022 shall be capped at RMB550 million (before VAT).

The total transaction amount for the Group's purchase of raw materials from Zhongxingxin Group was approximately RMB300 million.

(6) *Endorsement of the continuing connected transactions*

The Independent Non-executive Directors of the Company have reviewed each of the aforesaid continuing connected transactions of the Group and confirmed that:

- the transactions were conducted in the ordinary and usual course of business of the Company;
- the transactions were entered into on normal commercial terms or above;
- the transactions were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- the Company has established adequate and efficient internal control procedures in relation to the aforesaid connected transactions.

The auditors of the Company have examined the aforesaid continuing connected transactions and confirmed that:

- no matters had come to the attention of the auditors causing the auditors to believe that the disclosed continuing connected transactions had not been approved by the Board of Directors of the Company;
- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had not been conducted in accordance with the pricing policies of the Group in all material aspects (where goods or services are being supplied or rendered by the Company);
- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had not been conducted in accordance with the terms of the agreements governing them in all material aspects;
- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had exceeded the relevant annual caps as disclosed by announcements.

Material Matters

The Board of Directors of the Company has confirmed that:

The auditors have furnished a confirmation in respect of the transactions in relation to matters described under Rule 14A.56 of the Hong Kong Listing Rules.

6.3.2.2 Other connected transactions

Transactions relating to the payment of remuneration by the Company to its key management personnel, including remuneration for the directors, supervisors and chief executive officers of the Company and its subsidiaries and new shares issued to the directors and chief executive officers of the Company and its subsidiaries by the Company under the share option incentive schemes, fall within the scope of connected transaction defined under Chapter 14A of the Hong Kong Listing Rules. Such transactions are exempted from compliance with provisions relating to connected transactions under Rule 14A.95 and Rule 14A.92(3).

The following transactions between the Group and its connected parties conducted in 2022 are exempted from compliance with provisions relating to connected transactions pursuant to Rule 14A.76:

Unit: RMB10,000

Counterparty	Connected relationship	Nature of transaction	Amount
Zhongxingxin	Controlling shareholder of the Company	Leased properties from connected parties	1,045.5
Shenzhen Zhongxing Cloud Service Company Limited	Subsidiary of Zhongxingxin	Leased properties to connected parties	347.6
深圳市中興新力精密機電技術有限公司	Subsidiary of Zhongxingxin	Leased properties to connected parties	1.1
Shenzhen Zhongxing International Investment Company Limited	35% held by a Director of the Company	Leased properties to connected parties	15.1
Tianjin Zhongxing International Investment Company Limited	Subsidiary of Shenzhen Zhongxing International Investment Company Limited	Leased properties from connected parties	480.3
Shenzhen Zhongxingxu Technology Company Limited	100% held by the spouse of a Supervisor of the Company	Sales of goods to connected parties	265.5

Save as disclosed in the above, there were no other connected transactions which should be deemed as “connected transactions” or “continuing connected transactions” as defined under Chapter 14A of the Hong Kong Listing Rules. The Company has complied with applicable disclosure requirements under Chapter 14A of the Hong Kong Listing Rules in respect of the aforesaid connected transactions.

Material Matters

6.4 MATERIAL CONTRACTS AND THEIR PERFORMANCE

The Group did not have any trust, contract management or lease of a material nature, entrusted wealth management, entrusted loans, loans to third parties or financial assistance or guarantee for associates or joint ventures in 2022. Third-party guarantees provided by the Group in 2022 are as follows:

(1) Overview of guarantee for third parties

As at 31 December 2022, the balance of the Group's third-party guarantee amounted to approximately RMB2,097,567,000, accounting for 3.58% of the Company's net assets. Guarantee provided for parties with a gearing ratio of over 70% amounted to RMB1,909,349,000. There was no guarantee for connected third parties nor guarantee in violation of regulations. An overview of the third-party guarantees is set out as follows:

Unit: RMB in ten thousand

	Guarantee approved during 2022	Guarantee incurred during 2022	Guarantee approved at the end of the year	Balance of actual guarantee at the end of the year
Provide to third parties outside the Group	—	—	—	—
Provided by the Company on behalf of subsidiaries and vice versa	556,440.0	131,276.3	801,492.1	176,942.0
Provided by subsidiaries on behalf of fellow subsidiaries	83,466.0	24,841.3	92,937.1	32,814.7
Total	639,906.0	156,117.6	894,429.2	209,756.7

(2) Details of third-party guarantee

Guaranteed party	Date of domestic announcement	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Duration	Whether completed
1. Provided to third parties outside the Group							
Beijing Fuhua Yuqi Information Technology Co., Ltd. ^{Note 1}	1 December 2016	RMB21,019,250	1 April 2017	RMB21,019,250	Joint liability	From the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract	Yes
2. Provided by the Company on behalf of subsidiaries and vice versa							
ZTE (H.K.) Limited ^{Note 2}	16 March 2018	Not more than USD600 million	1 June 2020	USD300 million	Joint liability	From 1 June 2020 to (1) six months after 1 June 2023, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	Yes
			13 August 2020	USD50 million	Joint liability	From 13 August 2020 to (1) 13 August 2025, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	Yes
			2 March 2021	USD150 million	Joint liability	A period of six months from 2 March 2021 to the loan maturity date (for loans, guarantee periods are calculated on the basis of individual drawdowns), provided that in the event of maturity being brought forward by the lender owing to the occurrence of events stipulated by laws and regulations or the master contract, guarantee period shall be two years from the date of maturity being brought forward	Yes

Material Matters

Guaranteed party	Date of domestic announcement	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Duration	Whether completed
ZTE France SASU	14 December 2011	EUR10 million	N/A	—	Assurance	From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	N/A
PT. ZTE Indonesia	19 February 2021	USD40 million	30 June 2021	USD40 million	Joint liability	Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	No
		IDR400 billion	30 June 2021	IDR400 billion	Joint liability	Effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later	No
PT. ZTE Indonesia ^{Note 3}	11 October 2022	IDR8,100 million	4 November 2022	IDR8,100 million	Joint liability	Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of PT. ZTE Indonesia under the "EPCN Equipment Purchase and Technical Support Contract" and "EPC Equipment Purchase and Technical Support Contract" are completed	No
11 overseas subsidiaries involved in the MTN Group project	17 March 2021	USD160 million	N/A	—	Joint liability	Commencing on the date of issuance of the guarantee certificate to MTN Group by the Company and ending upon the date of expiry of the "Framework Agreement", in any case not later than 5 years after the effective date of the "Framework Agreement"	N/A
		USD16 million	N/A	—	Joint liability	Commencing on the date of issuance of the performance bond and ending upon the date on which performance of obligations under the "Framework Agreement" and its subsidiary contract is completed	N/A
Xi'an Cris Semiconductor Technology Company Limited ^{Note 4}	25 June 2022	USD500 million	27 June 2022	USD188,217,900	Joint liability	Commencing on the date on which the letter of guarantee comes into effect and ending upon on the conclusion of a consecutive 2-year period during which Cris has not ordered any manufacturing service from the supplier provided that no debt payment is due and outstanding	No
3. Provided by subsidiaries on behalf of fellow subsidiaries							
Xi'an Cris Semiconductor Technology Company Limited ^{Note 5}	N/A	USD30 million	26 January 2017	—	Joint liability	Commencing on the date on which the "Guarantee Contract" comes into effect and ending upon on the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding.	Yes
Netas Bilişim Teknolojileri A.Ş.	N/A	USD2,153,300	14 November 2012	—	Joint liability	Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" is completed.	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş.	N/A	EUR10,753,800	5 May 2017	EUR10,753,800	Joint liability	Commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed	No
Netaş Bilişim Teknolojileri A.Ş. ^{Note 6}	9 March 2022	USD65 million	Note 6	USD30,777,400	Joint liability	Ending on the date on which the repayment of debt relating to the guarantee is completed	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ^{Note 6}	9 March 2022	USD15 million	Note 6	USD1,750,500	Joint liability	Ending on the date on which the repayment of debt relating to the guarantee is completed	No
NETAŞ TELEKOMÜNİKASYON A.Ş. ^{Note 6}	9 March 2022	USD30 million	Note 6	USD1,155,800	Joint liability	Ending on the date on which the repayment of debt relating to the guarantee is completed	No
Netaş Telecom Limited Liability Partnership ^{Note 6}	9 March 2022	USD10 million	Note 6	USD2,030,900	Joint liability	Ending on the date on which the repayment of debt relating to the guarantee is completed	No

Note 1: The Technology Development (Entrustment) Contract came into effect on 1 April 2017 upon execution. Beijing Fuhua Yuqi Information Technology Co., Ltd. ("Fuhua Yuqi") has provided a third-party counter-guarantee to the Company in respect of the aforesaid guarantee. As at 31 December 2022, performance of the obligations under the Technology Development (Entrustment) Contract had been completed and the aforesaid guarantee had been released.

Material Matters

- Note 2: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million. The aforesaid guarantee was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting of the Company. In 1 June 2020, ZTE HK entered a USD300 million loan agreement with 8 Chinese/foreign banks headed by Bank of China, Macau Branch ("BOC Macau"). At the same time, the Company entered into a guarantee agreement with BOC Macau to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. On 13 August 2020, ZTE HK entered into a USD50 million loan agreement with 3 banks, including CITIC Bank London Branch. At the same time, the Company entered into a guarantee agreement with CITIC Bank London Branch to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. On 2 March 2021, ZTE HK entered into a USD150 million loan agreement with BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. As of 31 December 2022, ZTE HK had settled all of the aforesaid loans in full and the guarantee had been released.
- Note 3: It was considered and approved at the Sixth Meeting of the Ninth Session of the Board of Directors of the Company that a performance guarantee of IDR8,100 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company. The aforesaid guarantee came into effect on 4 November 2022. As at 31 December 2022, the aforesaid guarantee was under normal performance.
- Note 4: As considered and passed at the Third Meeting of the Ninth Session of the Board of Directors of the Company, the provision of guarantee with an amount of not more than USD500 million guarantee in respect of the procurement business of Xi'an Cris Semiconductor Technology Company Limited ("Cris"), a subsidiary, by the Company was approved. On 27 June 2022, the Company issued a guarantee letter to the suppliers with a guarantee amount of USD500 million for a guarantee period commencing on the date on which the guarantee letter came into effect and ending on the date of conclusion of a consecutive two-year period during which Cris has not ordered any manufacturing service from the supplier provided that no debt payment is due and outstanding. As of 31 December 2022, the actual guarantee amount was USD188,217,900.
- Note 5: It was considered and approved at the board meeting of Sanechips Technology Co., Ltd., a subsidiary of the Company, that Sanechips Technology Co., Ltd. would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between Cris, its wholly-owned subsidiary, and Taiwan Semiconductor Manufacturing Company Limited ("TSMC"). As at 31 December 2022, the aforesaid guarantee had been released.
- Note 6: As considered and approved at the Forty-fifth Meeting of the Eighth Session of the Board of Directors of the Company, the 2021 Annual General Meeting and the Netaş board of directors, it was approved that a reciprocal joint-liability guarantee would be effected among Netaş and its subsidiaries in respect of composite credit facilities sought from financial institutions for an amount of not more than USD120 million. Netaş and BDH shall provide credit loan guarantee for Netaş Bilişim within the guarantee limit and as at 31 December 2022, the balance of actual guarantee was USD30,777,400; Netaş and Netaş Bilişim shall provide credit loan guarantee for BDH within the guarantee limit and as at 31 December 2022, the balance of actual guarantee was USD1,750,500; Netaş Bilişim shall provide credit loan guarantee for Netaş within the guarantee limit and as at 31 December 2022, the balance of actual guarantee was USD1,155,800; Netaş shall provide credit loan guarantee for Netaş Telecom Limited Liability Partnership within the guarantee limit and as at 31 December 2022, the balance of actual guarantee was USD2,030,900.
- Note 7: As considered and passed at the Forty-fifth Meeting of the Eighth Session of the Board of Directors of the Company and the 2021 Annual General Meeting, the provision of performance guarantee line of no more than USD300 million in aggregate for 8 overseas subsidiaries. The computations of the total amount of guarantee on behalf of subsidiaries approved in 2022 and the total amount of guarantee on behalf of subsidiaries approved as at the end of 2022 include a USD300 million guarantee provided for the 8 overseas wholly-owned subsidiaries. As at 31 December 2022, the balance of the aforesaid guarantee amounted to approximately USD299 million.
- Note 8: No guarantee liability or potential joint repayment liability has been incurred in 2022 in relation to the outstanding guarantees.
- Note 9: The guarantee amounts were translated at the book exchange rates of the Company as at 31 December 2022: USD1: RMB6.9555; EUR1: RMB1:7.4145; IDR1: RMB0.000446094.

(3) Opinion of Independent Non-Executive Directors

For the special statement and independent opinion on the fund transfers between the Company and connected parties and third-party guarantees of the Company furnished by the Independent Non-Executive Directors of the Company, please refer to the Overseas Regulatory Announcement on the Tenth Meeting of the Ninth Session of the Board of Directors published by the Company on the same date as this report.

6.5 PERFORMANCE OF UNDERTAKINGS

6.5.1 Undertakings by relevant parties such as the Company's shareholders, connected parties, acquirers and the Company for which fulfillment was completed in 2022 and those outstanding as at the end of the year

6.5.1.1 Undertakings of controlling shareholder

(1) Undertaking to avoid competition in same business

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

The undertaking was under normal performance in 2022 and there was no instance of non-completion of the performance of undertaking after the end of the relevant period.

(2) Undertaking to disclose sell-down of shares

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

The aforesaid undertaking was under normal performance in 2022 and there was no instance of failure to complete the performance of undertaking after the end of the relevant period.

(3) Undertaking relating to share issuance for asset acquisition and raising ancillary funds

The Company acquired 18.8219% equity interest in Sanechips Technology Co., Ltd., a subsidiary, held in aggregate by Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership) ("Hengjian Xinxin") and Shenzhen Huitong Rongxin Investment Company Limited (renamed "Shenzhen Nanshan Strategic New Industry Investment Company Limited") ("Huitong Rongxin") by way of issuance of 85,321,143 A shares in 2021 (the "Transaction").

In respect of the issuance of shares for asset acquisition, Zhongxingxin has undertaken: (1) to guarantee that the information and statements furnished in relation to the transaction would be true, accurate and complete information has been completed in a normal manner; (2) in respect of remedial measures to compensate dilution of return for the current period owing to the transaction, that it would not interfere with the Company's operations and management beyond its right or appropriate the Company's interests as the controlling shareholder of the Company.

Material Matters

As the issuance of shares for asset acquisition has completed and the Company reported RMB51.48 billion, RMB6.81 billion and RMB1.47/share in owners' equity attributable to holders of ordinary shares of the listed company, net profit attributable to holders of ordinary shares of the listed company and basic earnings per share, respectively, for 2021, which were in excess of the relevant requirements under the "Overseas Regulatory Announcement" published on 16 November 2020, the undertaking has been completed.

6.5.1.2 Undertaking of relevant shareholders in relation to the share issue for asset acquisition

In respect of the issuance of shares for asset acquisition, Hengjian Xinxin and Huitong Rongxin have undertaken to: (1) be subject to a share lock-up under which A shares issued to them by the Company shall not be transferred or entrusted to management by other parties during the 12 months following the listing of such A shares on Shenzhen Stock Exchange; (2) maintain the independence of the listed company and refrain from intervening with the operations and management of the Company and its subsidiaries beyond its right and ensure the independence of the Company in business, asset, finance, staff and organisation.

The A shares issued in connection with the share issuance for asset acquisition were listed on Shenzhen Stock Exchange on 10 November 2021 with a lock-up of 12 months, which was released on 10 November 2022. Hence the undertaking has been completed.

6.5.1.3 Undertaking of the Company and the Company's Directors, Supervisors and senior management

In respect of the issuance of shares for asset acquisition, the Company and the Company's Directors, Supervisors and senior management have undertaken: (1) to guarantee that the information and statements furnished in relation to the transaction would be true, accurate and complete information has been completed in a normal manner; (2) the Company's Directors and senior management have undertaken, in respect of remedial measures to compensate dilution of return for the current period owing to the transaction, that they would not tunnel interest to other entities or individuals without compensation or on unfair terms or compromise the Company's interests in other ways.

As the issuance of shares for asset acquisition has completed and the Company reported RMB51.48 billion, RMB6.81 billion and RMB1.47/share in owners' equity attributable to holders of ordinary shares of the listed company, net profit attributable to holders of ordinary shares of the listed company and basic earnings per share, respectively, for 2021, which were in excess of the relevant requirements under the "Overseas Regulatory Announcement" published on 16 November 2020, the undertaking has been completed.

6.5.2 Company statement on meeting original profit forecasts for assets or projects and the reasons therefor, where such profit forecasts have been made and 2022 falls within the profit forecast period

Applicable N/A

6.6 APPROPRIATION OF NON-OPERATING FUNDS AND CREDIBILITY

There was no appropriation of non-operating capital of the Company by the controlling shareholder and other connected parties in 2022. The Company and its controlling shareholder had no unfulfilled obligation ascertained by valid legal documents issued by the court or due and outstanding debt of a substantial amount.

6.7 PUNISHMENT AND RECTIFICATION

There was no enforcement and criminal punishment in accordance with the law on alleged crimes, case investigation by CSRC or administrative penalty by CSRC or material administrative penalty by other competent authorities for alleged violations of laws and regulations, detainment for alleged material violations of discipline and law or crime in office by disciplinary authorities affecting the performance of their duties, or enforcement by other competent authorities for alleged violation of laws and regulations affecting the performance of their duties against the Company, its Directors, Supervisors, senior management or controlling shareholder in 2022.

In 2022, the mother of Ms. Li Miaona, Supervisor of the Company, bought and sold 2,000 shares in the Company in aggregate in September 2022, constituting a short-term trade. The gain of RMB600 from the short-term trade has been reverted to the Company. The Shenzhen Regulatory Bureau of CSRC implemented regulatory measures against Ms. Li Miaona in November 2022 by way of the issuance of a warning letter. For details, please refer to the “Overseas Regulatory Announcement” published by the Company on 18 November 2022. The Company was highly concerned with the aforesaid incidents and has enhanced the learning of relevant rules for compliant trading in the Company’s shares by Directors, Supervisors, senior management and their families and relatives to ensure that they fully understand and comply with such rules. Meanwhile, the Company has established a reminder and regular inspection mechanism requiring Directors, Supervisors, senior management to regularly check trading in the Company’s shares by themselves or their families or relatives to ensure compliance of such trading.

6.8 OTHER MATERIAL MATTERS

The 2022 financial report of the Group has been audited by Ernst & Young Huaming LLP, who has furnished a standard audit report without qualified opinion. Therefore the Board of Directors, the Supervisory Committee and the Independent Non-executive Directors are not required to furnish any statement on “Qualified Audit Report” pertaining thereto.

The Company was not subject to bankruptcy or reorganisation in 2022 or withdrawal from listing subsequent to the publication of the annual report.

Save as matters disclosed in this report, there were no other discloseable material matters occurring to the Company or its subsidiaries in 2022 that remained undisclosed.

Changes in Shareholdings and Information of Shareholders

7.1 CHANGES IN SHAREHOLDINGS

Unit: share

Type of shares	31 December 2021		Increase/decrease as a result of the change in 2022 (+, -)					31 December 2022	
	Number of shares	Percentage	New issue ^{Note 1}	Bonus issue	Transfer from capital reserve	Others ^{Note 2}	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	85,909,064	1.82%	+254,922	—	—	-85,435,743	-85,180,821	728,243	0.02%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	39,378,989	0.84%	—	—	—	-39,378,989	-39,378,989	—	—
3. Other domestic shares	45,942,154	0.97%	—	—	—	-45,942,154	-45,942,154	—	—
Comprising: Domestic non-state-owned corporate shares	45,942,154	0.97%	—	—	—	-45,942,154	-45,942,154	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Shares held by Directors, Supervisors and senior management subject to lock-up	587,921	0.01%	+254,922	—	—	-114,600	140,322	728,243	0.02%
II. Shares not subject to lock-up	4,644,886,908	98.18%	+5,061,614	—	—	+85,435,743	+90,497,357	4,735,384,265	99.98%
1. RMB ordinary shares	3,889,384,374	82.21%	+5,061,614	—	—	+85,435,743	+90,497,357	3,979,881,731	84.03%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	755,502,534	15.97%	—	—	—	—	—	755,502,534	15.95%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	4,730,795,972	100.00%	+5,316,536	—	—	—	+5,316,536	4,736,112,508	100.00%

Note 1: The Company's A shares increased 5,316,536 shares following the exercise of a total of 5,316,536 A share options by the participants under the 2017 Share Option Incentive Scheme and the initial grant of the 2020 Share Option Incentive Scheme in 2022.

Note 2: The 85,321,143 A shares issued under the Company's share issuance for asset acquisition released from lock-up on 10 November 2022 and lock-up or unlocking of shares of Directors, Supervisors and senior management on a pro-rata basis by the Company in accordance with Shenzhen Stock Exchange Self-disciplinary Regulatory Guide for Listed Companies No. 10 — Administration of Movements in Shares.

7.2 CHANGES IN SHARES SUBJECT TO LOCK-UP

Unit: share

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up as at 31 December		Increase in the number of A shares subject to lock-up in 2022	Number of A shares subject to lock-up as at 31 December		Reason for lock-up	Date of unlocking
		2021	Number of A shares unlocked in 2022		2021	2022		
1.	Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership)	45,942,154	45,942,154	—	—	—	Restricted shares under share issuance for asset acquisition	10 November 2022
2.	Shenzhen Nanshan Strategic New Industry Investment Company Limited	39,378,989	39,378,989	—	—	—		
3.	Xie Daxiong	371,852	92,925	—	278,927	—		
4.	Xu Ziyang	63,000	—	63,000	126,000	—		
5.	Wang Xiyu	51,424	12,750	65,601	104,275	—		
6.	Xie Junshi	22,500	—	61,851	84,351	—		
7.	Li Ying	40,950	8,925	39,600	71,625	—	Shares held by Directors, Supervisors and senior management subject to lock-up	In accordance with Shenzhen Stock Exchange Self-disciplinary Regulatory Guide for Listed Companies No. 10 — Administration of Movements in Shares
8.	Xia Xiaoyue	38,195	—	—	38,195	—		
9.	Ding Jianzhong	—	—	24,870	24,870	—		
10.	Li Quancai	—	4,000	4,000	—	—		
	Total	85,909,064	85,439,743	258,922	728,243	—		

Changes in Shareholdings and Information of Shareholders

7.3 ISSUE AND LISTING OF SECURITIES

- (1) The total share capital of the Company increased by 5,316,536 shares following the exercise of a total of 5,316,536 A share options by participants under the 2017 Share Option Incentive Scheme and participants under the initial grant of the 2020 Share Option Incentive Scheme of the Company during the reporting period.
- (2) For details of the Company's issuance of Super and Short-term Commercial Paper ("SCP") during the reporting period, please refer to the section headed "8.1 BASIC INFORMATION ON DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES" in this report.
- (3) The Company had no employees' shares.

7.4 SHAREHOLDERS AND CONTROLLING SHAREHOLDER**7.4.1 Total number of shareholders and shareholdings of top 10 shareholders****(1) Total number of shareholders**

As at 31 December 2022, there were 395,802 shareholders (comprising 395,493 holders of A shares and 309 holders of H shares). As at 28 February 2023, namely the end of month immediately preceding the date of publication of the annual report, there were 367,193 shareholders (comprising 366,884 holders of A shares and 309 holders of H shares).

Changes in Shareholdings and Information of Shareholders

(2) Shareholdings of top 10 shareholders and top 10 shareholders that were not subject to lock-up

As at 31 December 2022, all shares held by the top 10 shareholders of the Company were shares not subject to lock-up, namely the shareholdings of the top 10 shareholders not subject to lock-up and the shareholdings of the top 10 shareholders are identical, the details of which are as follows:

Unit: Share

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the year	Class of shares	Increase/decrease during the year	Number of shares held subject to lock-up	Number of shares pledged, marked or frozen
1. Zhongxingxin ^{note 1}	Domestic general corporation	21.28%	1,005,840,400	A share	—	—	Nil
			2,038,000	H share	—	—	—
2. HKSCC Nominees Limited ^{note 2}	Foreign shareholders	15.89%	752,361,004	H share	-27,552	—	Unknown
3. Hong Kong Securities Clearing Company Limited ^{note 3}	Foreign corporation	2.38%	112,621,404	A share	+2,464,776	—	Nil
4. Shenzhen Nanshan Strategic New Industry Investment Company Limited	State-owned corporation	1.44%	68,030,180	A share	-14,380,917	—	Nil
5. NSF Portfolio #113	Others	1.42%	67,480,025	A share	+37,662,507	—	Nil
6. Basic Pension Fund Portfolio #802	Others	1.01%	47,804,825	A share	+27,325,454	—	Nil
7. Shenzhen Investment Holding Capital Co., Ltd. – Shenzhen Investment Holding Win-Win Equity Investment Fund Partnership (Limited)	Others	0.91%	43,032,108	A share	—	—	Nil
8. Central Huijin Asset Management Co. Ltd.	State-owned corporation	0.89%	42,171,534	A share	—	—	Nil
9. Hunan Nantian (Group) Co. Ltd.	State-owned corporation	0.88%	41,516,065	A share	—	—	Nil
10. Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership)	Domestic general corporation	0.88%	41,442,154	A share	-4,500,000	—	Nil
Descriptions of any connected party relationships or concerted actions among the above shareholders			Zhongxingxin was neither a connected party nor a party of concerted action of any of the top 10 shareholders. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top 10 shareholders.				
Description of the above-mentioned shareholders' delegated/entrusted voting rights and waiver of voting rights			N/A				
Strategic investor or general corporation becoming a top 10 shareholder as a result of new share placing (if any)			N/A				
Special description for the existence of special repurchase account among the top 10 shareholders (if any)			N/A				
Top 10 shareholders conducting any agreed repurchases in 2022			No				
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 shares. Zhongxingxin sold down 46,900,000 A shares in the Company on 1 March 2023. As at the date of publication of this report, Zhongxingxin holds in aggregate 960,978,400 shares, accounting for 20.29% of the Company's total share capital.

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

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

Note 4: Save as disclosed above, the Company had no other corporate shareholders holding 10% or above of the Company's shares.

Changes in Shareholdings and Information of Shareholders

7.4.2 Controlling shareholder

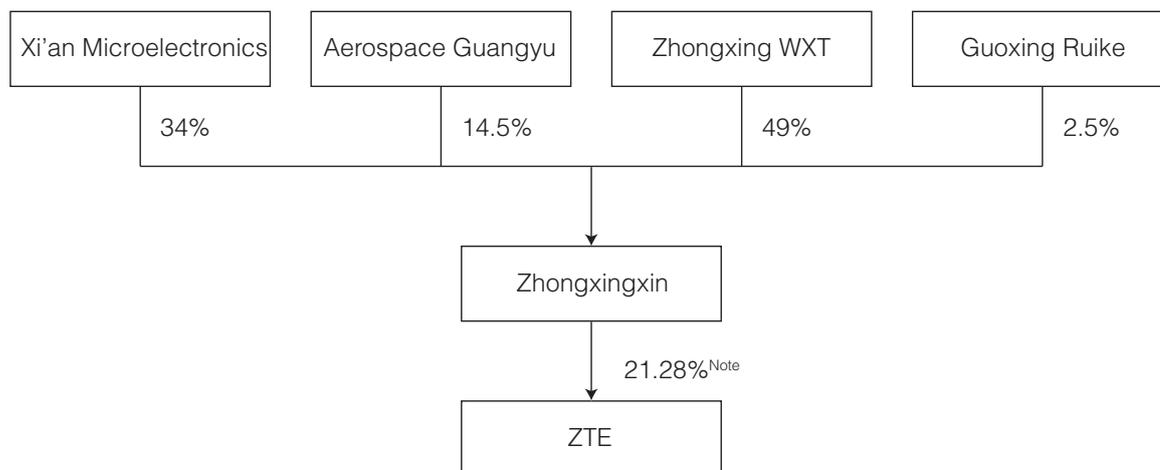
During the reporting period, there was no change in the Company's controlling shareholder, the details of which are as follows:

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

Pylon Technologies Co., Ltd. (上海派能能源科技股份有限公司), a subsidiary of Zhongxingxin, is listed on the STAR Market of Shanghai Stock Exchange (stock code: 688063, stock name: 派能科技).

Changes in Shareholdings and Information of Shareholders

Xi'an Microelectronics Technology Research Institute ("Xi'an Microelectronics"), Shenzhen Aerospace Guangyu Industrial Company Limited ("Aerospace Guangyu"), Shenzhen Zhongxing WXT Equipment Company Limited ("Zhongxing WXT") and Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership) ("Guoxing Ruike") held a 34%, 14.5%, 49% and 2.5% stake in Zhongxingxin, respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin, respectively. Therefore, no shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. The following diagram shows the shareholding relationship between the aforesaid entities and the Company as at 31 December 2022.



Note: As at the date of publication of this report, Zhongxingxin holds 960,978,400 shares in the Company, accounting for 20.29% of the Company's total share capital.

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

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a state-owned enterprise established on 17 August 1989. The legal representative is Xie Jing and the registered capital amounts to RMB17,950,000. The scope of business includes sales of aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile and automobile.

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

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

Changes in Shareholdings and Information of Shareholders

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

As at 31 December 2022, the following shareholders held interests or short positions in 5% or more in various classes of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of: ^{Note 1}	
			Total share capital	Class shares
Zhongxingxin ^{Note 2}	Beneficial owner	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
Zhongxing WXT ^{Note 2}	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
Xi'an Microelectronics ^{Note 2}	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
China Aerospace Electronics Technology Research Institute ^{Note 2}	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
China Aerospace Science and Technology Corporation ^{Note 2}	Interests of corporate controlled by you	1,005,840,400 A shares (L)	21.24% (L)	25.27% (L)
BlackRock, Inc.	Interests of corporate controlled by you	68,229,843 H shares (L) 1,674,600 H shares (S)	1.44% (L) 0.04% (S)	9.03% (L) 0.22% (S)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.81% (L)	5.08% (L)

(L) — Long position; (S) — Short position

Note 1: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,736,112,508 shares, comprising 3,980,609,974 A shares and 755,502,534 H shares, as at 31 December 2022.

Note 2: Zhongxingxin sold down 46,900,000 A shares in the Company on 1 March 2023. As at the date of publication of this report, the number of held by Zhongxingxin, Zhongxing WXT, Xi'an Microelectronics, China Aerospace Electronics Technology Research Institute and China Aerospace Science and Technology Corporation is each registered as 958,940,400 A shares, accounting for 20.25% and 24.09% of the total share capital and class shares, respectively.

For details of shares and debentures held by the Directors, Supervisors and chief executive of the Company as at 31 December 2022, please refer to the section headed "4.6.4 Shareholdings in the Company and annual remuneration of the Directors, Supervisors and senior management" in this report. Save as disclosed above, as at 31 December 2022, so far as the Directors, Supervisors and chief executive of the Company are aware, no other person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

7.5 AS AT 31 DECEMBER 2022, NEITHER THE CONTROLLING SHAREHOLDER NOR OTHER ENTITIES SUBJECT TO UNDERTAKING WERE UNDER RESTRICTIONS AGAINST SELLING DOWN SHARES IN THE COMPANY**7.6 PUBLIC FLOAT**

As at the date of publication of this report, so far as the Company and the Board of Director was aware of based on publicly available information, the Company's public float is in compliance with the minimum requirement for public float under the Hong Kong Listing Rules.

7.7 THE COMPANY HAD NO PREFERENTIAL SHARES

Debt Financing Instruments of Non-financial Enterprises

The Company did not issue any enterprise bonds, corporate bonds and convertible bonds in 2022. Details of the debt financing instruments of non-financial enterprises issued by the Company are set out as follows:

8.1 BASIC INFORMATION ON DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES

Pursuant to the “Resolution on the Proposed Application for Consolidated Registration For Issuance of Multiple Types of Debt Financing Instruments for 2021” considered and approved at the Thirty-third Meeting of the Eighth Session of the Board of Directors and the 2020 Annual General Meeting of the Company, it was approved that the Company would seek the consolidated registration with the National Association of Financial Market Institutional Investors (“NAFMII”) for issuance of multiple types of debt financing instruments, including SCPs, short-term commercial paper, medium term note, perpetual note and asset-backed note. NAFMII has accepted the Company’s registration of multiple types of debt financing instruments as aforesaid. The Company has issued SCPs during the effective term of registration without further application.

During 2022, the Company issued a total of 46 tranches of SCPs for an aggregate issue amount of RMB47 billion, which had been repaid upon maturity as at 31 December 2022. Information on the Company’s SCPs issued and outstanding in 2023 is set out as follows:

Unit: RMB100 million

Bond name	Bond abbreviation	Bond code	2023			Bond balance (RMB100 million)	Interest rate
			Issue date	Accrual date	Maturity date		
Tranche I SCPs	23中興通訊SCP001	012380072	5 January	6 January	31 March	15	2.25%
Tranche II SCPs	23中興通訊SCP002	012380064	5 January	6 January	31 March	15	2.25%
Tranche III SCPs	23中興通訊SCP003	012380068	5 January	6 January	31 March	10	2.25%
Tranche IV SCPs	23中興通訊SCP004	012380207	12 January	13 January	31 March	10	2.15%
Tranche V SCPs	23中興通訊SCP005	012380231	12 January	13 January	31 March	10	2.15%
Tranche VI SCPs	23中興通訊SCP006	012380227	12 January	13 January	31 March	10	2.15%
Tranche VII SCPs	23中興通訊SCP007	012380233	12 January	13 January	31 March	10	2.15%
Tranche VIII SCPs	23中興通訊SCP008	012380206	12 January	13 January	31 March	10	2.15%
Tranche IX SCPs	23中興通訊SCP009	012380205	12 January	13 January	31 March	10	2.15%
Tranche X SCPs	23中興通訊SCP010	012380212	12 January	13 January	31 March	10	2.15%
Tranche XI SCPs	23中興通訊SCP011	012380201	12 January	13 January	31 March	5	2.15%
Tranche XII SCPs	23中興通訊SCP012	012380335	18 January	19 January	31 March	10	2.20%
Tranche XIII SCPs	23中興通訊SCP013	012380337	18 January	19 January	31 March	10	2.20%
Tranche XIV SCPs	23中興通訊SCP014	012380339	18 January	19 January	31 March	15	2.20%
Tranche XV SCPs	23中興通訊SCP015	012380412	7 February	8 February	31 March	10	2.15%
Tranche XVI SCPs	23中興通訊SCP016	012380441	9 February	10 February	31 March	10	2.15%
Tranche XVII SCPs	23中興通訊SCP017	012380573	16 February	17 February	31 March	10	2.15%
Tranche XVIII SCPs	23中興通訊SCP018	012380567	16 February	17 February	31 March	10	2.15%
Tranche XIX SCPs	23中興通訊SCP019	012380557	16 February	17 February	31 March	10	2.15%
Tranche XX SCPs	23中興通訊SCP020	012380672	23 February	24 February	31 March	15	2.35%
Tranche XXI SCPs	23中興通訊SCP021	012380729	23 February	24 February	31 March	5	2.35%
Tranche XXII SCPs	23中興通訊SCP022	012380730	27 February	28 February	31 March	10	2.35%
Total	—	—	—	—	—	230	—

The SCPs issued by the Company were traded on the inter-bank bond market and subject to the inter-bank bond market trading mechanism. There was no risks of termination of transactions.

In 2022, there was no adjustment of ratings by credit rating agencies, no trigger or execution of issuer or investor option clause or investor protection clause. All SCPs issued by the Company had been repaid as due and there were no overdue bonds triggering guarantees, debt repayment schemes and other debt repayment assurance measures.

Debt Financing Instruments of Non-financial Enterprises

8.2 USE OF PROCEEDS

Unit: RMB100 million

Bond	Total amount of proceeds	Amount utilised	Amount remaining	Operation of dedicated account for proceeds (if any)	Rectification of illicit use of proceeds (if any)	Whether consistent with uses, application plans and other agreed terms stated in issue prospectus
SCPs 2022 Tranche I to XLVI	470	470	—	Nil	Nil	Yes
SCPs 2023 Tranche I to XXII	230	86.8	143.2	Nil	Nil	Yes

The proceeds was not applied to construction projects. Due to the adjustment of the Company's capital use plan, the Company changed the purpose of the raised funds. The raised funds of RMB400 million in the 2023 Tranche III SCPs and Tranche IV SCPs will be used to repay the loans of different financial institutions. The change of the purpose of the raised funds conforms to the provisions of national laws and regulations and relevant policy guidelines, and will not affect the payment of interest on the SCPs.

8.3 KEY ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST TWO YEARS

Items	31 December 2022	31 December 2021	Year-on-year increase/decrease
Current ratio	1.76	1.63	7.98%
Quick ratio	1.18	1.16	1.72%
Gearing ratio	67.09%	68.42%	Decreased by 1.33 percentage points

Items	2022	2021	Year-on-year increase/decrease
Net profit after extraordinary gain/loss attributable to holders of ordinary shares of the listed company (RMB in million)	6,166.9	3,305.9	86.54% Decreased by 1.55 percentage points
Debt-to-EBITDA ratio	24.52%	26.07%	
Interest coverage ratio	5.50	6.74	(18.40%)
Cash interest coverage ratio	6.21	13.69	(54.64%)
EBITDA interest coverage ratio	7.73	9.79	(21.04%)
Loan repayment ratio	100.00%	100.00%	—
Interest repayment ratio	100.00%	100.00%	—

Debt Financing Instruments of Non-financial Enterprises

8.4 INFORMATION OF INTERMEDIARY

Intermediaries for the Company's 2022 SCPs Tranches I to XLVI and 2023 SCPs Tranches I to XXII are set out as follows:

Type of intermediary	Name of intermediary
Underwriter	Bank of Beijing, China Bohai Bank, China Everbright Bank, Guangfa Bank, Bank of Hangzhou, China Construction Bank, Bank of Communications, China Minsheng Bank, Bank of Ningbo, Agricultural Bank of China, Ping An Bank, Shanghai Pudong Development Bank, Industrial Bank, Bank of Shanghai, China Merchants Bank, Bank of China, China International Capital Corporation, Bank of Jiangsu, Huaxia Bank, etc.
Legal advisor	Beijing Junhe Law Firm
Accountant	Ernst & Young Hua Ming LLP
Rating agency	China Chengxin International Credit Rating Co., Ltd.
Custodian	Interbank Market Clearing House Co., Ltd.
Technical support for centralised book building system	Beijing Financial Assets Exchange Co., Ltd.

For details of the office addresses, contact persons and contact telephone numbers of the aforesaid intermediaries, please refer to the announcements published on the website of Shanghai Clearing (www.shclearing.com.cn) and www.chinamoney.com.cn. There was no change to the aforesaid institutions in 2022.

8.5 OTHER INFORMATION

There was no violation of rules and regulations by the Company in 2022, nor loss reported in consolidated statement for the year exceeding 10% of net assets at the end of last year.

As at 31 December 2022, there was no overdue unrepaid bonds or overdue interest-bearing debts other than bonds.

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Audit Report

Ernst & Young Hua Ming 2023 Shen Zi No. 60438556_H01
ZTE CORPORATION



To the Shareholders of ZTE Corporation:

I. AUDIT OPINION

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2022, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2022 and notes to the financial statements.

In our opinion, the accompanying financial statements of ZTE Corporation have been prepared in accordance with the PRC ASBEs in all material aspects and give a fair view of the consolidated and company financial position of ZTE Corporation as at 31 December 2022 and the consolidated and company results of operation and cash flows of ZTE Corporation for 2022.

II. BASIS FOR OPINION

We conducted our audit in accordance with the Auditing Standards for Certified Public Accountants of China. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of ZTE Corporation in accordance with the Code of Ethics for PRC certified accountants and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements as a whole.

Ernst & Young Hua Ming 2023 Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (Continued)

KEY AUDIT MATTER:

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER:

Revenue recognition of telecommunication system construction contract

Revenue generated from telecommunication system construction contract recognised amounted to RMB73,520,823,000, representing 60% of the total revenue, in the consolidated financial statements and RMB83,045,569,000, representing 67% of the total revenue, in the company financial statements. Such contracts consisted a number of performance obligations for goods and services including mainly sales of equipment and installation services, among others.

Significant judgements and estimates by the management are required for the revenue recognition of telecommunication system construction contracts:

- I. Whether the promised goods or services represent separate performance obligations. In making such judgment, the management needs to assess whether the promised goods or services are distinct.
- II. Whether each distinct performance obligation is satisfied over a period of time or at a point in time. The management needs to consider how the promised goods or services is being delivered to customers.
- III. To allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the distinct good or service underlying each performance obligation, the management adopts the cost plus approach, which is primarily based on historic data, past experience, parts and configuration of the projects and the evaluation of risk and uncertainty inherent in the arrangement.

Our audit procedures mainly included:

We evaluated the process of revenue recognition of telecommunication system construction contracts and the related internal controls, assessed the Group's accounting policies, and tested the effectiveness of the design and execution of key internal controls.

We performed tests of details on the recognition of revenue from telecommunication system construction contract on a sampling basis:

In respect of the judgement on whether a performance obligation is distinct and on the timing of the transfer of control, we have assessed the management's judgement, assumptions and methodology upon which it is based, as well as reviewed the key terms of the contract.

In respect of the allocation of transaction price, we have assessed the expected cost margin approach and compared the major parameters (e.g., cost, gross margin percentage, etc.) used in the model against historical data.

In respect of contract modification, we have examined the supplemental agreements signed with customers and assessed the methods adopted by the management for allocating transaction prices between the delivered and undelivered performance obligations; for contract modification of which amount has yet to be confirmed, we have assessed the key assumptions on which the management's estimates are based.

Audit Report

Ernst & Young Hua Ming 2023 Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (Continued)

KEY AUDIT MATTER:

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER:

Revenue recognition of telecommunication system construction contract (Continued)

IV. For contract modification, the management needs to judge whether this constitute new distinct goods or services and whether satisfied and unsatisfied performance obligation are distinct from each other on the date of modification, in order to allocate the modified transaction prices appropriately between the delivered and undelivered performance obligation. When changes in the corresponding transaction price are yet to be confirmed, the management needs to make estimations on the change in transaction price caused by contract modification.

In view of the above, the revenue recognition of telecommunication system construction contracts is relatively complicated, we have identified the recognition of revenue from telecommunication system construction as a key audit matter.

For disclosure of our policy for the revenue recognition, please refer to Note III.19; for disclosure of judgements and estimates for revenue recognition, please refer to Note III.30; for disclosure of categories of revenue, please refer to Note V.38; for disclosure of contract assets, please refer to Note V.8; for disclosure of contract liabilities, please refer to V.24.

Ernst & Young Hua Ming 2023 Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (Continued)

KEY AUDIT MATTER:

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER:

Expected credit loss of trade receivables and contract assets

The carrying amount of trade receivables (long-term trade receivables included) and contract assets as at 31 December 2022 was approximately RMB25,164,669,000, representing 14% of total assets on the consolidated financial statements and RMB38,934,061,000, representing 23% of total assets on the company financial statements.

In accordance with “ASBE No.22 – Recognition and measurement of financial instruments (Revised 2017) Impairment losses of trade receivables and contract assets are accounted for using the expected credit loss (“ECL”) approach. For trade receivables and contract assets that contain a significant financing component, ZTE Corporation elects to measure loss provision based on the ECL amount for the whole period, therefore the loss provision for all trade receivables and contract assets shall be measured on the basis of the ECL amount for the whole period. The Management assesses the ECL of some trade receivables and contract assets individually and others by group.

For trade receivables or contract assets that are individually significant with objective evidence that the credit risk are obviously different from others, ECL is measured as the shortfall between the present value of all contract cashflow receivable and the present value of all contract cashflow expected to be received under the individual contract.

Our audit procedure mainly included:

We evaluated the processes relating to the ECL of trade receivables and contract assets and the related internal controls, tested the effectiveness of design and execution of key internal controls.

For ECL of individually assessed trade receivables and contract assets, we have examined on a sampling basis the objective evidence relating to the impairment of trade receivables and contract assets and the key assumptions used in the estimate of the present value of all cash shortfalls. We have also reviewed whether amounts have been recovered after the end of reporting period.

For other trade receivables and contract assets, we have assessed whether the provision matrix established by the management was in compliance with the ECL approach and assessed the key parameters used in the provision matrix including mainly: credit rating, historical rates of bad debts, migration rates and forward-looking information, etc.

We have obtained debtors’ credit information on a sampling basis to ascertain whether the classification of debtors is in compliance with the Company’s policy. We have tested the management’s ageing analysis based on days past due by examining the original documents (such as bills and bank deposit advices).

We have recalculated the ECL of each type of trade receivables and contract assets according to the provision matrix.

III. KEY AUDIT MATTERS (Continued)**KEY AUDIT MATTER:****HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER:***Expected credit loss of trade receivables and contract assets (Continued)*

For others trade receivables and contract asset, ECLs are assessed by groups with past due information in response to credit risk characteristics of different debtors. The management has established a provision matrix based on days past due for customers of different credit standings by reference to its historical credit loss experience, on the basis of which ECL is estimated. In assessing the ECL, the management takes into consideration past events, current conditions and reasonable and well-founded information on future economic forecasts.

The ECL of trade receivables and contract assets has a significant impact on the financial statements and is subject to significant management judgement estimation. Accordingly, the ECL of trade receivables and contract assets was identified as a key audit matter.

For disclosure on estimations of trade receivable and contract asset impairment provision, please refer to Note III.9; for disclosure of significant accounting judgements and estimates for trade receivable and contract asset impairment, please refer to Note III.30; for disclosure of the amount of bad debt provision for trade receivables and long-term receivables, please refer to Note V. 4A and 9; for disclosure of contract asset impairment provision, please refer to Note V.8.

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III. KEY AUDIT MATTERS (Continued)

KEY AUDIT MATTER:

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER:

Impairment provision for inventories

As at 31 December 2022, the carrying amount of inventories was RMB45,234,990,000, representing 25% of total assets, on the consolidated financial statements and RMB16,414,551,000, representing 10% of total assets, on the company financial statements.

The impairment provision of inventories was made based on their respective estimated net realisable value. The assessment of the estimated net realisable value was calculated based on the management's estimated selling prices, estimated costs to be incurred upon completion of production, costs to be incurred to make the sale and the relevant tax. The estimated selling price is determined with reference to the contract price if the inventories are held for particular contracts. For those which are not earmarked to particular contracts or held for contracts which were cancelled or modified, the management will estimate their respective realisable value based on judgments on the method by which they subsequently realised.

The amount of inventory impairment loss has a significant impact on the financial statements and is subject to significant management judgements and estimates. Therefore, impairment provision for inventories was identified as a key audit matter.

For disclosure of the accounting policy on impairment provision please refer to Note III.10; for disclosure of significant judgement and estimates on impairment provision please refer to Note III.30; for disclosure of impairment provision for inventories, please refer to Note V.7.

Our audit procedure mainly included:

We obtained an understanding of the processes of impairment provision of inventories and the related internal controls; performed testing on key controls to assess the design and execution effectiveness of key internal controls.

We observed the stocktaking process to ascertain whether the damaged, slow-moving and obsolete inventories were identified.

We tested the aging analysis of inventories by checking the original documents.

We evaluated the key assumptions, such as selling prices, cost to be incurred upon completion, selling expense and the relevant taxes, which were used by the management in calculating net realisable value.

For inventories held for particular contracts, we checked the respective contract price on a sampling basis. For those without earmarked prices or was cancelled or modified, we inspected key assumptions used by management in estimating the recoverable amount on a sampling basis and checked whether inventories were sold subsequent to the reporting period.

IV. OTHER INFORMATION

The management of ZTE Corporation are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF THE MANAGEMENT AND THE GOVERNANCE BODY FOR THE FINANCIAL STATEMENTS

The management of the Company are responsible for the preparation of the financial statements that give a fair view in accordance with the PRC ASBEs and for the design, execution and maintenance of such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management of the Company are responsible for assessing ZTE Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans for liquidation or cessation or there are no other realistic alternatives.

The governance body of the Company is responsible for overseeing ZTE Corporation's financial reporting process.

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Ernst & Young Hua Ming 2023 Shen Zi No. 60438556_H01
ZTE CORPORATION

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with audit standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ZTE Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to issue a qualified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause ZTE Corporation to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within ZTE Corporation to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the governance body regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the governance body with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Audit Report

Ernst & Young Hua Ming 2023 Shen Zi No. 60438556_H01
ZTE CORPORATION

**VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS
(Continued)**

From the matters communicated with the governance body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our audit report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young Hua Ming LLP

PRC certified public accountant:
Li Jianguang (李劍光)

PRC certified public accountant:
Zeng Cihua (曾賜花)

Beijing, PRC

10 March 2023

Consolidated Balance Sheet

31 December 2022
 Prepared under PRC ABSES
 (English translation for reference only)
 RMB'000

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

Assets	Note V	31 December 2022 (Audited)	31 December 2021 (Audited)
Current assets			
Cash	1	56,346,367	50,713,310
Trading financial assets	2	513,784	1,360,697
Derivative financial assets	3	132,125	209,352
Trade receivables	4A	17,751,390	17,509,059
Factored trade receivables	4A	81,525	200,992
Receivable financing	4B	3,712,142	5,196,458
Prepayments	5	278,724	606,781
Other receivables	6	1,346,935	1,353,779
Inventories	7	45,234,990	36,316,753
Contract assets	8	4,851,066	6,585,307
Other current assets	20	7,624,795	7,818,597
Total current assets		137,873,843	127,871,085
Non-current assets			
Long-term receivables	9	2,562,213	2,356,413
Factored long-term receivables	9	186,025	243,701
Long-term equity investments	10	1,754,030	1,684,909
Other non-current financial assets	11	1,028,262	1,175,249
Investment properties	12	2,010,627	2,013,927
Fixed assets	13	12,913,313	11,437,011
Construction in progress	14	964,004	1,372,869
Right-of-use assets	15	1,079,521	815,346
Intangible assets	16	7,341,866	8,094,542
Development costs	17	2,584,570	2,453,275
Goodwill	18	—	—
Deferred tax assets	19	3,718,544	3,194,741
Other non-current assets	20	6,936,756	6,050,357
Total non-current assets		43,079,731	40,892,340
TOTAL ASSETS		180,953,574	168,763,425

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

Consolidated Balance Sheet

31 December 2022
 Prepared under PRC ABSES
 (English translation for reference only)
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Liabilities	Note V	31 December 2022 (Audited)	31 December 2021 (Audited)
Current liabilities			
Short-term loans	21	9,962,315	8,946,935
Bank advances on factored trade receivables	4A	84,550	202,249
Derivative financial liabilities	22	201,717	27,729
Bills payable	23A	10,629,852	11,557,376
Trade payables	23B	19,074,746	21,717,267
Contract liabilities	24	17,699,861	16,101,652
Taxes payable	25	1,447,082	1,216,334
Other payables	26	2,889,964	3,505,419
Salary and welfare payables	27	13,222,179	11,691,423
Provisions	28	2,549,490	2,741,536
Non-current liabilities due within one year	29	661,744	977,336
Total current liabilities		78,423,500	78,685,256
Non-current liabilities			
Long-term loans	30	35,125,988	29,908,441
Bank advances on factored long-term trade receivables	9	195,210	250,452
Lease liabilities	15	788,649	531,983
Provision for retirement benefits	27	144,874	147,539
Deferred income		2,322,076	1,872,518
Deferred tax liabilities	19	87,144	150,348
Other non-current liabilities	31	4,322,910	3,929,228
Total non-current liabilities		42,986,851	36,790,509
Total liabilities		121,410,351	115,475,765

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

Consolidated Balance Sheet

31 December 2022
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Shareholder's equity	Note V	31 December 2022 (Audited)	31 December 2021 (Audited)
Shareholder's equity			
Share capital	32	4,736,113	4,730,796
Capital reserves	33	25,892,832	25,359,964
Other comprehensive income	34	(2,352,743)	(2,287,021)
Surplus reserve	35	3,029,811	3,027,154
Special reserve	36	26,553	—
Retained profits	37	27,308,621	20,651,196
Total equity attributable to holders of ordinary shares of the parent		58,641,187	51,482,089
Non-controlling interests		902,036	1,805,571
Total shareholders' equity		59,543,223	53,287,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		180,953,574	168,763,425

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

Legal Representative: Li Zixue

Chief Financial Officer: Li Ying

Head of Finance Division: Xu Jianrui

Consolidated Income Statement

31 December 2022
 Prepared under PRC ABSES
 (English translation for reference only)
 RMB'000

	Note V	2022 (Audited)	2021 (Audited)
Operating revenue	38	122,954,418	114,521,641
Less: Operating costs	38	77,227,569	74,159,846
Taxes and surcharges	39	950,767	787,467
Selling and distribution costs	40	9,173,329	8,733,152
Administrative expenses	41	5,332,728	5,444,613
Research and development costs	42	21,602,300	18,804,012
Finance costs	44	163,207	962,906
Including: Interest expense		1,945,963	1,481,221
Interest income		2,439,825	1,497,096
Add: Other income	45	1,892,972	1,941,399
Investment income	46	1,087,498	1,564,193
Including: Share of gains of associates and joint ventures		93,722	65,713
Losses from derecognition of financial assets at amortised cost		(213,542)	(224,761)
Gains/losses from changes in fair values	47	(1,141,849)	1,099,364
Credit impairment losses	48	(369,304)	(268,942)
Asset impairment losses	49	(1,190,030)	(1,521,298)
Gains from asset disposal	50	11,029	231,744
Operating profit		8,794,834	8,676,105
Add: Non-operating income	51	195,804	250,091
Less: Non-operating expenses	51	238,982	427,270
Total profit		8,751,656	8,498,926
Less: Income tax	52	960,046	1,463,036
Net profit		7,791,610	7,035,890
Analysed by continuity of operations			
Net profit from continuing operations		7,791,610	7,035,890
Analysed by ownership			
Holders of ordinary shares of the parent		8,080,295	6,812,941
Non-controlling interests		(288,685)	222,949
Other comprehensive income, net of tax		(67,167)	(24,745)
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	34	(65,722)	(16,399)
Other comprehensive income that cannot be reclassified to profit or loss			
Change in net assets arising from the re-measurement of defined benefit plans		1,509	(3,439)
		1,509	(3,439)
Other comprehensive income that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(67,231)	(12,960)
		(67,231)	(12,960)
Other comprehensive income attributable to non-controlling interests, net of tax		(1,445)	(8,346)
Total comprehensive income		7,724,443	7,011,145
Attributable to:			
Holders of ordinary shares of the parent		8,014,573	6,796,542
Non-controlling interests		(290,130)	214,603
Earnings per share (RMB/share)			
Basic	53	RMB1.71	RMB1.47
Diluted	53	RMB1.71	RMB1.47

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

Consolidated Statement of Changes in Equity

31 December 2022

Prepared under PRC ABSES

(English translation for reference only)

RMB'000

		2022								
		Equity attributable to holders of ordinary shares of the parent							Non-controlling interests	Total shareholders' equity
		Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Special reserve	Retained profits	Sub-total		
I.	Previous year's closing balance	4,730,796	25,359,964	(2,287,021)	3,027,154	–	20,651,196	51,482,089	1,805,571	53,287,660
II.	Changes during the year									
	(I) Total comprehensive income	–	–	(65,722)	–	–	8,080,295	8,014,573	(290,130)	7,724,443
	(II) Shareholder's capital injection and capital reduction									
	1. Ordinary share injection from shareholders	5,317	120,912	–	–	–	–	126,229	60,790	187,019
	2. Equity settled share expenses charged to equity	–	414,024	–	–	–	–	414,024	–	414,024
	3. Acquisition of non-controlling interest	–	(2,068)	–	–	–	–	(2,068)	(5,535)	(7,603)
	4. Disposal of subsidiaries	–	–	–	–	–	–	–	(54,096)	(54,096)
	5. Others	–	–	–	–	–	–	–	–	–
	(III) Profit appropriation									
	1. Surplus reserve funds	–	–	–	2,657	–	(2,657)	–	–	–
	2. Distribution to shareholders	–	–	–	–	–	(1,420,213)	(1,420,213)	(614,564)	(2,034,777)
	(IV) Special reserve									
	1. Provision for the year	–	–	–	–	75,853	–	75,853	–	75,853
	2. Applied during the year	–	–	–	–	(49,300)	–	(49,300)	–	(49,300)
III.	Current year's closing balance	4,736,113	25,892,832	(2,352,743)	3,029,811	26,553	27,308,621	58,641,187	902,036	59,543,223

		2021								
		Equity attributable to holders of ordinary shares of the parent							Non-controlling interests	Total shareholders' equity
		Share capital	Capital reserves	Less: treasury stock	Other comprehensive income	Surplus reserve	Retained profits	Sub-total		
I.	Previous year's closing balance	4,613,435	23,275,810	(114,766)	(2,270,622)	2,968,473	14,824,478	43,296,808	2,825,698	46,122,506
II.	Changes during the year									
	(I) Total comprehensive income	–	–	–	(16,399)	–	6,812,941	6,796,542	214,603	7,011,145
	(II) Shareholder's capital injection and capital reduction									
	1. Ordinary share injection from shareholders	32,040	870,179	–	–	–	–	902,219	10,742	912,961
	2. Equity settled share expenses charged to equity	–	517,266	–	–	–	–	517,266	–	517,266
	3. Acquisition of non-controlling interest	85,321	811,475	–	–	–	–	896,796	(900,226)	(3,430)
	4. Disposal of subsidiaries	–	–	–	–	–	–	–	(53,267)	(53,267)
	5. Others	–	(114,766)	114,766	–	–	–	–	–	–
	(III) Profit appropriation									
	1. Surplus reserve funds	–	–	–	–	58,681	(58,681)	–	–	–
	2. Distribution to shareholders	–	–	–	–	–	(927,542)	(927,542)	(291,979)	(1,219,521)
III.	Current year's closing balance	4,730,796	25,359,964	–	(2,287,021)	3,027,154	20,651,196	51,482,089	1,805,571	53,287,660

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

Consolidated Cash Flow Statement

31 December 2022
 Prepared under PRC ABSES
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	Note V	2022 (Audited)	2021 (Audited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		136,874,889	120,976,285
Refunds of taxes		7,518,815	4,610,677
Cash received relating to other operating activities		6,089,720	4,631,593
Sub-total of cash inflows		150,483,424	130,218,555
Cash paid for goods and services		96,473,887	75,886,059
Cash paid to and on behalf of employees		26,152,518	22,334,000
Cash paid for various types of taxes		9,001,574	6,716,951
Cash paid relating to other operating activities		11,277,745	9,558,018
Sub-total of cash outflows		142,905,724	114,495,028
Net cash flows from operating activities	54	7,577,700	15,723,527
II. Cash flows from investing activities			
Cash received from sale of investments		13,449,728	10,274,155
Cash received from return on investment		1,106,970	466,361
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		24,173	220,622
Net cash received from the disposal of subsidiaries and other operating units		116,836	1,240,256
Sub-total of cash inflows		14,697,707	12,201,394
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets		4,951,916	5,686,369
Cash paid for acquisition of investments		11,010,174	17,062,063
Other cash paid in relation to investing activities	54	27,016	45,400
Sub-total of cash outflows		15,989,106	22,793,832
Net cash flows from investing activities		(1,291,399)	(10,592,438)
III. Cash flows from financing activities			
Cash received from capital injection		171,231	538,020
Including: Capital injection into subsidiaries by minority shareholders		61,650	20,000
Cash received from borrowings		148,942,904	66,860,187
Sub-total of cash inflows		149,114,135	67,398,207
Cash repayment of borrowings		143,536,892	61,551,343
Cash payments for distribution of dividends, profits and for interest expenses		3,687,580	2,618,461
Including: Distribution of dividends, profits by subsidiaries to minority shareholders		554,733	312,960
Other cash paid relating to financing activities	54	434,835	449,889
Sub-total of cash outflows		147,659,307	64,619,693
Net cash flows from financing activities		1,454,828	2,778,514
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		260,017	(242,076)
V. Net increase in cash and cash equivalents		8,001,146	7,667,527
Add: cash and cash equivalents at beginning of year		39,070,583	31,403,056
VI. Net balance of cash and cash equivalents at the end of year	54	47,071,729	39,070,583

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

Balance Sheet

31 December 2022
 Prepared under PRC ABSES
 (English translation for reference only)
 RMB'000

Assets	Note XV	31 December 2022 (Audited)	31 December 2021 (Audited)
Current assets			
Cash		38,079,828	26,959,247
Derivative financial assets		127,765	208,877
Trade receivables	1	29,741,726	20,970,487
Receivable financing		3,448,350	4,943,204
Factored trade receivables	1	82,430	169,613
Prepayments		51,015	41,618
Other receivables	2	32,289,047	28,772,253
Inventories		16,414,551	17,333,958
Contract assets		3,769,504	5,127,209
Other current assets		2,015,773	2,634,789
Total current assets		126,019,989	107,161,255
Non-current assets			
Long-term trade receivables	3	5,422,831	6,200,183
Factored long-term trade receivables	3	191,551	222,746
Long-term equity investments	4	17,342,618	16,957,563
Other non-current financial assets		614,422	627,848
Investment properties		1,611,000	1,614,000
Fixed assets		5,748,004	5,937,863
Construction in progress		549,962	490,891
Right-of-use assets		529,228	246,209
Intangible assets		2,912,146	3,085,517
Development costs		223,784	307,740
Deferred tax assets		1,417,731	1,289,485
Other non-current assets		4,668,062	4,558,759
Total non-current assets		41,231,339	41,538,804
TOTAL ASSETS		167,251,328	148,700,059

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

Balance Sheet

31 December 2022
 Prepared under PRC ABSES
 (English translation for reference only)
 RMB'000

Liabilities and shareholders' equity	31 December 2022 (Audited)	31 December 2021 (Audited)
Current liabilities		
Short-term loans	5,500,000	2,865,000
Bank advances on factored trade receivables	84,550	170,822
Derivative financial liabilities	201,697	27,625
Bills payable	13,950,730	15,474,186
Trade payables	30,639,060	32,865,858
Contract liabilities	14,273,269	12,141,684
Salary and welfare payables	7,345,309	7,267,864
Taxes payable	172,074	215,423
Other payables	6,633,041	7,402,014
Provisions	1,891,295	1,796,414
Non-current liabilities due within one year	148,185	247,572
Total current liabilities	80,839,210	80,474,462
Non-current liabilities		
Long-term loans	30,478,854	19,463,550
Bank advances on factored long-term trade receivables	195,210	229,500
Lease liabilities	412,934	137,135
Provision for retirement benefits	144,874	147,539
Deferred income	107,174	136,962
Other non-current liabilities	1,883,469	1,812,185
Total non-current liabilities	33,222,515	21,926,871
Total liabilities	114,061,725	102,401,333
Shareholders' equity		
Share capital	4,736,113	4,730,796
Capital reserves	25,943,902	25,387,579
Other comprehensive income	747,247	714,191
Surplus reserve	2,368,055	2,365,398
Special reserve	11,044	—
Retained profits	19,383,242	13,100,762
Shareholders' equity attributable to holders of ordinary shares	53,189,603	46,298,726
Total shareholders' equity	53,189,603	46,298,726
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	167,251,328	148,700,059

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

Income Statement

31 December 2022
Prepared under PRC ABSES
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	Note XV	2022 (Audited)	2021 (Audited)
Operating revenue	5	123,670,533	110,469,065
Less: Operating costs	5	102,193,758	90,621,043
Taxes and surcharges		293,034	201,340
Selling and distribution costs		6,036,022	5,728,795
Administrative expenses		4,517,098	4,755,179
Research and development costs		5,020,197	4,770,989
Finance costs		(1,094,912)	669,665
Including: Interest expense		1,336,155	1,066,104
Interest income		1,771,087	1,036,262
Add: Other income		269,773	478,842
Investment income	6	1,928,764	4,140,438
Including: Share of gains of associates and joint ventures	6	57,562	70,810
Losses from derecognition of financial assets at amortised cost		(93,159)	(96,182)
(Losses)/gains from changes in fair values		(234,573)	268,122
Credit impairment losses		(750,320)	(77,550)
Asset impairment (losses)/reversal		(212,317)	358,263
Gains from asset disposal	7	6,713	231,744
Operating profit		7,713,376	9,121,913
Add: Non-operating income		189,181	178,441
Less: Non-operating expenses		111,570	71,766
Total profit		7,790,987	9,228,588
Less: Income tax		85,637	958,401
Net profit		7,705,350	8,270,187
Including: net profit from continuing operations		7,705,350	8,270,187
Analysed by ownership			
Attributable to holders of ordinary shares		7,705,350	8,270,187
Other comprehensive income, net of tax		33,056	13,055
Other comprehensive income that cannot be reclassified to profit and loss			
Change in net assets arising from the re-measurement of defined benefit plans		1,509	(3,439)
Change in net assets arising from the re-measurement of defined benefit plans			
Exchange differences on translation of foreign operations		31,547	16,494
Total comprehensive profit		7,738,406	8,283,242
Attributable to:			
Holders of ordinary shares		7,738,406	8,283,242

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

Statement of Changes in Equity

31 December 2022

Prepared under PRC ABSES

(English translation for reference only)

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		2022							
		Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Special reserve	Retained profits	Total equity of holders of ordinary shares	Total shareholders' equity
I.	Closing balance of previous year	4,730,796	25,387,579	714,191	2,365,398	—	13,100,762	46,298,726	46,298,726
II.	Changes during the year								
	(I) Total comprehensive income	—	—	33,056	—	—	7,705,350	7,738,406	7,738,406
	(II) Shareholder's capital injection and capital reduction								
	1. Ordinary shares from shareholders	5,317	142,299	—	—	—	—	147,616	147,616
	2. Equity settled share expenses charged to equity	—	414,024	—	—	—	—	414,024	414,024
	3. Others	—	—	—	—	—	—	—	—
	(III) Profit appropriation								
	1. Surplus reserve funds	—	—	—	2,657	—	(2,657)	—	—
	2. Distribution to shareholders	—	—	—	—	—	(1,420,213)	(1,420,213)	(1,420,213)
	(IV) Special reserve								
	1. Provision for the year	—	—	—	—	60,344	—	60,344	60,344
	2. Applied during the year	—	—	—	—	(49,300)	—	(49,300)	(49,300)
III.	Current year's closing balance	4,736,113	25,943,902	747,247	2,368,055	11,044	19,383,242	53,189,603	53,189,603

		2021							
		Share capital	Capital reserves	Less: treasury stock	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Total shareholders' equity
I.	Closing balance of previous year	4,613,435	21,583,815	(114,766)	701,136	2,306,717	5,816,798	34,907,135	34,907,135
II.	Changes during the year								
	(I) Total comprehensive income	—	—	—	13,055	—	8,270,187	8,283,242	8,283,242
	(II) Shareholder's capital injection and capital reduction								
	1. Capital injection from shareholders	117,361	3,401,264	—	—	—	—	3,518,625	3,518,625
	2. Equity settled share expenses charged to equity	—	517,266	—	—	—	—	517,266	517,266
	3. Others	—	(114,766)	114,766	—	—	—	—	—
	(III) Profit appropriation								
	1. Surplus reserve funds	—	—	—	—	58,681	(58,681)	—	—
	2. Distribution to shareholders	—	—	—	—	—	(927,542)	(927,542)	(927,542)
III.	Current year's closing balance	4,730,796	25,387,579	—	714,191	2,365,398	13,100,762	46,298,726	46,298,726

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

Cash Flow Statement

31 December 2022

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	2022 (Audited)	2021 (Audited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	139,150,027	113,381,697
Refunds of taxes	2,499,286	2,519,266
Cash received relating to other operating activities	2,010,479	1,693,409
Sub-total of cash inflows	143,659,792	117,594,372
Cash paid for goods and services	123,320,198	97,613,362
Cash paid to and on behalf of employees	8,006,627	6,758,970
Cash paid for various types of taxes	1,524,782	1,138,224
Cash paid relating to other operating activities	6,307,168	6,216,615
Sub-total of cash outflows	139,158,775	111,727,171
Net cash flows from operating activities	4,501,017	5,867,201
II. Cash flows from investing activities		
Cash received from sale of investments	9,245,583	9,452,074
Cash received from return on investments	871,471	4,315,071
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	674,743	226,861
Cash received relating to other investing activities	1,130,154	1,417,540
Sub-total of cash inflows	11,921,951	15,411,546
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	2,095,448	2,778,121
Cash paid for acquisition of investments	7,911,473	16,346,678
Other cash paid in relation to investing activities	3,827,663	762,800
Sub-total of cash outflows	13,834,584	19,887,599
Net cash flows from investing activities	(1,912,633)	(4,476,053)
III. Cash flows from financing activities		
Cash received from capital injection	109,583	518,270
Cash received from borrowing	95,860,655	42,728,243
Other cash received in relation to financing activities	3,036,552	11,366
Sub-total of cash inflows	99,006,790	43,257,879
Cash repayment of borrowings	82,372,112	45,238,533
Cash payments for distribution of dividends and profits or for interest expenses	2,586,575	1,815,856
Other cash paid in relation to financing activities	3,189,565	190,634
Sub-total of cash outflows	88,148,252	47,245,023
Net cash flows from financing activities	10,858,538	(3,987,144)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	68,103	(119,630)
V. Net increase/(decrease) in cash and cash equivalents	13,515,025	(2,715,626)
Add: cash and cash equivalents at the beginning of the year	17,381,816	20,097,442
VI. Net balance of cash and cash equivalents at the end of the year	30,896,841	17,381,816

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

Notes to Financial Statements

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I. CORPORATE BACKGROUND

ZTE Corporation (the “Company”) was a joint stock limited liability company incorporated in Guangdong Province, the People’s Republic of China. The Company’s A shares were listed on the main board of the Shenzhen Stock Exchange following an initial public offering in November 1997. It became the first A share company to be listed on the Main Board of the Hong Kong Stock Exchange following an initial public offering of H shares in December 2004.

The Company is a world-leading listed integrated telecommunications equipment manufacturer and a provider of integrated global telecommunications solutions 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.

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 10 March 2023.

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements are prepared on a going concern basis.

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2022 and the results of their operations and their cash flows for the year 2022.

2. Financial year

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**3. Reporting currency**

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

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

4. Business combination

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

(1) Business combinations involving entities under common control

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

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

(2) Business combinations not involving entities under common control

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**5. Consolidated financial statements**

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

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

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

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

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

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

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**8. Foreign currency translation**

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

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

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

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

9. Financial instruments

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

(1) Recognition by classification and initial valuation

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**9. Financial instruments (continued)****(1) Recognition by classification and initial valuation (continued)****(a) Classification and initial valuation of financial assets**

At initial recognition, the Group classifies its financial assets into: financial assets at amortised cost, or financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss according to the Group's business model for managing financial assets and the contract cash flow characteristics of the financial assets.

Financial assets are measured at fair value at initial recognition, provided that trade receivables or bills receivable not containing significant financing components or for which financing components of not more than 1 year are not taken into consideration shall be measured at their transaction prices at initial recognition. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial assets, the relevant transaction costs are recognised in their initial recognition amount.

(b) Classification and initial valuation of financial liabilities

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

(2) Subsequent measurement**(a) The subsequent measurement of financial assets is dependent on its classification:****i Debt instruments at amortised cost**

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**9. Financial instruments (continued)****(2) Subsequent measurement (continued)**

(a) *The subsequent measurement of financial assets is dependent on its classification:
(Continued)*

ii Debt instrument at fair value through other comprehensive income

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

iii Financial assets at fair value through current profit or loss

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**9. Financial instruments (continued)****(2) Subsequent measurement (continued)**

(b) *The subsequent measurement of financial liabilities is dependent on its classification:*

i Financial liabilities at fair value through profit or loss

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

ii. Financial liabilities at amortised cost

Subsequent measurement of these financial liabilities are carried at amortised cost using the effective interest method.

(3) Impairment of financial instruments

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

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

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

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

Financial assets other than those measured with simplified valuation methods, the Group evaluates at each balance sheet date whether its credit risk has significantly increased since initial recognition. The period during which credit risk has not significantly increased since initial recognition is considered the first stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the next 12 months and shall compute interest income according to the book balance and effective interest rate.

The period during which credit risk has significantly increased since initial recognition although no credit impairment has occurred is considered the second stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire valid period and shall compute interest income according to the book balance and effective interest rate;

The period during which credit impairment has occurred after initial recognition is considered the third stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire period and shall compute interest income according to the amortised cost and effective interest rate. For financial instruments with relatively low credit risk at the balance sheet date, the Group assumes its credit risk has not significantly increase since initial recognition.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**9. Financial instruments (continued)****(3) Impairment of financial instruments (continued)**

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

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

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

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

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

(4) Transfer and derecognition of financial instruments**(a) Transfer and derecognition of financial assets**

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**9. Financial instruments (continued)****(4) Transfer and derecognition of financial instruments (continued)****(b) General principles of derecognition**

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

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

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

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

(5) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities may be offset against one another and presented as a net amount in the balance sheet if all of the following conditions are met:

- (a) there is a presently exercisable statutory right to offset recognized amount;
- (b) there is a plan to conduct net settlement or to realise the financial asset and financial liability at the same time.

(6) Selected accounting policies on financial instruments relevant to the Group**(a) Financial guarantee contracts**

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**9. Financial instruments (continued)****(6) Selected accounting policies on financial instruments relevant to the Group (continued)****(b) Derivative financial instruments**

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

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

10. Inventories

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

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

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

Inventories at the end of the year are stated at the lower of cost or net realisable value. Provision for impairment of inventories is made and recognised in profit or loss when the net realisable value is lower than cost.

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

Contract performance cost categorised as current assets is shown under inventory.

11. Long-term equity investments

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**11. Long-term equity investments (continued)****(1) Initial measurement of long-term equity investment**

Long-term equity investments are initially measured at the initial investment cost upon acquisition.

(a) Long-term equity investment formed through business combination

For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full.

For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full.

(b) Long-term equity investment acquired through other means

The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognised in accordance with the following:

For those acquired by way of cash payments, the initial investment cost shall be the consideration actually paid plus expenses, tax amounts and other necessary outgoings directly related to the acquisition of the long-term equity investments.

For long-term equity investments acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued.

For long-term equity investments acquired by way of the swap of non-monetary assets, the initial investment cost shall be determined in accordance with "ASBE No. 7 – Swap of Non-monetary Assets."

For long-term equity investments acquired by way of debt restructuring, the initial investment cost shall be determined in accordance with "ASBE No. 12 – Debt Restructuring."

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**11. Long-term equity investments (continued)****(2) Subsequent measurement of long-term equity investment****(a) Cost method**

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

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

(b) Equity method

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

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

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognised according to the entitled share of net profit or loss and other comprehensive income of the investee and the carrying amount of the long-term equity investment is adjusted accordingly. When recognising the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date in accordance with the Group's accounting policy and accounting period to investee's net profits, eliminating pro-rata profit or loss from internal transactions with associates and joint ventures attributed to investor (except that loss from inter-group transactions deemed as asset impairment loss shall be fully recognised), provided that invested or sold assets constituting businesses shall be excluded.

When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognising its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses.

The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than the net-off of net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**11. Long-term equity investments (continued)****(3) Disposal of long-term equity investment**

On disposal of the long-term equity investments, the difference between carrying value and market price is recognised in profit or loss for the current period.

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

If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee and transferred to current profit and loss on a pro-rata basis. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss on a pro-rata basis.

12. Investment properties

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

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

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

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

13. Fixed Assets

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

13. Fixed Assets (continued)

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

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

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

14. Construction in progress

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

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

15. Borrowing costs

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

Capitalisation of borrowing costs begins where:

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**17. Provisions**

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

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

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

18. Share-based payments

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**18. Share-based payments (continued)**

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

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

19. Revenue

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

Contractual performances meeting one of the following conditions are performances over a period of time, otherwise they are considered performances at a point of time:

- i. The customer is able to forthwith obtain and consume the economic benefits brought by the contractual performance.
- ii. The customer is able to control the goods created in the course of performance.
- iii. The goods created in the course of performance are irreplaceable and the seller has the right to receive payments for completed performances during the contract period.

For performance obligations carried out over a period of time, income should be recognized according to the progress of performance during such period, unless such progress could not be reasonably ascertained. Performance progress should be determined according to the output or input method taking into account the nature of the goods.

For performance obligations carried out at a point of time, income should be recognized at the time when the customer obtains control over the goods. In judging whether the customer has obtained control, the following should be considered:

- i. The seller has a present right to receive payment and the customer has a present obligation to pay.
- ii. The seller has transferred and the customer has obtained legal ownership of the goods.
- iii. The seller has physically transferred and the customer is physically in possession of the goods.
- iv. The seller has transferred and the customer has assumed the major risks and rewards of ownership.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Revenue (continued)

(1) The Group's accounting policies for different types of income are as follows:

(a) Contract for the sales of products

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

(b) Contract for the rendering of services

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

(c) Telecommunication system construction contract

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

(2) Accounting policies relevant to the ascertaining and allocation and transaction prices by the Group

(a) Variable consideration

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**19. Revenue (continued)****(2) Accounting policies relevant to the ascertaining and allocation and transaction prices by the Group (continued)****(b) Consideration payable to customers**

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

(c) Return clauses

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

(d) Significant financing component

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

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

(e) Warranty clauses

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**20. Contract assets and contract liabilities**

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

(1) Contract assets

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

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

(2) Contract liabilities

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

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

21. Assets relating to contract cost

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

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

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**22. Government grants**

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

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

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

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

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

23. Deferred tax

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**23. Deferred tax (continued)**

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**24. Leases**

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

(1) As a lessee

With the exception of short-term lease and low-value asset lease, the Group recognizes right-of-use assets and lease liabilities in connection with lease through the following accounting method:

(a) Right-of-use assets

At the inception of a lease term, the right to use lease assets during the lease term is recognized as right-of-use assets and is initially measured at cost. The cost of right-of-use assets include: the initially measured amount of lease liabilities; the lease payment incurred at or prior to the lease inception date, less the lease incentive amount received where applicable; initial direct expenses incurred by the lessee; estimated cost to be incurred by the lessee for demolishing and removing lease assets, restoring the premises at which the lease assets are located or restoring the lease assets to the agreed state under the lease terms. Where Group remeasures the lease liabilities owing to changes in the lease payment amount, the carrying value of the right-of-use assets should be adjusted accordingly. In subsequent measurement, the Group provides depreciation of the right-of-use assets using the averaging method over the lease term. Where it can be reasonably ascertained that the ownership over the lease assets can be obtained upon the conclusion of the lease term, depreciation is provided over the remaining useful life of the lease assets. Where the acquisition of the ownership over the lease assets upon the conclusion of the lease term cannot be reasonably ascertained, depreciation is provided over the lease term or the remaining useful life of the lease assets, whichever shorter.

(b) Lease liabilities

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Leases (continued)

(1) As a lessee (continued)

(b) Lease liabilities (continued)

After the inception of the lease period, the carrying amount of lease liabilities is increased when the Group recognises interest expenses and reduced when lease amounts are paid. Where there are changes in the substantial fixed payment amount, changes in amounts payable expected of the remaining value of guarantees, changes in the index or ratio used to determine lease payment amounts, and changes in the assessment outcome relating to or actual exercise of the call option, renewal option and termination option, the Group re-measures the lease liabilities based on present value of the modified lease payment and adjusts the carrying value of the right-of-use assets accordingly.

(c) Short-term lease and low-value asset lease

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

(2) As a lessor

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

(a) As the lessor under a finance lease

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

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

(b) As the lessor under an operating lease

Rental income under an operating lease is recognised as current profit or loss over the respective periods of the lease term on a straight-line basis, while contingent rental is charged to current profit or loss as and when incurred. Initial direct cost is capitalised and distributed over the lease period in accordance with the same bases for recognising rental income and included in current profit or loss for each period.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**25. Impairment**

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

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

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

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

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

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

Previously recognised impairment losses are not reversed in subsequent periods.

26. Employee remuneration

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

(1) Short-term remuneration

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

(2) Retirement benefit (defined deposit scheme)

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**26. Employee remuneration (continued)****(3) Retirement benefit (defined benefit scheme)**

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

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

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

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

(4) Termination benefits

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

(5) Other long-term employees' benefits

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

27. Fair value measurement

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**28. Profit distribution**

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

29. Safe production cost

Safe production cost provided in accordance with relevant regulations is charged to relevant product cost or current profit or loss and at the same to the special reserve. In application, it should be distinguished whether fixed assets are formed: cost of an expense nature should be directly set off against the special reserve. Cost that contributes to the formation of fixed assets should be aggregated and recognized as fixed assets when such assets arrive at the state of intended use, at which time an equivalent amount should be set off against the special reserve and cumulative depreciation of an equal value should be recognized.

30. Significant accounting judgements and estimates

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

(1) Judgement

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

(a) *Determination of standalone contractual performance obligations under telecommunication system construction contracts*

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**30. Significant accounting judgements and estimates (continued)****(1) Judgement (continued)****(b) Determination of progress of performance of service rendering contracts**

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

(c) Performance of obligation at a point of time

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

(d) Business model

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

(e) Characteristics of contract cash flow

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**30. Significant accounting judgements and estimates (continued)****(1) Judgement (continued)****(f) *Deferred tax liabilities relating to subsidiaries, associates and joint ventures***

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

(g) *Derecognition of financial assets*

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

(2) Estimation uncertainty

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

(a) *Impairment of long-term equity investments, fixed assets, construction in progress and intangible assets*

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**30. Significant accounting judgements and estimates (continued)****(2) Estimation uncertainty (continued)****(b) Impairment of financial instruments**

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

(c) Depreciation and amortisation

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

(d) Development costs

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

(e) Deferred tax assets

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

(f) Estimated standalone selling price

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**30. Significant accounting judgements and estimates (continued)****(2) Estimation uncertainty (continued)****(g) Provision for inventory impairment**

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

(h) Warranty

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

(i) Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 31 December 2022 was RMB2,010,627,000 (31 December 2021: RMB2,013,927,000).

(j) Fair value of non-listed equity investment

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**30. Significant accounting judgements and estimates (continued)****(2) Estimation uncertainty (continued)****(k) Provision for expected credit losses on trade receivables and contract assets**

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

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

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

(l) Lease period – lease contracts comprising the optional for renewal

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

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IV. TAXATION

1. Principal tax items and tax rates

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

2. Tax concession

Company name	Concessionary tax rate	Applicable period
ZTE Corporation	15% (national-grade hi-tech enterprise)	2020-2022
Shenzhen Zhongxing Software Company Limited	15% (national-grade hi-tech enterprise)	2020-2022
Shanghai Zhongxing Software Company Limited	15% (national-grade hi-tech enterprise)	2020-2022
Xi'an Zhongxing New Software Company Limited	15% (national-grade hi-tech enterprise)	2020-2022
ZTE Smart Auto Company Limited	15% (national-grade hi-tech enterprise)	2021-2023
Sanechips Technology Co., Ltd.	15% (national-grade hi-tech enterprise)	2020-2022
Chongqing Zhongxing Software Company Limited	15% (national-grade hi-tech enterprise)	2020-2022
Guangdong ZTE Newstart Technology Co., Ltd.	15% (national-grade hi-tech enterprise)	2020-2022
Shenzhen Zhongxing Telecom Technology & Service Company Limited	15% (national-grade hi-tech enterprise)	2020-2024
Xi'an ZTE Terminal Technology Limited	15% (Concessions under the West China Development Policy)	2022
Xi'an Cris Semiconductor Technology Company Limited	15% (national-grade hi-tech enterprise)	2022
Nanjing Zhongxing Software Company Limited	10% (national-grade key software enterprise)	2022
Nanjing Zhongxing New Software Company Limited	10% (national-grade key software enterprise)	2022

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and Bank Balances

	31 December 2022	31 December 2021
Cash	1,604	1,685
Bank Deposit	55,447,343	49,290,568
Other cash	897,420	1,421,057
	56,346,367	50,713,310

As at 31 December 2022, the Group's overseas currency deposits amounted to RMB3,255,180,000 (31 December 2021: RMB2,847,164,000). Funds placed overseas and subject to remittance restrictions amounted to RMB49,764,000 (31 December 2021: RMB41,776,000).

Current bank deposits earn interest income based on current deposit interest rates. Short-term time deposits with terms ranging from 7 days to three months depending on the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB8,377,218,000 (31 December 2021: RMB10,221,671,000) were not included in cash and cash equivalents.

2. Trading financial assets

	31 December 2022	31 December 2021
Financial assets at fair value through current profit and loss		
Investment in equity instrument	513,784	1,360,697

3. Derivative financial assets

	31 December 2022	31 December 2021
Derivative financial assets at fair value through current profit or loss	132,125	209,352

Trading in derivative financial assets at fair value through current profit or loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC mainland and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4A. Trade receivables/factored trade receivables

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

(1) Aging analysis of the Group's overdue trade receivables based on maturity date was as follows:

	31 December 2022	31 December 2021
Within 1 year	17,556,673	17,787,091
1 year to 2 years	1,362,246	1,433,721
2 years to 3 years	747,221	928,053
Over 3 years	5,154,936	4,813,325
	24,821,076	24,962,190
Bad debt provision	7,069,686	7,453,131
	17,751,390	17,509,059

(2) Classification of bad debt provision by method

	31 December 2022					31 December 2021				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Percentage		Percentage			Percentage		Percentage		
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)		
Standalone bad debt provision	1,793,742	7	1,793,742	100	-	1,967,274	8	1,967,274	100	-
Recognition of bad debt provision by group with credit risk characteristics	23,027,334	93	5,275,944	23	17,751,390	22,994,916	92	5,485,857	24	17,509,059
	24,821,076	100	7,069,686	29	17,751,390	24,962,190	100	7,453,131	30	17,509,059

(a) As at 31 December 2022, bad debt provisions for trade receivables which were individually made were as follows:

	Book balance	Bad debt provision	Expected credit loss rate
Overseas carriers 1*	379,279	379,279	100%
Overseas carriers 2*	207,295	207,295	100%
Overseas carriers 3*	132,717	132,717	100%
Overseas carriers 4*	62,954	62,954	100%
Overseas carriers 5*	44,984	44,984	100%
Others (Customer 6 to Customer 32)*	966,513	966,513	100%
	1,793,742	1,793,742	100%

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

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4A. Trade receivables/factored trade receivables (continued)

(2) Classification of bad debt provision by method (continued)

(a) As at 31 December 2022, bad debt provisions for trade receivables which were individually made were as follows: (continued)

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

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

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

(b) Bad debt provisions for trade receivables based on credit risk characteristics are as follows:

	31 December 2022			31 December 2021		
	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire duration	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire duration
0-6 months	15,851,392	2	304,714	15,940,858	3	489,273
6-12 months	1,599,152	17	277,852	1,185,963	17	197,560
1-2 years	1,329,424	39	523,395	1,363,706	29	394,634
2-3 years	663,814	88	586,431	802,566	88	702,567
Over 3 years	3,583,552	100	3,583,552	3,701,823	100	3,701,823
	23,027,334		5,275,944	22,994,916		5,485,857

(3) Movements in bad debt provisions for trade receivables is as follows:

	Opening balance	Charge/(reversal) for the year	Write-off for the year	Effect of exchange rate	Closing balance
31 December 2022	7,453,131	250,694	(628,307)	(5,832)	7,069,686

For the year, there was reversal of RMB186,211,000 (2021: RMB295,016,000) in bad debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately; and write-off of RMB347,020,000 (2021: RMB1,639,844,000) in bad debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately as the amount is deemed non-recoverable. It was attributable to non-connected transactions.

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4A. Trade receivables/factored trade receivables (continued)

(4) Top 5 accounts of trade receivables as at 31 December 2022 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	2,389,820	9.63%	16,097
Customer 2	1,759,388	7.09%	240,784
Customer 3	1,681,814	6.78%	8,425
Customer 4	906,311	3.65%	2,869
Customer 5	835,600	3.37%	243,232
	7,572,933	30.52%	511,407

(5) Transfer and derecognition of trade receivables

The Group factored trade receivables measured at amortised cost on a non-recourse basis to financial institutions. The carrying amount of trade receivables derecognised as at the end of the year was RMB7,558,719,000 (2021: RMB9,111,606,000) and loss of RMB213,542,000 (2021: loss of RMB224,761,000) was recognised in investment income for the year.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables". As at 31 December 2022, factored trade receivables amounted to RMB81,525,000 (31 December 2021: RMB200,992,000) and bank advances on factored trade receivables amounted to RMB84,550,000 (31 December 2021: RMB202,249,000). For details of the transfer of receivables, please refer to Note VIII.2.

(a) Factored trade receivables

	31 December 2022			31 December 2021		
	Book balance	Bad debt provision	Book value	Book balance	Bad debt provision	Book value
Factored trade receivables	84,550	(3,025)	81,525	202,249	(1,257)	200,992

(b) Movements in bad-debt provision for factored trade receivables

	Opening balance	Charge/reversal for the year	Write-off for the year	Effect of exchange rate	Closing balance
31 December 2022	1,257	1,768	—	—	3,025

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4B. Receiving financing

	31 December 2022	31 December 2021
Commercial acceptance bills	2,736,128	3,508,193
Bank acceptance bills	976,014	1,688,265
	3,712,142	5,196,458

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

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

	31 December 2022		31 December 2021	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Commercial acceptance bills	1,231,037	—	—	—
Bank acceptance bills	932,421	—	1,017,956	—
	2,163,458	—	1,017,956	—

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

	Opening balance	Provision/ (reversal) for the year	Transfer for the year	Closing balance
31 December 2022	3,328	(925)	—	2,403

5. Prepayments

(1) Aging analysis of prepayments was as follows:

	31 December 2022		31 December 2021	
	Book balance	Percentage	Book balance	Percentage
Within 1 year	278,724	100%	606,781	100%

(2) Top 5 accounts of prepayments as at 31 December 2022 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	100,000	35.88%
Supplier 2	29,248	10.49%
Supplier 3	9,980	3.58%
Supplier 4	9,496	3.41%
Supplier 5	8,868	3.18%
	157,592	56.54%

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables

	31 December 2022	31 December 2021
Interests receivables	599,638	295,146
Other receivables	747,297	1,058,633
	1,346,935	1,353,779

(1) Interests receivables

	31 December 2022	31 December 2021
Time deposits	599,638	295,146

(2) Other receivables

(a) Aging analysis of other receivables was as follows:

	31 December 2022	31 December 2021
Within 1 year	520,431	656,167
1 year to 2 years	328,520	414,203
2 years to 3 years	26,405	33,292
Over 3 years	49,245	62,089
	924,601	1,165,751
Bad debt provision	(177,304)	(107,118)
	747,297	1,058,633

(b) Other receivables analysed by nature were as follows:

	31 December 2022	31 December 2021
Staff loans	74,828	87,075
Transactions with third parties	672,469	971,558
	747,297	1,058,633

(c) Top 5 accounts of other receivables as at 31 December 2022 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Bad debt provision	Expected credit loss	Nature
Third-party entity 1	125,000	13.52%	—	—	Transactions with third parties
Third-party entity 2	116,623	12.61%	69,752	59.81%	Transactions with third parties
Third-party entity 3	49,844	5.39%	—	—	Transactions with third parties
Third-party entity 4	25,109	2.72%	25,109	100.00%	Transactions with third parties
Third-party entity 5	21,722	2.35%	—	—	Transactions with third parties
Total	338,298	36.59%	94,861		

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

(d) Movements in bad-debt provision

Financial assets included in other receivables was RM672,469,000. For financial assets included in other receivables based on expected credit losses in the next 12 months and expected credit losses during the entire life, the change of provisions for bad debt was as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses during the entire life (Standalone assessment)	Stage 3 Financial assets with credit impairment occurred (during the entire life)	Total
Opening balance	973	—	106,145	107,118
Provision for the year	145	—	126,353	126,498
Reversed during the year	—	—	(24,402)	(24,402)
Transfer during the year	—	—	(33,682)	(33,682)
Exchange rate effect	—	—	1,772	1,772
Balance at 31 December 2022	1,118	—	176,186	177,304

7. Inventories

	31 December 2022			31 December 2021		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials and materials under subcontract processing	27,894,546	2,294,517	25,600,029	17,487,715	1,826,349	15,661,366
Work in progress	1,875,619	23,517	1,852,102	2,131,693	31,397	2,100,296
Finished goods	4,456,591	357,989	4,098,602	3,940,946	421,083	3,519,863
Dispatch of goods	9,997,136	1,092,659	8,904,477	10,764,909	1,248,209	9,516,700
Contract performance costs	5,671,534	891,754	4,779,780	6,935,493	1,416,965	5,518,528
	49,895,426	4,660,436	45,234,990	41,260,756	4,944,003	36,316,753

Movements in inventory impairment provision is as follows:

	Opening balance	Charge/ (reversal) for the year	Transfer during the year	Others	Closing balance
Raw materials and materials under subcontract processing	1,826,349	470,201	(1,502)	(531)	2,294,517
Work in progress	31,397	(6,559)	(1,310)	(11)	23,517
Finished goods	421,083	182,134	(239,444)	(5,784)	357,989
Dispatch of goods and contract performance cost	2,665,174	146,570	(837,317)	9,986	1,984,413
	4,944,003	792,346	(1,079,573)	3,660	4,660,436

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Contract assets

	31 December 2022			31 December 2021		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Contract assets	5,190,315	(339,249)	4,851,066	6,974,268	(388,961)	6,585,307

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

- (1) Movements in provision for impairment of contract assets was as follows:

	Opening balance	Provisions/ (reversal) for the year	Write-off for the year	Exchange rate movements	Closing balance
31 December 2022	388,961	(34,857)	(14,578)	(277)	339,249

- (2) Contract assets for which impairment loss provision is made based on standalone bad debt provision and credit risk characteristics group were analysed as follows:

	31 December 2022		
	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire duration
Standalone bad debt provision	133,131	100.00%	133,131
For which provision for bad debt is recognised by group with credit risk characteristics	5,057,184	4.08%	206,118
	5,190,315	6.54%	339,249

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long-term receivables/factored long-term receivables

(1) Long-term receivables

	31 December 2022	31 December 2021
Installment payments for the provision of telecommunication system construction projects	2,729,098	2,510,109
Less: Bad debt provision for long-term receivables	166,885	153,696
	2,562,213	2,356,413

(2) Movements in bad debt provision for long-term receivables is as follows:

	Opening balance	Provision (reversal) for the year	Write-off for the year	Exchange rate movements	Closing balance
31 December 2022	153,696	13,236	—	(47)	166,885

(3) Transfer of long-term receivables

The discount rates adopted for long-term receivables ranged from 4.10% –6.16%. Long-term receivables was provided based on expected credit loss during the entire life. All long-term receivables had not expired during the year. The rate of expected credit loss was 6.12%.

Transfer of long-term receivables that did not qualify for derecognition was separately classified as “Factored long-term receivables” and “Bank advances on factored long-term trade receivables”. As at 31 December 2022, long-term factored receivables amounted to RMB186,025,000 (31 December 2021: RMB243,701,000) and bank advances on factored long-term receivables amounted to RMB195,210,000 (31 December 2021: RMB250,452,000). For details of the transfer of long-term receivables, please refer to Note VIII.2.

(a) Factored long-term receivables

	31 December 2022			31 December 2021		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Factored long-term receivables	195,210	(9,185)	186,025	250,451	(6,750)	243,701

(b) Movements in bad-debt provision for factored long-term receivables

	Opening balance	Provision (reversal) for the year	Write-off for the year	Exchange rate movements	Closing balance
31 December 2022	6,750	2,435	—	—	9,185

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term equity investments

		31 December 2022	31 December 2021
Equity method			
Joint ventures	(1)	527,718	498,020
Associates	(2)	1,323,149	1,273,662
Less: provision for impairment of long-term equity investments		96,837	86,773
		1,754,030	1,684,909

(1) Joint Ventures

	Shareholding percentage	Opening book balance	Movement during the year					Cash dividend	Allowance for impairment provision	Closing book balance	Impairment provision as at the end of the year
			Increase of investment	Decrease of investment and other outgoing transfer	Investment gains/losses under equity method	Other comprehensive income	Other equity movement				
Puxing Mobile Tech Company Limited	33.85%	10,752	-	-	-	-	-	-	10,752	-	
德特賽維技術有限公司	49%	28,527	-	-	6,307	-	88	-	34,922	-	
重慶百德行置業有限公司*	10%	7,000	-	(7,000)	-	-	-	-	-	-	
Shanxi Zhongtuo Zhanlu Equity Investment Partnership Phase I (Limited Partnership)	40%	50,539	-	-	13,468	-	-	-	64,007	-	
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	40%	401,202	-	-	16,835	-	-	-	418,037	-	
		498,020	-	(7,000)	36,610	-	88	-	527,718	-	

* 重慶百德行置業有限公司 has ceased to be accounted for as an associate as the Group has lost its joint control over the company, as the Group was only represented by 1 observer without voting rights in accordance with the new articles of association of the company as amended after the injection of additional capital.

(2) Associates

	Shareholding percentage	Opening book balance	Movement during the year					Cash dividend	Charge/transfer out of impairment provision	Closing book balance	Impairment provision as at the end of year
			Increase of investment	Decrease of investment and other outgoing transfer	Investment gains/losses under equity method	Other comprehensive income	Other equity movement				
Telecom Innovations**	5.76%	-	-	(11,216)	-	-	-	11,216	-	-	
中興耀維科技江蘇有限公司***	-	430	-	(430)	-	-	-	-	-	-	
Hengyang ICT Real Estate Co., Ltd.	30%	36,375	-	-	-	-	-	(1,403)	34,972	(17,474)	
Kron Telekomunikasyon Hizmetleri A.S***	-	4,294	-	(4,247)	-	(47)	-	-	-	-	
Whale Cloud Technology Co., Ltd.	28.99%	910,173	-	-	68,072	-	-	-	978,245	-	
Zhongxing Faliu Information Technology Company Limited	31.69%	41,640	-	-	(8,112)	-	-	(19,877)	13,651	(19,877)	
Xingyun Times Technology Company Limited	23.26%	131,694	-	-	(4,829)	-	-	-	126,865	-	
Zhongxing (Wenzhou) Rail Communication Technology Company Limited	45.9%	27,546	-	-	5,887	-	-	(1,606)	31,827	-	
Qingdao Hongtu Zhanlu II Private Equity Investment Fund Partnership Enterprise (Limited Partnership)	33.33%	-	10,000	-	-	-	-	-	10,000	-	
Other investment		34,737	-	-	(3,906)	13	-	(92)	30,752	(59,486)	
		1,186,889	10,000	(15,893)	57,112	(34)	-	(1,698)	1,226,312	(96,837)	

** Telecom Innovations has ceased to be accounted for as an associate as the Group has lost its significant influence in the company after waiving its right to inject additional capital at the same proportion following the injection of additional capital by other shareholders, resulting in a reduced shareholding percentage.

*** 中興耀維科技江蘇有限公司 and Kron Telekomunikasyon Hizmetleri A.S ceased to be accounted for as associates for the year owing to the loss of significant influence following the disposal of entire equity interests in these companies.

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10. Long-term equity investments (continued)

(3) Provision for impairment in long-term equity investment:

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Telecom Innovations	11,216	–	(11,216)	–
Hengyang ICT Real Estate Co., Ltd.	16,071	1,403		17,474
Zhongxing Feiliu Information Technology Company Limited	–	19,877	–	19,877
Other investments	59,486	–	–	59,486
	86,773	21,280	(11,216)	96,837

11. Other non-current financial assets

	31 December 2022	31 December 2021
Financial assets at fair value through current profit and loss	1,028,262	1,175,249

12. Investment properties

	Buildings
Opening balance	2,013,927
Fair value change (Note V.47)	(3,300)
Closing balance	2,010,627

During the year, the Group leased buildings of the investment properties to related parties and other non-related parties.

As at 31 December 2022, investment properties with a carrying value of RMB1,286,000,000 (31 December 2021: RMB1,287,000,000) had yet to obtain title registration certificates.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed assets

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	9,136,885	26,666	7,329,487	2,823,493	264,707	342,346	19,923,584
Acquisitions	27,466	—	1,530,850	167,676	14,604	59,067	1,799,663
Transfer from construction in progress	1,538,627	—	—	—	—	—	1,538,627
Disposal or retirement	(93,636)	—	(568,330)	(181,715)	(30,962)	(69,045)	(943,688)
Disposal of subsidiaries	(111,514)	—	(81,264)	(1,587)	(6,567)	(5,879)	(206,811)
Exchange rate adjustments	8,095	4,451	8,440	19,707	1,169	12,746	54,608
Closing balance	10,505,923	31,117	8,219,183	2,827,574	242,951	339,235	22,165,983
Cumulative depreciation							
Opening balance	2,327,262	—	3,902,487	1,799,251	156,834	272,160	8,457,994
Provision	333,910	—	1,106,524	179,015	17,288	35,870	1,672,607
Disposal or retirement	(46,668)	—	(557,616)	(162,614)	(27,535)	(65,336)	(859,769)
Disposal of subsidiaries	(22,614)	—	(67,833)	(1,514)	(5,790)	(5,018)	(102,769)
Exchange rate adjustments	6,155	—	6,592	17,749	962	12,078	43,536
Closing balance	2,598,045	—	4,390,154	1,831,887	141,759	249,754	9,211,599
Provision for impairment							
Opening balance	21,270	—	728	5,553	—	1,028	28,579
Provision	12,366	—	—	—	—	—	12,366
Disposal or retirement	—	—	—	(42)	—	—	(42)
Disposal of subsidiaries	—	—	—	—	—	—	—
Exchange rate adjustments	—	—	166	—	—	2	168
Closing balance	33,636	—	894	5,511	—	1,030	41,071
Book value							
As at the end of the year	7,874,242	31,117	3,828,135	990,176	101,192	88,451	12,913,313
As at the beginning of the year	6,788,353	26,666	3,426,272	1,018,689	107,873	69,158	11,437,011

As at 31 December 2022, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai and Nanjing in China with a net book value of approximately RMB3,644,785,000 (31 December 2021: RMB4,023,835,000).

14. Construction in progress

Changes in major construction in progress as at 31 December 2022 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Other reduction	Impairment provision	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Nanjing Project	296,601	585,436	554,496	865,160	—	—	274,772	Internal funds	93%	Under construction
Shanghai R&D Centre Phase III	454,664	262,043	51,853	—	—	—	313,896	Internal funds	69%	Under construction
Xi'an Project	502,500	268,700	341,486	500,847	—	—	109,339	Internal funds	22%	Under construction
Others		256,690	191,516	172,620	8,969	(620)	265,997	Internal funds		Under construction
		1,372,869	1,139,351	1,538,627	8,969	(620)	964,004			

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

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15. Lease

Lease assets rented by the Group included houses and buildings, transportation equipment and other equipment required in the course of business. Houses and buildings are typically leased for terms of 1 year to 10 years, transportation equipment and other equipment are typically leased for terms of 1 to 5 years, and other equipment are typically leased for terms of 1 to 2 years. Some lease contracts provide for options of renewal and termination.

	2022	2021
Interest expense on lease liabilities	60,430	48,221
Short-term leases through current profit or loss using simplified approach	162,187	171,371
Total cash outflow relating to leases	426,824	449,889

(1) As lessee

(a) Rights-of-use assets

	Buildings and structures	Vehicles	Other equipment	Total
Cost				
Opening balance	1,394,347	58,474	75,840	1,528,661
Increase	668,459	9,884	—	678,343
Decrease	(530,709)	(1,923)	(72,300)	(604,932)
Disposal of subsidiaries	(7,206)	—	—	(7,206)
Exchange rate adjustment	16,504	301	391	17,196
Closing balance	1,541,395	66,736	3,931	1,612,062
Cumulative depreciation				
Opening balance	608,847	37,488	66,980	713,315
Charge	307,718	12,138	7,890	327,746
Decrease	(435,390)	(1,923)	(72,300)	(509,613)
Disposal of subsidiaries	(2,480)	—	—	(2,480)
Exchange rate adjustment	3,429	63	81	3,573
Closing balance	482,124	47,766	2,651	532,541
Book value				
As at the end of the year	1,059,271	18,970	1,280	1,079,521
As at the beginning of the year	785,500	20,986	8,860	815,346

(b) Lease liabilities

Lease liabilities due within one year is set out under “Non-current liabilities due within one year”. The amount as at 31 December 2022 was RMB391,539,000 (31 December 2021: RMB389,196,000).

Long-term lease liabilities are set out as follows:

	31 December 2022	31 December 2021
Lease liabilities	788,649	531,983

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Lease (continued)

(2) As lessor

(a) Finance leasing :

Profit/loss relating to finance leasing is set out as follows

	2022	2021
Interest income from finance leasing	69,942	67,149

As at 31 December 2022, the balance of unrealised finance income amounting to RMB72,852,000 was amortised over the respective periods in the lease period using the effective interest rate method. According to the lease contract signed with the lessees, minimum lease payments under non-cancellable operating leases falling due are as follows:

	2022	2021
Over 1 year	1,824,100	1,824,000
Less: unrealised finance income	72,852	142,794
Lease investment, net	1,751,248	1,681,306

(b) Operating lease:

Profit or loss relating to operating leases is set out as follows:

	2022	2021
Lease income	122,835	126,802

According to the lease contract signed with lessee, minimum lease payments under non-cancellable operating leases falling due are as follows:

	2022	2021
Within 1 year (including 1 year)	117,774	65,500
1 to 2 years (including 2 years)	94,895	56,117
2 to 3 years (including 3 years)	58,731	57,847
3 to 4 years (including 4 years)	58,508	58,724
4 to 5 years (including 5 years)	58,085	58,244
More than 5 years	86,147	166,167
	474,140	462,599

The Group entered into operating property leasing contracts with terms ranging from 1 year to 15 years with certain lessees, as shown in Note V.12. The leased properties were accounted for as investment properties.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Intangible assets

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	1,173,666	490,422	2,862,520	2,089,697	15,617,778	22,234,083
Acquisition	268,811	45,367	26,407	34,285	—	374,870
In-house R&D	—	—	—	—	1,690,117	1,690,117
Disposal or retirement	(125,327)	(9,835)	(9,532)	(217)	—	(144,911)
Disposal of subsidiaries	(8,985)	(133,907)	(22,164)	—	—	(165,056)
Exchange rate adjustments	38,521	—	—	9,869	—	48,390
Closing balance	1,346,686	392,047	2,857,231	2,133,634	17,307,895	24,037,493
Cumulative amortization						
Opening balance	525,154	381,591	420,046	1,275,398	11,104,741	13,706,930
Provision	212,664	50,689	70,724	205,660	1,846,116	2,385,853
Disposal or retirement	(106,289)	(9,835)	(1,053)	(210)	—	(117,387)
Disposal of subsidiaries	(8,857)	(133,514)	(3,065)	—	—	(145,436)
Exchange rate adjustments	27,922	—	—	16,110	—	44,032
Closing balance	650,594	288,931	486,652	1,496,958	12,950,857	15,873,992
Provision for impairment						
Opening balance	92,613	39,422	—	245,117	55,459	432,611
Charge	7,499	41,937	—	296,335	46,925	392,696
Disposal or retirement	(11,485)	—	—	—	—	(11,485)
Exchange rate adjustments	6,391	—	—	1,422	—	7,813
Closing balance	95,018	81,359	—	542,874	102,384	821,635
Book value						
As at the end of the year	601,074	21,757	2,370,579	93,802	4,254,654	7,341,866
As at the beginning of the year	555,899	69,409	2,442,474	569,182	4,457,578	8,094,542

As at 31 December 2022, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a carrying value of approximately RMB88,908,000 (31 December 2021: RMB90,443,000).

As at 31 December 2022, intangible assets formed through internal research and development accounted for 58% of the book value of intangible assets as at the end of the year (31 December 2021: 55%).

17. Deferred development costs

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	5,354	30	(5,384)	—
System products	2,447,921	1,821,382	(1,684,733)	2,584,570
	2,453,275	1,821,412	(1,690,117)	2,584,570

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Goodwill

	Zhuhai Guangtong Bus Co., Ltd.	Suzhou Laxense Technology Co., Ltd.	NETAS TELEKOMUNIKASYON A.S.	Total
At cost				
Opening balance	186,206	33,500	89,763	309,469
Increase during the year	—	—	—	—
Decrease during the year	—	—	—	—
Exchange rate movement	—	—	—	—
	186,206	33,500	89,763	309,469
Impairment provision				
Opening balance	(186,206)	(33,500)	(89,763)	(309,469)
Increase during the year	—	—	—	—
Decrease during the year	—	—	—	—
Exchange rate movement	—	—	—	—
	(186,206)	(33,500)	(89,763)	(309,469)
Carrying value	—	—	—	—

As at 31 December 2022, full impairment provisions had been provided in respect of the Zhongxing Smart Auto Company Limited asset group (Zhuhai Guangtong Bus Co., Ltd.), Suzhou Laxense Technology Co., Ltd. asset group and NETAS TELEKOMUNIKASYON A.S. asset group.

19. Deferred tax assets/liabilities

(1) Deferred tax assets which are not offset:

	31 December 2022		31 December 2021	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	2,374,988	403,748	3,192,500	531,200
Provision for impairment in inventory	3,393,228	794,195	2,467,474	545,017
Estimated construction contract losses	2,022,756	323,641	1,986,503	319,771
Amortisation of deferred development costs	3,612,418	577,987	3,464,832	567,272
Provision for warranties and returned goods	136,486	31,392	147,941	34,014
Provision for retirement benefits	144,874	33,321	147,539	33,935
Deductible tax losses	5,993,531	958,965	5,364,977	841,447
Deferred income	1,479,251	347,067	351,013	64,614
Accruals	3,246,588	519,454	3,107,299	499,853
Share option scheme expenses	38,453	5,768	996,419	149,463
Lease liabilities	1,180,188	177,028	921,179	134,111
	23,622,761	4,172,566	22,147,676	3,720,697

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Deferred tax assets/liabilities (continued)

(2) Deferred tax liabilities which are not offset:

	31 December 2022		31 December 2021	
	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	1,085,029	162,754	1,088,329	163,249
Investment in equity instruments through profit or loss at fair value	456,121	94,202	1,615,632	212,922
Fair-value adjustment of Business combination not under common control	115,811	16,889	656,635	98,495
Rights-of-use assets	1,079,521	161,928	815,346	122,302
Others	699,400	105,393	528,905	79,336
	3,435,882	541,166	4,704,847	676,304

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

	31 December 2022		31 December 2021	
	Amount of set-off	Amount after set-off	Amount of set-off	Amount after set-off
Deferred tax assets	454,022	3,718,544	525,956	3,194,741
Deferred tax liabilities	454,022	87,144	525,956	150,348

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

	31 December 2022	31 December 2021
Deductible tax losses	6,590,832	5,619,342

(5) Deductible tax losses of unrecognised deferred tax assets expiring in:

	31 December 2022	31 December 2021
2022	—	73,508
2023	112,496	100,192
2024	193,890	115,342
2025	719,316	314,465
Beyond 2026	5,565,130	5,015,835
	6,590,832	5,619,342

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Other current assets/other non-current assets

(1) Other current assets

	31 December 2022	31 December 2021
Prepaid output tax and credit tax available for set off	7,462,588	7,747,024
Others	162,207	71,573
	7,624,795	7,818,597

(2) Other non-current assets

	31 December 2022	31 December 2021
Prepayments for projects, equipment and land	669,153	675,261
Risk compensation fund	186,227	197,803
Guarantee deposit	294,005	346,398
Restricted cash (Note 1)	2,913,604	2,632,130
Prepaid income tax	114,916	193,783
Others	2,758,851	2,004,982
	6,936,756	6,050,357

Note 1: Restricted funds represented deposits in an escrow account. For details, please refer to Note XII.2.

21. Short-term loans

		31 December 2022		31 December 2021	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	4,329,808	4,329,808	2,872,000	2,872,000
	USD	22,294	155,068	385,100	2,455,012
	EUR	18,684	138,530	25,694	185,513
	TRY	726,491	270,244	311,150	152,848
	KZT	298,460	4,503	—	—
Bills discounting loans	RMB	153,154	153,154	271,562	271,562
Letter of credit loans	RMB	4,901,008	4,901,008	3,000,000	3,000,000
Pledged loans ^{Note 1}	RMB	10,000	10,000	10,000	10,000
		9,962,315		8,946,935	

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. Derivative financial liabilities**

	31 December 2022	31 December 2021
Financial liabilities at fair value through current profit and loss	201,717	27,729

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

23A. Bills payable

	31 December 2022	31 December 2021
Bank acceptance bills	5,682,845	5,281,279
Commercial acceptance bills	4,947,007	6,276,097
	10,629,852	11,557,376

23B. Trade payables

An aging analysis of the trade payables based on book record date are as follows:

	31 December 2022	31 December 2021
0 to 6 months	18,111,180	20,964,976
6 to 12 months	222,962	200,629
1 year to 2 years	199,932	212,073
2 years to 3 years	203,604	147,694
Over 3 years	337,068	191,895
	19,074,746	21,717,267

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

As at 31 December 2022, there were no material trade payables aged over 1 year (31 December 2021: Nil).

24. Contract liabilities

	31 December 2022	31 December 2021
Contracted consideration received	17,699,861	16,101,652

Contract liabilities refer to the obligation to transfer goods to customers in consideration of payments received or receivable from customers. Contract liabilities are incurred when the payment schedule agreed under the contract is ahead of the performance of contract obligations.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Tax payable

	31 December 2022	31 December 2021
Value-added tax	375,631	433,126
Enterprise income tax	594,909	361,341
Including: PRC tax	341,853	307,359
Overseas tax	253,056	53,982
Personal income tax	338,967	276,507
City maintenance and construction tax	30,621	73,038
Education surcharge	27,235	54,718
Other taxes	79,719	17,604
	1,447,082	1,216,334

26. Other payables

	31 December 2022	31 December 2021
Interest payables	58,531	55,379
Dividend payables	4,240	11,797
Other payables	2,827,193	3,438,243
	2,889,964	3,505,419

(1) Dividend payables

	31 December 2022	31 December 2021
Dividend payables to holders of restricted shares	—	225
Dividend payables to minority shareholders	4,240	11,572
	4,240	11,797

(2) Other payables

	31 December 2022	31 December 2021
Accruals	1,130,002	1,059,029
Deferred income from staff housing due in 1 year	48,142	44,162
Payables to external parties	1,303,854	1,936,044
Deposits	159,209	144,780
Others	185,986	254,228
	2,827,193	3,438,243

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Salary and welfare payables and provision for retirement benefits

(1) Salary and welfare payables

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	11,492,860	27,395,776	(26,027,887)	12,860,749
Retirement benefits (Defined contribution scheme)	171,825	1,900,003	(1,854,506)	217,322
Termination benefits	26,738	323,163	(205,793)	144,108
	11,691,423	29,618,942	(28,088,186)	13,222,179

(a) Short-term remuneration analysed as follows:

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	9,303,305	24,481,578	(23,478,523)	10,306,360
Staff welfare	13,165	34,897	(35,172)	12,890
Social insurance	38,414	1,232,037	(1,212,274)	58,177
Including: Medical	35,598	1,160,319	(1,141,202)	54,715
Work injuries	674	30,459	(30,235)	898
Maternity	2,142	41,259	(40,837)	2,564
Housing funds	2,499	855,150	(854,122)	3,527
Labour union fund and employee education fund	2,135,477	792,114	(447,796)	2,479,795
	11,492,860	27,395,776	(26,027,887)	12,860,749

(b) Defined contribution plans are analysed as follows:

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	170,361	1,848,446	(1,803,458)	215,349
Unemployment insurance	1,464	51,557	(51,048)	1,973
	171,825	1,900,003	(1,854,506)	217,322

(2) Provision for retirement benefits

	31 December 2022	31 December 2021
Net liabilities from defined benefit plan	144,874	147,539

The Group operates for all qualifying employees a defined benefit plan that has yet to receive capital injection. Under the plan, an employee is entitled to retirement benefits ranging from 0% to 50% of his/her last salary at the retirement age.

The scheme is subject to interest rate risks and the risk of change in the life expectancy of the pension beneficiaries.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Salary and welfare payables and provision for retirement benefits (continued)

(2) Provision for retirement benefits (continued)

The latest actuarial valuation of assets under the plan and the present value of obligations under defined benefit plans were determined by 韜睿惠悅管理諮詢(深圳)有限公司 using the expected benefit accrual unit approach at 31 December 2022.

(a) Major actuarial assumptions applied as at the balance sheet date are as follows:

	31 December 2022	31 December 2021
Discount rate	2.75%	2.75%
Expected salary increase	5.50%	5.50%

(b) A quantitative sensitivity analysis of significant assumptions applied is set out as follows:

2022

	Increase/ (decrease) in obligations under defined benefit plan		Increase/ (decrease) in obligations under defined benefit plan	
	Increase	Decrease	Increase	Decrease
Discount rate	0.25%	(2,841)	0.25%	2,921
Expected salary increase	1.00%	7,458	1.00%	(6,934)

2021

	Increase/ (decrease) in obligations under defined benefit plan		Increase/ (decrease) in obligations under defined benefit plan	
	Increase	Decrease	Increase	Decrease
Discount rate	0.25%	(3,184)	0.25%	3,279
Expected salary increase	1.00%	8,775	1.00%	(8,110)

The above sensitivity analysis is based on inference of the impact of reasonable changes in key assumptions at the balance sheet date on the net amount of defined benefits. Sensitivity analysis is based on the change of the material assumption on the premise that other assumptions remain unchanged. As the changes of the assumptions are often correlated, the sensitivity analysis may not represent the actual changes of the obligations under defined benefit plans.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Salary and welfare payables and provision for retirement benefits (continued)

(2) Provision for retirement benefits (continued)

(c) Relevant plans recognised in the income statement are as follows:

	31 December 2022	31 December 2021
Net interest	3,987	4,611
Charged to administrative expenses	3,987	4,611

(d) Change in the present value of obligations under defined benefit plan:

	31 December 2022	31 December 2021
Opening balance	147,539	144,250
Charged to current profit or loss		
Interest expenses	3,987	4,611
Charged to other comprehensive income		
Benefit costs recognised in other comprehensive income	(1,509)	3,439
Pension paid	(5,143)	(4,761)
Closing balance	144,874	147,539

Net liabilities under defined benefit plan

	31 December 2022	31 December 2021
Opening balance	147,539	144,250
Charged to current profit or loss		
Net interest	3,987	4,611
Charged to other comprehensive income		
Actuary loss	(1,509)	3,439
Benefit paid	(5,143)	(4,761)
Closing balance	144,874	147,539

28. Provisions

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Expected contract loss (Note 1)	2,349,337	945,457	(1,272,038)	2,022,756
Outstanding litigation (Note 2)	244,258	208,109	(62,119)	390,248
Provision for warranties	147,941	80,474	(91,929)	136,486
	2,741,536	1,234,040	(1,426,086)	2,549,490

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

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Non-current liabilities due within one year

	31 December 2022	31 December 2021
Long-term loans due within one year	270,205	588,140
Lease liabilities due within one year	391,539	389,196
	661,744	977,336

30. Long-term loans

		31 December 2022		31 December 2021	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	34,998,425	34,998,425	23,118,200	23,118,200
	USD	—	—	555,000	3,538,125
	EUR	—	—	363	2,619
	TRY	—	—	5,816	2,857
Guaranteed loans ^{Note 1}	USD	—	—	499,000	3,181,125
Secured loans ^{Note 2}	RMB	127,563	127,563	65,515	65,515
			35,125,988		29,908,441

As at 31 December 2022, the annual interest rate for the aforesaid loans was 2.40%–5.64% (31 December 2021: 0.75%–9.00%, of which 9.00% was applicable to TRY loans).

Note 1: The loan comprised mainly bank loans extended to ZTE (H.K.) Limited and guaranteed by ZTE Corporation (31 December 2021: RMB499,000,000).

Note 2: The secured loans comprised mainly an RMB127,563,000 (31 December 2021: RMB62,265,000) loan extended to Zhongxing Smart Auto Company Limited secured by land use rights with a book value of RMB215,677,000 and fixed assets with a book value of RMB478,585,000.

Aging profile of bank loans

	31 December 2022	31 December 2021
Listed as:		
Bank loan repayable:		
Within one year	10,232,520	9,535,075
Within the second year	7,437,773	13,467,751
Within the third to fifth years, inclusive	27,688,215	16,384,650
After five years	—	56,040
Total bank loans	45,358,508	39,443,516

31. Other non-current liabilities

	31 December 2022	31 December 2021
Deferred income relating to staff housing	217,985	222,835
Long-term payable	3,993,993	3,644,581
Amounts payable to third parties	78,568	61,812
Financial liabilities through current profit or loss at fair value	32,364	—
	4,322,910	3,929,228

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. Share capital**

	Opening balance (1,000 shares)	Increase/decrease during the year (1,000 shares)			Closing balance (1,000 shares)
		Issue of new share	Others	Sub-total	
Restricted shares	85,909	255	(85,436)	(85,181)	728
Unrestricted shares	4,644,887	5,062	85,436	90,498	4,735,385
Total number of shares	4,730,796	5,317	—	5,317	4,736,113

33. Capital reserves

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	24,283,545	142,299	(23,455)	24,402,389
Share-based payment (Note 2)	996,419	472,608	(58,584)	1,410,443
Capital investment by government	80,000	—	—	80,000
	25,359,964	614,907	(82,039)	25,892,832

Note 1: The shareholders' premium of the capital reserve was increased by RMB142,299,000 following the exercise of the Company's share option incentives representing the difference between the exercise price and the nominal value of the share capital, decreased by RMB2,068,000 following the acquisition of non-controlling interests and decreased by RMB21,387,000 following additional capital contribution by the minority shareholders of Yingbo during the year.

Note 2: The initial grant under the 2020 Share Option Incentive Scheme was completed in November 2020. The scheme was implemented in three exercise periods. Share option expenses for the period of RMB427,934,000 were recognised in respect of share options for the three periods. The Company's Management Stock Ownership Scheme was implemented in December 2020, divided into two phases based on the exercise periods. Expenses for the period of RMB23,377,000 were recognised in respect of Management Stock Ownership Scheme. The reserved grant under the 2020 Share Option Incentive Scheme was completed in September 2021. The scheme was implemented in two exercise periods. Share option expenses for the period of RMB21,297,000 were recognised in respect thereof. For details please refer to Note XI.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Other comprehensive income

	Opening balance of other comprehensive income attributable to shareholders of the parent company	Amount for the year			Closing balance of other comprehensive income attributable to shareholders of the parent company
		Amount for the year before tax	Amount after tax attributable to the parent company	Amount after tax attributable to non-controlling interest	
Other comprehensive income that cannot be reclassified as profit or loss					
Changes in net liabilities arising from the re-measurement of defined benefit plans	(76,366)	1,509	1,509	—	(74,857)
Share of investee results in other comprehensive income under equity method which cannot be reclassified to profit or loss	44,350	—	—	—	44,350
Other comprehensive income that will be reclassified as profit or loss					
Effective portion of hedging instruments	(67,982)	—	—	—	(67,982)
Differences arising from foreign currency translation	(2,979,792)	(68,676)	(67,231)	(1,445)	(3,047,023)
Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value	792,769	—	—	—	792,769
	(2,287,021)	(67,167)	(65,722)	(1,445)	(2,352,743)

35. Surplus reserves

	Opening balance	Opening balance as adjusted	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	3,027,154	—	2,657	—	3,029,811

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capital of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the Company's share capital.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Special reserve

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safe production cost	—	75,853	(49,300)	26,553

37. Retained profits

	31 December 2022	31 December 2021
Retained profits at the beginning of the year	20,651,196	14,824,478
Net profit attributable to shareholders of the parent	8,080,295	6,812,941
Surplus reserve	(2,657)	(58,681)
Distributions to shareholders	(1,420,213)	(927,542)
Retained profits at the end of the year	27,308,621	20,651,196

Profit distribution

	31 December 2022	31 December 2021
Dividend payable on ordinary shares for approved, declared and distributed during the year	1,420,213	927,542
Proposed dividend payable ordinary shares for 2022	1,894,445	—

In accordance with the resolution of the 2022 Annual General Meeting held on 21 April 2022, a dividend of RMB0.3 (2021: RMB0.2) in cash (before tax) per share was distributed to all shareholders. Based on the total share capital as at the record date of 4,734,044,778 shares (2021: 4,637,709,675 shares), the actual amount of profit distribution was RMB1,420,213,433.40 (2021: RMB927,541,935).

On 10 March 2023, in accordance with the profit distribution proposal recommended by the Board, a cash dividend of RMB4 (before tax) for every 10 shares was paid to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. The aforesaid matter is subject to consideration and approval at the general meeting. The total amount of profit distribution based on the Company's total share capital of 4,736,112,508 shares as at 10 March 2023 was RMB1,894,445,003.20. The finalised amount of distribution will be based on the total share capital as at the record date for profit and dividend distribution.

38. Operating revenue and costs

	2022		2021	
	Revenue	Cost	Revenue	Cost
Principal business	119,599,655	74,349,571	111,307,880	71,952,245
Other business	3,354,763	2,877,998	3,213,761	2,207,601
	122,954,418	77,227,569	114,521,641	74,159,846

(1) Operating revenue is analysed as follows:

	2022	2021
Revenue from customer contract	122,831,583	114,394,839
Rental income — operating leases	122,835	126,802
	122,954,418	114,521,641

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Operating revenue and costs (continued)

(2) Breakdown of revenue from customer contracts:

	2022	2021
Major operating area		
PRC	85,123,483	77,939,665
Asia (excluding PRC)	14,915,193	14,379,464
Africa	5,512,707	4,937,822
Europe and Oceania	17,280,200	17,137,888
	122,831,583	114,394,839
Types of key products		
Sale of products	40,514,974	37,350,292
Provision of service	8,795,786	8,764,486
Telecommunications system contracts with customers	73,520,823	68,280,061
	122,831,583	114,394,839
Recognise revenue in time		
Transferred at a point in time	114,035,797	105,630,353
Transferred over a period	8,795,786	8,764,486
	122,831,583	114,394,839

(3) Revenue included in the opening book value of contract liabilities recognised for the year is set out as follows:

	2022	2021
Revenue included in the opening book value of contract liabilities recognised for the year	13,005,856	13,377,757

39. Taxes and surcharges

	2022	2021
City maintenance and construction tax	295,690	262,435
Education surcharge	218,518	200,402
Property tax	100,200	106,616
Stamp duty	191,313	92,316
Others	145,046	125,698
	950,767	787,467

40. Selling and distribution costs

	2022	2021
Wages, welfare and bonuses	5,159,122	4,874,433
Advertising and promotion expenses	1,310,767	1,216,745
Service charges	609,116	624,865
Travelling expenses	694,525	595,126
Hospitality expenses	333,011	214,461
Office expense	245,729	243,212
Others	821,059	964,310
	9,173,329	8,733,152

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Administrative expenses

	2022	2021
Wages, welfare and bonuses	2,485,731	2,313,837
Office expenses	201,601	194,345
Amortization and depreciation charges	447,227	552,865
Rental fees	21,284	14,218
Travelling expenses	69,076	65,855
Audit fees [#]	11,175	11,928
Others	2,096,634	2,291,565
	5,332,728	5,444,613

42. Research and development expenses

	2022	2021
Wages, welfare and bonuses	15,120,783	13,102,360
Amortization and depreciation charges	2,854,493	2,583,960
Technical cooperation fee	1,192,169	1,319,693
Direct material costs	767,486	508,094
Office expenses	438,626	366,686
Others	1,228,743	923,219
	21,602,300	18,804,012

43. Expenses by nature

Supplementary information of the Group's operating costs, selling and distribution costs, research and development expenses and administration expenses by nature were as follows:

	2022	2021
Cost of goods and services	74,146,849	71,145,299
Staff remuneration (including share-based payment)	25,328,440	22,538,404
Depreciation and amortization	4,351,392	4,513,913
Rental not included in the measurement of lease liabilities	162,187	171,371
Others	9,347,058	8,772,636
	113,335,926	107,141,623

44. Financial expenses

	2022	2021
Interest expenses	1,945,963	1,481,221
Less: Interest income	2,439,825	1,497,096
Including: interest income from cash	2,316,464	1,266,392
interest income from finance contracts	53,419	163,555
interest income from finance leases	69,942	67,149
Loss on foreign currency exchange	480,908	848,213
Bank charges	176,161	130,568
	163,207	962,906

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45. Other income

	2022	2021	Relating to asset/ income
Refund of VAT on software products (Note 1)	1,334,195	1,238,142	Relating to income
Refund of handling charges for personal tax	22,412	21,600	Relating to income
Others	536,365	681,657	Relating to income
	1,892,972	1,941,399	

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

46. Investment income

	2022	2021
Gain from long-term equity investment under equity method	93,722	65,713
Investment income from financial assets at fair value through profit or loss during the period of holding	27,648	24,471
Investment income from disposal of derivative investment	304,713	125,941
Investment income arising from disposal of financial assets at fair value through profit or loss	1,009,436	321,178
Investment loss/(income) from disposal of long-term equity Interests	(27,221)	1,251,651
Loss on derecognition of financial assets at amortised cost and financial assets at fair value through other comprehensive income	(320,800)	(224,761)
	1,087,498	1,564,193

47. Gain/(loss) from changes in fair values

	2022	2021
Financial assets at fair value through profit or loss	(884,919)	802,329
Derivative financial instruments	(253,630)	299,604
Investment properties at fair value	(3,300)	(2,569)
	(1,141,849)	1,099,364

48. Credit impairment losses

	2022	2021
Impairment loss of trade receivables	250,694	218,448
Impairment (reversal)/losses on receivable financing	(925)	1,889
Impairment loss of other receivables	102,096	56,801
Loss/(reversal)/of impairment of long-term receivables	13,236	(9,772)
Loss of impairment of factored trade receivables	1,768	352
Loss of impairment of long-term factored receivables	2,435	1,224
	369,304	268,942

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49. Asset impairment losses

	2022	2021
Inventories provisions	792,346	818,246
Goodwill impairment losses	—	186,206
Long-term equity investment impairment losses	21,280	16,071
Impairment (reversal)/losses of contract assets	(34,857)	84,267
Prepayment impairment losses	1,734	—
Intangible asset impairment losses	392,696	358,481
Impairment loss of construction in progress	620	—
Fixed asset impairment losses	12,366	58,027
Losses from impairment of other non-current assets	3,845	—
	1,190,030	1,521,298

50. Gains from asset disposal

	2022	2021
Gains from disposal of right-of-use assets	9,338	—
Gains from disposal of fixed assets	—	74,479
Gains from disposal of intangible assets	1,691	157,265
	11,029	231,744

51. Non-operating income/non-operating expenses

(1) Non-operating income

	2022	2021	Amount of extraordinary gain/loss recognized for 2022
Income from contract penalty and reward	14,847	26,624	14,847
Others	180,957	223,467	180,957
	195,804	250,091	195,804

(2) Non-operating expenses

	2022	2021	Amount of extraordinary gain/loss recognized for 2022
Compensation	101,854	199,476	101,854
Others	137,128	227,794	137,128
	238,982	427,270	238,982

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52. Income tax

	2022	2021
Current income tax	1,559,843	1,196,259
Deferred income tax	(599,797)	266,777
	960,046	1,463,036

Reconciliation between income tax and total profit was as follows:

	2022	2021
Total profit	8,751,656	8,498,926
Tax at statutory tax rate (Note 1)	2,187,914	2,124,732
Effect of different tax rates applicable to certain subsidiaries	(559,215)	(512,077)
Adjustment to current tax in previous periods	18,680	62,818
Profits and losses attributable to jointly-controlled entities and associates	(14,058)	(9,857)
Income not subject to tax	(4,147)	(4,422)
Weighted deduction for research and development costs and non-deductible tax expense	(876,300)	(675,279)
Utilization of tax losses from previous years	(67,585)	(13,383)
Unrecognized tax losses and deductible temporary differences	274,757	490,504
Tax charge at the Group's effective rate	960,046	1,463,036

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

53. Earnings per share

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

	2022	2021
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	8,080,295	6,812,941
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	4,736,106	4,641,905
Weighted average number of ordinary shares increased as a result of share-based payment ('000 shares)	108	2,568
Adjusted weighted average number of ordinary shares of the Company in issue ('000 shares)	4,736,214	4,644,473
Basic/diluted earnings per share	1.71	1.47

Note: The calculation of the diluted earnings/(losses) per share amount is based on the profit/(loss) for the year 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 year, 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 or conversion of all dilutive potential ordinary shares.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Notes to major items in cash flow statement

	2022	2021
Cash received in connection with other operating activities:		
Interest income	1,681,323	1,067,369
Cash paid in connection with other investing activities:		
Net cash outflow on disposal of subsidiaries	27,016	45,400
Other cash paid in relation to other financing activities:		
Cash payment of principal of operating lease	426,824	449,889
Acquisition of non-controlling interests in subsidiary	8,011	—

(1) Supplemental information on cash flow statement

(a) Reconciliation of net profit to cash flows from operating activities:

	2022	2021
Net profit	7,791,610	7,035,890
Add: Credit impairment losses	369,304	268,942
Asset impairment losses	1,190,030	1,521,298
Depreciation of fixed assets	1,672,607	1,670,720
Depreciation of right-of-use assets	327,746	405,324
Amortisation of intangible assets	2,385,853	2,511,827
Gain on disposal of fixed assets, intangible assets and other long-term assets	(11,029)	(231,744)
Gain/(loss) from changes in fair value	1,141,849	(1,099,364)
Finance costs	2,128,667	1,331,557
Investment income	(1,087,498)	(1,564,193)
(Increase)/decrease in deferred tax assets	(523,803)	242,360
(Decrease)/increase in deferred tax liabilities	(63,204)	16,031
Increase in inventories	(9,710,583)	(3,445,693)
Decrease/(increase) in operating receivables	2,676,520	(2,578,038)
(Decrease)/increase in operating payables	(1,436,716)	8,380,813
Cost of share-based payment	472,608	871,497
Decrease in cash not readily available for payments	253,739	386,300
Net cash flow from operating activities	7,577,700	15,723,527

(b) Net change in cash and cash equivalents:

	2022	2021
Cash balance at year end	1,604	1,685
Less: cash balance at beginning of year	1,685	1,655
Add: cash equivalents at year end	47,070,125	39,068,898
Less: cash equivalents at beginning of year	39,068,898	31,401,401
Net increase in cash and cash equivalents	8,001,146	7,667,527

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54. Notes to major items in cash flow statement (continued)

(2) Information on subsidiaries and other business units disposed of

	2022	2021
Price at which subsidiaries and other business units were disposed of	496,668	1,408,422
Cash and cash equivalents received on disposal of subsidiaries and other business units	288,768	1,319,322
Cash and cash equivalents held by subsidiaries and other business units disposed of	171,932	204,066
Net cash received on disposal of subsidiaries and other business units	116,836	1,115,256

(3) Cash and cash equivalents

	2022	2021
Cash		
Including: Cash on hand	1,604	1,685
Bank deposit readily available for payment	47,070,125	39,068,898
Cash and cash equivalents at end of year	47,071,729	39,070,583

55. Assets under restrictions on ownership or right of use

	31 December 2022	31 December 2021	
Cash	897,420	1,421,057	Note 1
Trade receivables and contract assets	40,253	68,638	Note 2
Fixed assets	478,585	495,234	Note 3
Intangible assets	215,677	234,974	Note 4
Other non-current assets restricted cash	3,393,836	3,176,331	Note 5
	5,025,771	5,396,234	

Note 1: As at 31 December 2022, the Group's cash subject to ownership restriction amounted to RMB897,420,000 (31 December 2021: RMB1,421,057,000), including acceptance bill deposits of RMB125,840,000 (31 December 2021: RMB212,344,000), letter of credit deposits of RMB576,910,000 (31 December 2021: RMB604,519,000), deposit for guarantee letter of RMB47,307,000 (31 December 2021: RMB63,247,000), dues from the People's Bank of China of RMB107,092,000 (31 December 2021: RMB177,497,000) and technology grants of RMB40,271,000 (31 December 2021: RMB363,450,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 31 December 2022, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB186,227,000 (31 December 2021: RMB197,803,000), which were funds to be released after one year and accounted for as other non-current assets.

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

Note 3: As at 31 December 2022, fixed assets with a carrying value of RMB478,585,000 (31 December 2021: RMB495,234,000) were pledged to secure bank borrowing. No fixed assets were pledged in connection with asset acquisitions (31 December 2021: Nil).

Note 4: As at 31 December 2022, intangible assets with a total carrying value of RMB215,677,000 (31 December 2021: RMB234,974,000) were pledged to secure bank borrowing. No intangible assets were pledged in connection with asset acquisitions (31 December 2021: Nil).

Note 5: As at 31 December 2022, restricted funds represented a RMB2,913,604,000 (31 December 2021: 2,632,130,000) deposit in an escrow account, the details of which are set out in Note XII. The RMB294,005,000 (31 December 2021: 346,398,000) performance bond with a term of over 1 year was paid to a project partner by ZTE; and risk compensation fund to be released after one year amounted to RMB186,227,000 (31 December 2021: RMB197,803,000).

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56. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		2022			2021		
		Original currency	Exchange rate	RMB Equivalent	Original currency	Exchange rate	RMB Equivalent
Cash	USD	115	6.9555	800	119	6.3750	759
	DZD	1,006	0.0507	51	1,081	0.0460	50
Bank deposit	USD	802,151	6.9555	5,579,361	747,348	6.3750	4,764,344
	EUR	139,635	7.4145	1,035,324	201,941	7.2201	1,458,034
	JPY	2,761,755	0.0525	144,992	1,863,205	0.0554	103,222
	PKR	3,813,768	0.0307	117,083	3,624,417	0.0358	129,754
	MYR	31,869	1.5844	50,493	39,938	1.5306	61,129
	ETB	610,866	0.1303	79,596	279,807	0.1296	36,263
	NPR	563,731	0.0525	29,596	473,009	0.0535	25,306
	DZD	408,104	0.0507	20,691	473,647	0.0460	21,788
	GBP	1,564	8.3887	13,120	4,906	8.6100	42,241
	RUB	126,791	0.0989	12,540	1,109,203	0.0858	95,170
	IDR	124,653,058	0.0004	49,861	146,874,147	0.0004	58,750
	HKD	78,196	0.8918	69,735	61,296	0.8174	50,103
	CAD	8,432	5.1355	43,303	9,830	5.0284	49,429
	BRL	17,304	1.3331	23,068	14,060	1.1424	16,062
THB	294,914	0.2015	59,425	279,486	0.1910	53,382	
EGP	46,957	0.2811	13,200	13,743	0.4045	5,559	
COP	17,971,081	0.0014	25,160	16,718,943	0.0016	26,750	
CLP	665,686	0.0081	5,392	3,459,718	0.0075	25,948	
Other cash	USD	26,003	6.9555	180,864	4,352	6.3750	27,744
Trade receivables	USD	600,628	6.9555	4,177,668	835,553	6.3750	5,326,650
	EUR	153,421	7.4145	1,137,540	163,925	7.2201	1,183,555
	INR	2,610,679	0.0840	219,297	5,991,072	0.0858	514,034
	THB	362,591	0.2015	73,062	567,576	0.1910	108,407
Other receivables	BRL	57,869	1.3331	77,145	23,100	1.1424	26,389
	USD	245,854	6.9555	1,710,037	33,661	6.3750	214,589
	EUR	9,736	7.4145	72,188	8,230	7.2201	59,421
	PKR	1,006,271	0.0307	30,893	484,920	0.0358	17,360
Trade payables	JPY	570,634	0.0525	29,958	111,532	0.0561	6,257
	INR	276,298	0.0840	23,209	597,080	0.0535	31,944
	USD	778,213	6.9555	5,412,861	851,980	6.3750	5,431,373
	IDR	1,612,244	0.0004	645	2,040,060,674	0.0004	816,024
	EUR	61,576	7.4145	456,555	69,022	7.2201	498,346
Other payables	MXN	270,363	0.3572	96,574	1,449,260	0.3115	451,444
	PHP	1,356,540	0.1239	168,075	1,277,975	0.1250	159,747
	USD	178,506	6.9555	1,241,598	139,507	6.3750	889,357
	EUR	20,928	7.4145	155,171	42,041	7.2201	303,540
Short-term loan	JPY	149,747	0.0525	7,862	82,112	0.0554	4,549
	SAR	12	1.8548	22	1,236	1.7000	2,101
	USD	22,294	6.9555	155,068	385,100	6.3750	2,455,012
	EUR	18,684	7.4145	138,530	25,694	7.2201	185,513
Long-term loan	TRY	726,491	0.3720	270,244	311,150	0.4912	152,848
	KZT	298,460	0.0151	4,503	—	—	—
	USD	—	—	—	1,054,000	6.3750	6,719,250
	TRY	—	—	—	5,816	0.4912	2,857
	EUR	—	—	—	363	7.2201	2,619

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

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

	Place of registration	Business nature	Percentage of the Group's shareholding in aggregate (%)	Percentage of the Group's voting rights in aggregate (%)	Reasons for ceasing to be a subsidiary
Shenzhen Jingcheng Communication Technology Co., Ltd.	Shenzhen	Communication engineering and technical service	100%	100%/100%	Note 1
Shenzhen Wantong Communication Technology Co., Ltd.	Shenzhen	Digital communication product and government and corporate access equipment	100%	100%/100%	Note 1
Shenzhen Yilian Digital Technology Co., Ltd.	Shenzhen	Indoor coverage products and services	100%	100%/100%	Note 1
ZTE Health Science & Technology Corporation	Shanghai	Information-based solutions, terminal accessories and services for health, aged service, disabled service sector	49.99%	49.99%/100%	Note 2

Note 1: The Company incorporated three wholly-owned subsidiaries Shenzhen Jingcheng Communication Technology Co., Ltd. (for the acquisition of 93.0642% equity interest in Xi'an Zhongxing Jingcheng telecommunication corporation), Shenzhen Wantong Communication Technology Co., Ltd. (for the acquisition of 90% equity interest in Anhui Wantong Posts&Telecommunications Co., Ltd.) and Shenzhen Yilian Digital Technology Co., Ltd. (for the acquisition of 90% equity interest in Shanghai ZXeLink Co., Ltd.) in May 2022 and disposed of 100% equity interests of the aforesaid three wholly-owned subsidiaries in June 2022.

Note 2: The Company completed the disposal of 49.99% equity interests in ZTE Health Science & Technology Corporation in November 2022 and the said company has been excluded from the consolidated statements of the Group with effect from November 2022.

2. Changes to the scope of consolidation for other reasons

Company name	Reason for change	Date of inclusion in/exclusion from scope of consolidation
Foshan ZICT Technology Co., Ltd.	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	January 2022
ZTE Integration Telecom Ltd.	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	March 2022
ZTE Corporation Paraguay S.A	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	April 2022
Wuhan Zhongxing Smart City Research Institute Co., Ltd.	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	April 2022

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

2. Changes to the scope of consolidation for other reasons (continued)

Company name	Reason for change	Date of inclusion in/exclusion from scope of consolidation
ZTE (Sweden) AB	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	April 2022
Nanjing Xingtong Zhiyuan Real estate Management Co., Ltd.	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	May 2022
KunOcean Technology (Shanghai) Co., Ltd.	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	July 2022
Nanjing Xingtong Future Real estate Management Co., Ltd.	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	July 2022
Leixinus, Inc.	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	August 2022
ZTE (XI'AN) Co., Ltd.	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	August 2022
ZTEICT TECHNOLOGY UGANDA CO. LIMITED	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	August 2022
ZTE AZERBAIJAN LIMITED LIABILITY COMPANY	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	November 2022
Aceland Investments Limited	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	December 2022
Limited Liability Company "ZTE Tajikistan"	Commenced bankruptcy procedures and excluded from scope of consolidation	February 2022

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VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

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

Type of subsidiary	Place of registration/ principal places of business	Business nature	Registered capital	Percentage of shareholding%	
				Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited*	Shenzhen	Manufacturing	RMB1,755 million	100%	—
ZTE (H.K.) Limited	Hong Kong	Information technology	HKD2,483.7478 million	100%	—
Shenzhen Zhongxing Software Company Limited*	Shenzhen	Servicing	RMB51.08 million	100%	—
Xi'an ZTE Terminal Technology Company Limited*	Xi'an	Manufacturing	RMB300 million	100%	—
Sanechips Technology Co., Ltd.*	Shenzhen	Manufacturing	RMB131.5789 million	87.22%	12.78%
Xi'an Zhongxing New Software Company Limited*	Xi'an	Servicing	RMB340 million	100%	—
Shenzhen Zhongxing Telecom Technology & Service Company Limited*	Shenzhen	Telecommunications services	RMB200 million	90%	10%
Shenzhen ZTE Capital Management Company Limited*	Shenzhen	Investment fund	RMB30 million	55%	—
Xi'an Cris Semiconductor Technology Company Limited	Xi'an	Manufacturing	RMB1,000 million	—	100%

* Such subsidiaries are company with limited liability incorporated under the laws of the PRC.

In the view of the Company, the subsidiaries listed in the table above were material to the annual results or accounted for a significant share of the Group's net assets.

2. Interests in joint ventures and associates

(1) Interests in joint ventures

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Joint Ventures						
Puxing Mobile Tech Company Limited	PRC	R&D, production and sales of communications equipment	RMB128,500,000	33.85%	—	Equity method
德特賽維技術有限公司	PRC	Software development, information technology consultant and information systems integration	RMB60,000,000	49%	—	Equity method
Shananxi Zhongtuo Zhanlu Equity Investment Partnership Phase I (Limited Partnership)	PRC	Venture investment, equity investment, investment management and investment consultation	RMB100,000,000	39%	1%	Equity method
Zuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Equity investment, investment management and asset management	RMB1,000,000,000	40%	—	Equity method

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates (continued)

(2) Interests in associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Associates						
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	—	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ringtone and other telecommunication VAS	USD500	49%	—	Equity method
中山優順置業有限公司	PRC	Real estate	RMB10,000,000	20%	—	Equity method
鐵建聯合(北京)科技有限公司	PRC	Technology promotion and application services	RMB20,000,000	30%	—	Equity method
廣東中城信息技術有限公司	PRC	Software and IT services	RMB30,000,000	39%	—	Equity method
上海博色信息科技有限公	PRC	Professional technical services	RMB18,940,900	29%	—	Equity method
南京華網科技有限公	PRC	Manufacturing of computers, communication and other electronic equipment	RMB25,487,400	21.26%	—	Equity method
New Idea Investment Pte. Ltd	Singapore	Investment company	USD10,200,000 + SGD1	20%	—	Equity method
Xingchen Smart Tech Industry Company Limited*	PRC	Manufacturing of computers and related equipment	RMB200,000,000	19%	—	Equity method
Hengyang ICT Real Estate Co., Ltd	PRC	Real estate	RMB20,000,000	30%	—	Equity method
貴州中安雲網科技有限公	PRC	Technology and innovative IOT inter-network services	RMB61,224,500	9.31%	—	Equity method
陝西高端裝備與智能製造產業研究院有限公司*	PRC	High-end equipment and smart manufacturing, product research, consultation service and technology development	RMB16,000,000	12.5%	—	Equity method
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	—	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd	PRC	Education	RMB50,000,000	25%	—	Equity method
Shijiazhuang Smart Industry Company Limited*	PRC	Smart City construction and operation	RMB400,000,000	12%	—	Equity method
Whale Cloud Technology Co., Ltd.	PRC	Scientific research and technical service	RMB754,108,800	28.99%	—	Equity method
江西國投信息科技有限公	PRC	Smart city operation	RMB100,000,000	15%	—	Equity method
安徽奇英智能科技有限公	PRC	Intelligent technology, automobile and Information technology	RMB20,000,000	35%	—	Equity method
Zhongxing Feiliu Information Technology Company Limited	PRC	Development of computer software/and hardware, development of big data technology	RMB118,153,800	31.69%	—	Equity method
Xingyun Times Technology Company Limited	PRC	Internet and related services	RMB290,000,000	23.26%	—	Equity method
Zhongxing (Wenzhou) Rail Communication Technology Company Limited	PRC	Software and IT services	RMB50,000,000	45.9%	—	Equity method
Qingdao Hongtu Zhanlu II Private Equity Investment Fund Partnership Enterprise (Limited Partnership)	PRC	Equity investment, investment management and asset management	RMB300,000,000	33.3%	—	Equity method

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

During the reporting period, the Group had no subsidiaries with significant minority interests nor individual material joint ventures or associates which had a significant influence on the Group.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates (continued)

(3) The following table sets out summarized financial information of insignificant joint ventures and associates of the Group:

	31 December 2022	31 December 2021
Joint ventures		
Aggregate carrying value of investments	527,718	498,020
	2022	2021
Aggregate amounts of the following attributable to shareholdings:		
Net gain/(loss)	36,610	(7,002)
Other comprehensive income	—	—
Total comprehensive income	36,610	(7,002)
	31 December 2022	31 December 2021
Associates		
Aggregate carrying value of investments	1,226,312	1,186,889
	2022	2021
Aggregate amounts of the following attributable to shareholdings:		
Net gain	57,112	72,715
Other comprehensive income	(34)	(224)
Total comprehensive income	57,078	72,491

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

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

31 December 2022

(1) The book values of financial assets at the balance sheet date were as follows:

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
Cash	—	56,346,367	—	56,346,367
Derivative financial assets	132,125	—	—	132,125
Trading financial assets	513,784	—	—	513,784
Trade receivables	—	17,751,390	—	17,751,390
Long-term trade receivables	—	2,562,213	—	2,562,213
Factored trade receivables and factored long-term receivables	—	267,550	—	267,550
Financial assets in other receivable	—	672,469	—	672,469
Receivable financing	—	—	3,712,142	3,712,142
Financial assets in other non-current assets	—	3,393,836	—	3,393,836
Other non-current financial assets	1,028,262	—	—	1,028,262
	1,674,171	80,993,825	3,712,142	86,380,138

(2) The book values of financial liabilities at the balance sheet date were as follows:

	Financial liabilities at fair value through current profit and loss	Financial liabilities at amortised cost	Total
Derivative financial liabilities	201,717	—	201,717
Bank loans	—	45,358,508	45,358,508
Lease liabilities	—	1,180,188	1,180,188
Bills payable	—	10,629,852	10,629,852
Trade payables	—	19,074,746	19,074,746
Bank advances on factored trade receivables and long-term trade receivables	—	279,760	279,760
Other payables (excluding accruals and staff housing fund contributions)	—	1,649,049	1,649,049
Other non-current liabilities	32,364	4,072,561	4,104,925
	234,081	82,244,664	82,478,745

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

31 December 2021

(1) The book values of financial assets at the balance sheet date were as follows

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
Cash	—	50,713,310	—	50,713,310
Derivative financial assets	209,352	—	—	209,352
Trading financial assets	1,360,697	—	—	1,360,697
Trade receivables	—	17,509,059	—	17,509,059
Long-term trade receivables	—	2,356,413	—	2,356,413
Factored trade receivables and factored long-term receivables	—	444,693	—	444,693
Financial assets in other receivable	—	1,078,676	—	1,078,676
Receivable financing	—	—	5,196,458	5,196,458
Financial assets in other non-current assets	—	3,176,331	—	3,176,331
Other non-current financial assets	1,175,249	—	—	1,175,249
	2,745,298	75,278,482	5,196,458	83,220,238

(2) The book values of financial liabilities at the balance sheet date were as follows:

	Financial liabilities at fair value through current profit and loss	Financial liabilities at amortised cost	Total
Derivative financial liabilities	27,729	—	27,729
Bank loans	—	39,443,516	39,443,516
Lease liabilities	—	921,179	921,179
Bills payable	—	11,557,376	11,557,376
Trade payables	—	21,717,267	21,717,267
Bank advances on factored trade receivables and long-term trade receivables	—	452,701	452,701
Other payables (excluding accruals and staff housing fund contributions)	—	2,335,052	2,335,052
Other non-current liabilities	—	3,703,324	3,703,324
	27,729	80,130,415	80,158,144

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets

(1) Financial assets transferred but not derecognised in their entirety

During the year, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that no bills receivable (31 December 2021: nil) retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognised to the extent of trade receivables transferred under continuous involvement. As at 31 December 2022, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB24,317,362,000 (31 December 2021: RMB19,257,274,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortised cost)	
	Trade receivables/ long-term receivables	
	31 December 2022	31 December 2021
Carrying value of assets under continuous involvement	267,550	444,693
Carrying value of liabilities under continuous involvement	279,760	452,701

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 31 December 2022, the amount of factored trade receivables was RMB267,550,000 (31 December 2021: RMB444,693,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 31 December 2022, the amount of bank advances on factored trade receivables was RMB279,760,000 (31 December 2021: RMB452,701,000).

(2) Financial assets transferred and derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the period. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB2,163,458,000 (31 December 2021: RMB1,017,956,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognised at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognised bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognised bills receivable is not significant. For the relevant period, the Group recognised discounted interests of RMB8,132,000 (31 December 2021: RMB5,159,000) in respect of the derecognised bills receivable as at the date of transfer.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)**3. Risks of financial instruments**

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

(1) Credit risk

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

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

The Group's other financial assets, which comprise cash, equity investments, other receivables and certain derivatives. The credit risk associated with such financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(a) Criteria for judging significant increases in credit risk

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

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

- Quantitative criteria are primarily represented by the increase in the probability of default for the remaining lifetime at the reporting date is considered significant comparing with the one at initial recognition;
- Qualitative criteria are primarily represented by the significant adverse change in the debtor's operational or financial status and the watch list for potential default, among others;
- The maximum limit indicator is represented by an overdue of 30 years for the contractual payments of the debtor (including principal and interest).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)**3. Risks of financial instruments (continued)****(1) Credit risk (continued)****(b) Definition of credit-impaired financial assets**

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

the principal factors considered are as follows:

- Significant financial difficulty of the issuer or debtor;
- Debtors' breach of contract, such as defaulting or becoming overdue on interest or principal payments;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or debtor;
- The purchase or origination of a financial asset at a deep discount that reflects the incurrence of credit losses;

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

(c) Forward-looking information

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

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

(2) Liquidity risk

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

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

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

31 December 2022

	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	10,355,808	8,066,794	21,023,352	11,015,327	50,461,281
Lease liabilities	391,539	152,281	176,249	460,119	1,180,188
Derivative financial liabilities	201,717	—	—	—	201,717
Bills payable	10,629,852	—	—	—	10,629,852
Trade payables	19,074,746	—	—	—	19,074,746
Bank advances on factored trade receivables and factored long-term trade receivable	84,550	—	11,509	183,701	279,760
Other payables (excluding accruals and staff housing fund contributions)	1,649,049	—	—	—	1,649,049
Other non-current liabilities	389	600,389	1,479,023	2,201,087	4,280,888
	42,387,650	8,819,464	22,690,133	13,860,234	87,757,481

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	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	9,648,849	4,952,372	23,497,988	3,468,016	41,567,225
Lease liabilities	389,196	334,597	174,043	299,284	1,197,120
Derivative financial liabilities	27,729	—	—	—	27,729
Bills payable	11,557,376	—	—	—	11,557,376
Trade payables	21,717,267	—	—	—	21,717,267
Bank advances on factored trade receivables and factored long-term trade receivable	202,249	91,809	10,829	147,814	452,701
Other payables (excluding accruals and staff housing fund contributions)	2,335,052	—	—	—	2,335,052
Other non-current liabilities	13,871	1,428,379	12,674	2,303,710	3,758,634
	45,891,589	6,807,157	23,695,534	6,218,824	82,613,104

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

(3) Market risk

(a) Interest rate risk

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

As at 31 December 2022, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR and Euribor. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 1.75% to 35.50% (loan interest rate applicable to TRY contract loans ranging from 14.75%–35.5%). Approximately 20.58% (31 December 2021: 18.97%) of the Group's interest bearing borrowings were subject to interests at fixed rates. In addition, the Group borrowed an approximately USD8 million loan at floating interest rates.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2022	25 (25)	(73,125) 73,125	— —	(73,125) 73,125
2021	25 (25)	(67,914) 67,914	— —	(67,914) 67,914

(b) Foreign currency risk

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

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

(3) Market risk (continued)

(b) Foreign currency risk (continued)

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

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2022				
Weaker RMB against USD	5%	297,370	—	297,370
Stronger RMB against USD	(5%)	(297,370)	—	(297,370)
2021				
Weaker RMB against USD	5%	(64,974)	—	(64,974)
Stronger RMB against USD	(5%)	64,974	—	64,974

	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2022				
Weaker RMB against EUR	5%	127,737	—	127,737
Stronger RMB against EUR	(5%)	(127,737)	—	(127,737)
2021				
Weaker RMB against EUR	5%	73,920	—	73,920
Stronger RMB against EUR	(5%)	(73,920)	—	(73,920)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group makes adjustments in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the current period ended 31 December 2022.

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

	31 December 2022	31 December 2021
Interest-bearing bank borrowings	45,358,508	39,443,516
Lease liabilities	1,180,188	921,179
Bank advances on factored receivables and long-term trade receivables	279,760	452,701
Total interest-bearing liabilities	46,818,456	40,817,396
Owners' equity	59,543,223	53,287,660
Total equity and interest-bearing liabilities	106,361,679	94,105,056
Gearing ratio	44.0%	43.4%

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IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

31 December 2022

	Input applied in the measurement of fair value			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Continuous measurement of fair value				
Derivative financial assets	—	132,125	—	132,125
Trading financial assets	417,402	—	96,382	513,784
Other non-current financial assets	—	—	1,028,262	1,028,262
Receivable financing	—	3,712,142	—	3,712,142
Investment properties				
Leased buildings	—	—	2,010,627	2,010,627
	417,402	3,844,267	3,135,271	7,396,940
Derivative financial liabilities	—	(201,717)	—	(201,717)
Other non-current liabilities	—	—	(32,364)	(32,364)
	—	(201,717)	(32,364)	(234,081)

31 December 2021

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

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IX. DISCLOSURE OF FAIR VALUES (continued)**2. Estimation of fair value****(1) Fair value of financial assets**

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values approximate the book values as the remaining terms are not long.

Fair value of financial assets and financial liabilities refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of long-term receivables and long/short-term loans are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics, risk profiles and outstanding term. As at 31 December 2022, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

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

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

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal inputs of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 31 December 2022, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

For financial products at fair value through profit or loss, the Group estimates the fair value based on the discounted cash flow model using market interest rates of instruments with similar terms and risks.

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IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value (continued)

(2) Fair value of investment properties under the fair value model

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 31 December 2022 was RMB2,010,627,000 (31 December 2021: RMB2,013,927,000).

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

31 December 2022

	Fair value at end of year	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB2,010,627,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Discount rate	RMB30-RMB500 3%-6% 7%-8.5%
Equity instrument investment	RMB1,124,644,000	Market method	Liquidity discount rate P/E P/B EV/Revenue	6.69%-30% 7.1 0.6-1.1 2.1-6.2
Other non-current liabilities	RMB32,364,000	Binomial tree option pricing model	Risk-free interest rate Volatility rate Dividend rate Exercise probability	2.42%-2.72% 40.86%-44.27% — 5%-15%

31 December 2021

	Fair value at end of year	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB2,013,927,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Discount rate	RMB43-RMB500 3%-6% 7.25%-8%
Equity instrument investment	RMB2,315,820,000	Market method	Liquidity discount rate P/E P/B EV/Revenue EV/EBIT	20%-30% 7-53 0.8 2-8 11-13

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IX. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment

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

31 December 2022

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in unrealised profit or less for the period of assets held at end of year included in profit and loss
Investment properties	2,013,927	–	–	(3,300)	–	–	2,010,627	(3,300)
Trading financial assets	1,139,092	64,864	(1,139,092)	31,518	–	–	96,382	31,358
Other non-current financial assets	1,175,249	22,000	(64,864)	(78,572)	–	(25,551)	1,028,262	(952)
Other non-current financial liabilities	–	–	–	–	32,364	–	32,364	–

31 December 2021

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in unrealised profit or less for the year of assets held at end of period included in profit and loss
Investment properties	2,035,234	–	(18,738)	(2,569)	–	–	2,013,927	(2,569)
Trading financial assets	194,896	166,060	(186,266)	964,402	–	–	1,139,092	964,402
Other non-current financial assets	1,536,741	895	(166,060)	62,399	–	(258,726)	1,175,249	(35,195)
Total	3,766,871	166,955	(371,064)	1,024,232	–	(258,726)	4,328,268	926,638

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets is analyzed as follows:

	2022 Relating to non-financial assets	2021 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	(3,300)	(2,569)
Change in unrealised profit or loss for the period of assets held at year-end included in profit and loss as at the end of the period	(3,300)	(2,569)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES**1. Controlling shareholder**

Name of controlling shareholder	Place of registration	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)
Zhongxingxin Telecom Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	21.28%	21.28%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Zhongxingxin Telecom Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

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

4. Other related parties

	Relationship
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
安徽中興聚力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Subsidiary of the Company's controlling shareholder
Shenzhen New Video Smart Technology Company Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxingxin Cloud Service Company Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Xingkai Communication Equipment Limited	Subsidiary of the Company's controlling shareholder
航天歐華信息技術有限公司	Subsidiary of a company for which a connected natural person of the Company acted as senior management
廣東歐科空調製冷有限公司	Subsidiary of a company for which a connected natural person of the Company acted as senior management
深圳市航天泰瑞捷電子有限公司	Subsidiary of a company for which a connected natural person of the Company acted as senior management
Shenzhen Aerospace Guangyu Industrial Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as senior management
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as director
Shenzhen Aerospace Property Management Co., Ltd	Company for which a connected natural person of the Company acted as director
Shenzhen ZTE International Investment Company Limited	Company for which a connected natural person of the Company acted as chairman

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)**4. Other related parties (continued)**

	Relationship
Tianjin ZTE International Investment Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman
Shenzhen Zhongxing WXT Equipment Company Limited 北京中興協力科技有限公司	Company for which a connected natural person of the Company acted as director Subsidiary of a company for which a connected natural person of the Company acted as director
Zhongxing Development Company Limited	Company for which a connected natural person of the Company acted as director and executive vice president
Huatong Technology Co., Ltd	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Software Technology (Nanjing) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
ZTE Software Technology (Nanchang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Zhongxing Software Technology (Shenyang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Sanhe Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Sanhe Zhongxing Property Service Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
重慶中興中投物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
深圳中興和泰海景酒店投資發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Xi'an Microelectronics Technology Research Institute 深圳中興新源環保股份有限公司	Entity at which a connected natural person of the Company had previously acted as head Company for which a connected natural person of the Company acted as chairman
深圳中興騰浪生態科技有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman
上海中興科源實業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)**4. Other related parties (continued)**

	Relationship
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as vice chairman
深圳市中興旭科技有限公司	Company controlled by Company a connected natural person of the Company
深圳市中興宜和投資發展有限公司	Company for which a connected natural person of the Company acted as chairman
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company

5. Major transactions between the Group and related parties**(1) Transaction of goods with related parties****(a) Sales of goods to related parties**

	2022	2021
Transactions with controlling shareholder and its subsidiaries:		
Zhongxingxin Telecom Service Company Limited	—	41
Sindi Technologies Co., Ltd.	—	22
Shenzhen Xingkai Communication Equipment Limited	—	29,635
	—	29,698
Transactions with companies and their subsidiaries where connected natural persons held office:		
航天歐華信息技術有限公司	940,007	576,961
Shenzhen Zhongxing Information Company Limited	2,835	16,758
Zhongxing Development Company Limited	—	93
Shenzhen Zhongxing WXT Equipment Company	2	—
深圳市中興旭科技有限公司	2,655	—
	945,499	593,812
Transactions with associates and joint ventures of the Company and their subsidiaries:		
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	51	51
南京中興和泰酒店管理有限公司	1,233	22
西安中興和泰酒店管理有限公司	1,913	2,395
上海市和而泰酒店投資管理有限公司	1,358	1,643
Puxing Mobile Tech Company Limited	1,624	1,622
Huanggang Education Valley Investment Holdings Co., Ltd	—	13
上海博色信息技術有限公司	2,572	2,104
Whale Cloud Technology Co., Ltd	168	3,277
深圳市中鑫新能源技術有限公司	—	5
廣東中城信息技術有限公司	174	—
Shijiazhuang Smart Industry Company	36	—
Nanjing Zhongxing Ruanchuang Software Technology Company Limited	—	1,024
江西國投信息技術有限公司	5,817	979
	14,946	13,135
	960,445	636,645

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)**5. Major transactions between the Group and related parties (continued)****(1) Transaction of goods with related parties (continued)****(b) Purchases of goods and services from related parties**

	2022	2021
Transactions with controlling shareholder and its subsidiaries:		
Sindi Technologies Co., Ltd.#	130,303	146,183
Shenzhen Xinyu Tengyue Electronics Co., Ltd#	24,421	30,776
Pylon Technologies Co., Ltd.#	16,382	125,100
深圳市中興新力精密機電技術有限公司#	127,608	124,602
安徽中興聚力精密機電技術有限公司#	373	1,587
Shenzhen New Video Smart Technology Company Limited#	4,019	—
	303,106	428,248
Transactions with companies and their subsidiaries where connected natural persons held office:		
廣東歐科空調製冷有限公司	3,478	23,574
深圳市航天泰瑞捷電子有限公司	42	—
Shenzhen Aerospace Guangyu Industrial Company Limited	10	9
北京中興協力科技有限公司	3,778	5,150
Huatong Technology Co., Ltd	53,429	59,145
ZTE Software Technology (Nanchang) Company Limited	45,560	46,117
Zhongxing Software Technology (Shenyang) Company Limited	2,135	3,395
深圳中興和泰海景酒店投資發展有限公司	448	2,511
深圳中興騰浪生態科技有限公司	330	—
上海中興科源實業有限公司	47	—
深圳市中興宜和投資發展有限公司	79	—
	109,336	139,901
Transactions with associates and joint ventures of the Company and their subsidiaries:		
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	8,992	9,931
南京中興和泰酒店管理有限公司	12,515	7,159
西安中興和泰酒店管理有限公司	6,569	5,930
上海市和而泰酒店投資管理有限公司	9,485	5,053
Whale Cloud Technology Co., Ltd	235,492	310,027
	273,053	338,100
	685,495	906,249

Continuing connected transaction subject to annual reporting under the Hong Kong Listing Rules.

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

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(2) Leasing with related parties

(a) As lessor

	Type of lease asset	2022 Lease income	2021 Lease income
Transactions with controlling shareholder and its subsidiaries:			
深圳市中興新雲服務有限公司	Office	3,476	3,388
深圳市中興新力精密機電技術有限公司	Quarters	11	—
		3,487	3,388
Transactions with companies and their subsidiaries where connected natural persons held office:			
Shenzhen ZTE International Investment Company Limited	Office	151	146
Huatong Technology Co., Ltd	Office	27	—
Huatong Software Technology (Nanjing) Company Limited	Office	92	367
上海中興科源實業有限公司	Office	331	405
深圳中興節能環保股份有限公司	Office	200	168
		801	1,086
Transactions with associates and joint ventures of the Company and their subsidiaries:			
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	12,873	10,790
南京中興和泰酒店管理有限公司	Property and equipment and facilities	6,855	7,060
西安中興和泰酒店管理有限公司	Property and equipment and facilities	18,639	17,395
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	16,361	14,389
上海中興思秸通訊有限公司	Office	—	222
Zhongxing Feiliu Information Technology Company Limited	Office	703	703
		55,431	50,559
		59,719	55,033

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)**5. Major transactions between the Group and related parties (continued)****(2) Leasing with related parties (continued)****(b) As lessee**

	Type of lease asset	Rental expense based on simplified short term lease and low value asset lease	Variable lease payment not included in lease liability measurement	Rental paid	Lease liability interest expense assumed	Right of use assets added
Transactions with controlling shareholder and its subsidiaries:						
Zhongxingxin Telecom Service Company Limited	Office	215	—	10,977	387	13,192
Transactions with companies and their subsidiaries where connected natural persons held office:						
Chongqing Zhongxing Development Company Limited	Office	846	—	7,722	577	683
Sanhe Zhongxing Property Service Company Limited	Office	3,072	—	—	—	—
Sanhe Zhongxing Development Company Limited	Office	109	—	9,952	449	2,377
Tianjin ZTE International Investment Company Limited	Office	1,659	—	2,936	297	—
		5,901	—	31,587	1,710	16,252

Note: The Group recognised lease income of RMB59,719,000 (2021: RMB55,033,000) for the period according to the lease contracts for the lease of office and equipment to the aforesaid connected parties.

The Group recognised lease expenses of RMB31,587,000 (2021: RMB40,496,000) for the period according to the lease contracts for the lease of office from the aforesaid connected parties.

(3) Other major related transactions**Remuneration of key management personnel**

	2022	2021
Short-term staff remuneration	67,999	61,290
Retirement benefit	314	280
	68,313	61,570

Note: Share option expense or share-based payment expense recognized for 2022 in respect of the initial grant under the 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme to key management personnel of the Company amounted to RMB14,514,000 (2021: RMB43,995,000). For details, please refer to Note XI. 2 and 3.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)**6. Commitments of the Group with related parties****(1) Information on purchases from related parties in 2023-2024 by the Group as buyer:**

Supplier	Subject of purchase	Date of agreement	Duration of agreement	Estimated purchase	
				2023 (RMB'000)	2024 (RMB'000)
Zhongxingxin Telecom Service Company Limited and subsidiaries	Raw materials	December 2022	One year	550,000	—
Huatong Technology Co., Ltd	Software outsourcing	December 2022	Two years	85,000	85,000
Huatong Technology Co., Ltd	Software outsourcing	December 2022	Two years	85,000	85,000
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries	Hotel service	December 2021	Two years	48,000	—
				768,000	170,000

Note: For purchases incurred during the year, please refer to Note X. 5(1).

(2) Information on sales with related parties in 2023 of the Group as seller as follows:

Customer	Subject of sales	Date of agreement	Duration of agreement	Estimated sales
				2023 (RMB'000)
航天歐華信息技術有限公司	Full range of government and corporate products	December 2022	One year	1,300,000

Note: For sales incurred during the year, please refer to Note X. 5(1).

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)**6. Commitments of the Group with related parties (continued)****(3) Information on leases of the Group (as lessor) with connected parties in 2023–2024 as follows:**

Lessee	Date of contract	Lease term	Estimated lease income	
			2023 (RMB'000)	2024 (RMB'000)
Shenzhen Zhongxingxin Cloud Service Company Limited	July 2021	Two years	50	—
Shenzhen Zhongxingxin Cloud Service Company Limited	September 2022	Two years	903	635
Shenzhen Zhongxingxin Cloud Service Company Limited	November 2020	27 months	169	—
Shenzhen Zhongxingxin Cloud Service Company Limited	June 2022	Two years	1,096	457
Shenzhen Zhongxingxin Cloud Service Company Limited	June 2022	Two years	474	224
Shenzhen Zhongxingxin Cloud Service Company Limited	August 2022	Two years	191	121
深圳市中興新力精密機電技術有限公司	July 2022	One year	6	—
深圳中興節能環保股份有限公司	January 2022	One year	—	—
Shenzhen ZTE International Investment Company Limited	November 2020	Seven years	153	153
上海中興科源實業有限公司	July 2022	Two years	436	218
Huatong Technology Co., Ltd	March 2022	Three years	34	34
Zhongxing Feiliu Information Technology Company Limited	January 2021	Two years	—	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries	December 2021	Two years	54,728	—
			58,240	1,842

Note: For lease income incurred during the year, please refer to Note X. 5(2).

(4) Information on leases of the Group (as lessee) with connected parties in 2023–2024 as follows:

Lessor	Date of contract	Lease term	Estimated lease expense	
			2023 (RMB'000)	2024 (RMB'000)
Zhongxingxin Telecom Service Company Limited	April 2021	Two years	3,485	—
Tianjin ZTE International Investment Company Limited	April 2021	Three years	2,699	793
Tianjin ZTE International Investment Company Limited	April 2021	Three years	1,288	383
Tianjin ZTE International Investment Company Limited	April 2022	One year	101	—
Tianjin ZTE International Investment Company Limited	May 2022	Two years	94	—
Tianjin ZTE International Investment Company Limited	August 022	Nine months	26	—
Sanhe Zhongxing Development Company Limited	December 2021	30 months	573	258
Sanhe Zhongxing Development Company Limited	June 2019	Five years	834	375
Sanhe Zhongxing Development Company Limited	March 2020	Three years	1,597	—
Sanhe Zhongxing Development Company Limited	March 2020	Three years	311	—
Sanhe Zhongxing Development Company Limited	December 2020	Three years	1,532	1,532
Chongqing Zhongxing Development Company Limited	July 2022	Three years	252	252
Chongqing Zhongxing Development Company Limited	January 2021	Three years	7,907	—
			20,699	3,593

Note: For lease income incurred during the year, please refer to Note X.5 (2).

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)**7. Balances of amounts due from/to related parties**

Item	Name of related companies	2022 Amount	2021 Amount
Bills receivable	航天歐華信息技術有限公司	288,405	88,689
	Shenzhen Zhongxing Information Company Limited	—	10,586
		288,405	99,275
Trade receivable	Puxing Mobile Tech Company Limited	4,700	14,213
	德特賽維技術有限公司	308	—
	Whale Cloud Technology Co., Ltd	995	3,359
	鐵建聯和(北京)科技有限公司	7,424	7,560
	Telecom Innovations	—	404
	上海博色信息科技有限公司	2,030	—
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	38,282	26,231
	西安中興和泰酒店管理有限公司	27,823	5,584
	南京中興和泰酒店管理有限公司	7,110	2
	上海市和而泰酒店投資管理有限公司	65,240	52,295
	航天歐華信息技術有限公司	—	4,179
	Shenzhen Xingkai Communication Equipment Limited	22,060	22,060
	Shenzhen Zhongxing Information Company Limited	2,434	—
	Xi'an Microelectronics Technology Research Institute	—	9
ZTE Software Technology (Nanchang) Company Limited	—	225	
	178,406	136,121	
Prepayment	深圳市中興新力精密機電技術有限公司	731	—
Other receivable	Shenzhen Zhongxing Information Company Limited	—	14
	山東興濟置業有限公司	20,591	20,591
	20,591	20,605	
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd	9,116	11,592
	Sindi Technologies Co., Ltd.	55,139	69,835
	深圳市中興新力精密機電技術有限公司	49,417	61,123
	廣東歐科空調製冷有限公司	621	12,863
	Pylon Technologies Co., Ltd.	390	90,904
	Shenzhen New Video Smart Technology Company Limited	220	—
	114,903	246,317	

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	2022 Amount	2021 Amount
Trade payables	Shenzhen Xinyu Tengyue Electronics Co., Ltd	3,394	8,489
	Sindi Technologies Co., Ltd.	26,204	32,132
	Shenzhen Zhongxing WXT Equipment Company	483	483
	Shenzhen Zhongxing Information Company Limited	9,692	13,120
	Puxing Mobile Tech Company Limited	217	217
	深圳市中興新力精密機電技術有限公司	20,787	29,772
	廣東歐科空調製冷有限公司	846	3,224
	Whale Cloud Technology Co., Ltd	156,172	257,751
	Pylon Technologies Co., Ltd.	2,246	37,287
	安徽中興聚力精密機電技術有限公司	—	1,065
	航天歐華信息技術有限公司	3,762	—
	Zhongxing Software Technology (Shenyang) Company Limited	96	—
		223,899	383,540
Contract liabilities	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327
	Puxing Mobile Tech Company Limited	—	739
	Xi'an Microelectronics Technology Research Institute	1,611	1,628
	北京中興協力科技有限公司	155	155
	航天歐華信息技術有限公司	4,855	79,774
	Zhongxing Software Technology (Shenyang) Company Limited	3	3
	江西國投信息科技有限公司	—	4,014
	Whale Cloud Technology Co., Ltd	9,328	11,407
	安徽奇英智能科技有限公司	436	—
	深圳市中興旭科技有限公司	925	—
	22,640	103,047	
Other payables	Shenzhen Zhongxing WXT Equipment Company	2,712	12
	Zhongxingxin Telecom Service Company Limited	10	318
	深圳中興新源環保股份有限公司	—	4
	I INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	5,243	4,878
	中山優順置業有限公司	2,000	2,000
	Huanggang Education Valley Investment Holdings Co., Ltd	161	178
	Hengyang ICT Real Estate Co., Ltd	198	198
	山東興濟置業有限公司	272	272
	Shenzhen Zhongxingxin Cloud Service Company Limited	45	45
	Whale Cloud Technology Co., Ltd	—	2,354
	深圳中興節能環保股份有限公司	29	29
	Shenzhen ZTE International Investment Company Limited	26	26
	Huatong Technology Co., Ltd	6	—
	Shenzhen Aerospace Property Management Co., Ltd	30	—
廣東中城信息技術有限公司	1,165	—	
	11,897	10,314	

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivables from related parties were interest-free and unsecured with a usual credit term of 0–90 days, which may be extended to up to 1 year.

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XI. SHARE-BASED PAYMENT**1. Overview**

Equity-settled share-based payments are as follows:	2022	2021
Cumulative balance of equity-settled share-based payments credited to capital reserves	1,410,443	996,419
Transfer of cost of equity-settled share-based payments to share premium in capital reserve upon exercise of share options	(58,584)	(354,231)
Total costs of equity-settled share-based payments for the year	472,608	871,497

2. Share option incentive scheme**(1) 2017 Share Option Incentive Scheme**

Pursuant to the “Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 5 years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 2-year period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company’s performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

- (1) Rate of Return on Common Stockholders’ Equity (“ROE”);
- (2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, “net profit” shall refer to the net profit attributable to holders of ordinary shares of the listed company and “net assets” shall refer to the net assets attributable to holders of ordinary shares of the listed company.

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XI. SHARE-BASED PAYMENT (continued)**2. Share option incentive scheme (continued)****(1) 2017 Share Option Incentive Scheme (continued)**

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options:

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

The fair value of the share options granted amounted to RMB1,477,496,000. The first exercise period expired in July 2020. The exercise conditions for the second exercise period were not fulfilled. The vesting period of the third exercise period expired in July 2021. Hence, no share option expense was required to be recognised for 2022.

Share options issued and outstanding under the Scheme are as follows:

	31 December 2022		31 December 2021	
	Weighted average exercise price* RMB/share	Number of share options In'000	Weighted average exercise price* RMB/share	Number of share options In'000
At the beginning of the year	16.66	5,256	16.86	39,726
Exercised during the year		(5,256)		(32,033)
Lapsed		—		(2,437)
At the end of the year	16.36	—	16.66	5,256

Note: The grant under the Company's 2017 Share Option Incentive Scheme was completed in July 2017. The initial exercise price of the share options was RMB17.06 per A share. The exercise price of the 2017 Share Option Incentive Scheme was adjusted to RMB16.86/share after the implementation of the 2019 profit distribution plan in August 2020, RMB16.66/share after the implementation of the 2020 profit distribution plan in August 2021 and RMB16.36/share after the implementation of the 2021 profit distribution plan in May 2022.

As at the balance sheet date, the exercise periods had expired and there were no issued and outstanding share options (2021: 5,256,000 share options).

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XI. SHARE-BASED PAYMENT (continued)**2. Share option incentive scheme (continued)****(2) 2020 Share Option Incentive Scheme – initial grant**

Pursuant to the “Resolution on Matters pertaining to the grant of shares options under the 2020 Share Option Incentive Scheme” considered and passed at the Twenty-seventh Meeting of the Eighth Session of the Board of Directors and the Twentieth Meeting of the Eighth Session of the Supervisory Committee held on 6 November, it was confirmed that 158,472,000 would be granted to 6,123 participants under the initial grant. In accordance with ASBE 11 – Share-based Payment, the date of grant should be the date of approval of the share-based payment agreement. Hence, the date of grant for the initial grant of the share option incentive scheme was set for 6 November 2020. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 4 years from the date of grant. The first exercise period shall commence from the first trading day after expiry of a 1-year period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the Company’s performance as the condition of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include: the net profit attributable the shareholders of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options for each exercise period:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period (“First Period”)	1/3	2021.11.6–2022.11.5	Net Profit for 2020 shall be no less than RMB3.0 billion
Second exercise period (“Second Period”)	1/3	2022.11.6–2023.11.5	Cumulative net profit for 2020 and 2021 shall be no less than RMB6.47 billion
Third exercise period (“Third Period”)	1/3	2023.11.6–2024.11.5	Cumulative net profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

The fair value of the share options under the initial grant amounted to RMB1,444,549,000. The Company recognised share option expense of RMB427,934,000 for 2022 based on the best estimates of expected number of exercisable options at the end of the year.

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XI. SHARE-BASED PAYMENT (continued)**2. Share option incentive scheme (continued)****(2) 2020 Share Option Incentive Scheme – initial grant (continued)**

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second	Third
Proposed dividend (RMB)	0.20	0.20	0.20
Volatility (%)	34.40	33.57	30.33
Risk-free interest rate (%)	2.775	2.846	2.909

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

31 December 2022		
Number of options '000	Exercise price* RMB per share	Exercise period
–	34.47	6 November 2021 to 5 November 2022
50,190	34.47	6 November 2022 to 5 November 2023
50,317	34.47	6 November 2023 to 5 November 2024
100,507		

Share options issued and outstanding under the Scheme are as follows:

	31 December 2022		31 December 2021	
	Weighted average exercise price* RMB/share	Number of share options In'000	Weighted average exercise price* RMB/share	Number of share options In'000
At the beginning of the year	34.47	154,668	34.47	158,472
Exercised during the year		(61)		(7)
Lapsed		(54,100)		(3,797)
At the end of the year	34.47	100,507	34.47	154,668

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XI. SHARE-BASED PAYMENT (continued)**2. Share option incentive scheme (continued)****(3) 2020 Share Option Incentive Scheme – reserved options**

Pursuant to the “Resolution on Matters pertaining to the Grant of Reserved Share Options under the 2020 Share Option Incentive Scheme” considered and passed at the Fortieth Meeting of the Eighth Session of the Board of Directors of the Company and the Thirty-first Meeting of the Eighth Session of the Supervisory Committee held on 23 September 2021, 5,000,000 reserved share options shall be granted to 410 participants. In accordance with ASBE No. 11 – Share-based payment, the date of grant shall be the date on which the agreement governing the share-based payment is approved. Therefore, the date of grant for the reserved share options under the share option incentive scheme shall be 23 September 2021. Participants of the reserved share options shall be key business personnel.

The reserved share options shall be valid for a period of 3 years subject to a 1-year vesting period from the date of grant. Thereafter, one half of the options shall become exercisable in each of the two exercise periods, namely, the first and the second exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the business performance conditions or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

Business performance indicator for the exercise of the share options: net profit attributable to holders of ordinary shares of the listed company.

The conditions for the exercise of share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/2	2022.9.23–2023.9.22	Cumulative net profit for 2020 and 2021 shall be no less than 20% RMB6.47 billion
Second exercise period ("Second Period")	1/2	2023.9.23–2024.9.22	Cumulative net profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

The fair value of the reserved share options was RMB36,102,000. The Company recognised share option expenses of RMB21,297,000 for 2022 based on the best estimates of the expected number of exercisable options at the end of the period.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second
Estimated dividend payment (RMB)	0.20	0.20
Volatility (%)	29.53	31.46
Risk-free interest rate (%)	2.393	2.499

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

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XI. SHARE-BASED PAYMENT (continued)**2. Share option incentive scheme (continued)****(3) 2020 Share Option Incentive Scheme – reserved options (continued)**

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

31 December 2022	Exercise price	Valid exercise period
Number of share options	RMB/share	
In'000		
2,454	34.92	23 September 2022 to 22 September 2023
2,455	34.92	23 September 2023 to 22 September 2024
4,909		

According to the Scheme, share options outstanding are set out as follows:

	31 December 2022	31 December 2021
	Weighted average exercise price*	Weighted average exercise price*
	RMB/share	RMB/share
	Number of share option	Number of share option
	(1,000)	(1,000)
At the beginning of the year	34.92	34.92
Exercised during the year	—	—
Lapsed	(91)	—
At the end of year	34.92	34.92
	4,909	5,000

3. 2020 Management Stock Ownership Scheme

The Management Stock Ownership Scheme has been considered and approved at the Twenty-fifth Meeting of the Eighth Session of the Board of Directors and Eighteenth Meeting of the Eighth Session of the Supervisory Committee and the Second Extraordinary General Meeting of 2020. The source of fund of the Management Stock Ownership Scheme was the RMB114,765,557.00 dedicated management stock ownership scheme fund set aside by the Company and the source of shares was 2,973,900 A shares in the Company repurchased by the Company, accounting for 0.06% of the total share capital of the Company. There are 27 participants including Directors, Supervisors, senior management and other core management personnel.

The total amount of funds paid under the Management Stock Ownership Scheme was RMB114,765,557.00, converted into 114,766,000 units at RMB1.00 per unit. The Directors, Supervisors and senior management of the Company have subscribed for a total of 62,606,000 units, while other participants of the Company have subscribed for a total of 52,160,000 units.

The Management Stock Ownership Scheme shall be valid for 3 years from the date of approval of the Management Stock Ownership Scheme at the general meeting. The scheme will terminate automatically upon maturity, or it may be extended upon approval by the Board at the request of the management committee.

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XI. SHARE-BASED PAYMENT (continued)**3. 2020 Management Stock Ownership Scheme (continued)**

The performance indicator for the Management Stock Ownership Scheme is a net profit attributable to ordinary shareholders of the listed company for 2020 of not less than RMB3.0 billion. The number of share options to be granted is based on the operating results of the business segment which the management personnel is in charge of and his/her personal appraisal, and the confirmed number of options will be vested in the holder in 2 periods separated by an interval of 12 months, with 50% vested in each period.

The lock-up period of the target stocks obtained in this Management Stock Ownership Scheme is from 8 December 2020 to 17 December 2021. On 18 December 2021, the lock-up period of the subject shares under the Management Stock Ownership Scheme expired. As at the end of the reporting period, 100% of the units under the Management Stock Ownership Scheme was vested.

The share option expense recognised by the Group for 2022 amounted to RMB23,377,000 based on the best estimates of expected number of exercisable shares at the end of the period.

XII. COMMITMENTS AND CONTINGENT EVENTS**1. Material commitments**

	31 December 2022	31 December 2021
Contracted but not provided of		
Capital expenditure commitments	2,290,979	2,534,033
Investment commitments	191,347	26,500
Including: investment commitment to joint ventures	80,500	—
	2,482,326	2,560,533

2. Contingent events

2.1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB41,797,600). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB41,625,100), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)**2. Contingent events (continued)**

2.1. (continued)

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB111 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

On 18 March 2022, the presiding judge of the Primary Case ruled that the valid period for the execution of the credit rights ruled in favour of ZTE Brazil expired on 13 June 2022. On 1 April 2022, ZTE Brazil filed an appeal against such ruling. Pursuant to Brazilian law, the valid period for an execution will not be suspended because of an appeal. Therefore, on 8 June 2022, ZTE Brazil applied to the Court of Brasilia, the court for the Primary Case, to request deliberation between the Court of Brasilia and Civil Court No. 15 of Sao Paulo City, Brazil, the court for the Sued Case, in support of the Brazilian subsidiary's application for the set-off of the credit rights ruled in favour in the Primary Case against any liabilities that may materialise in the event of an unfavourable ruling under the Sued Case. On 19 July 2022, the Court of Brasilia ruled in favour of the aforesaid application for set-off, confirming that, in the event of an unfavourable ruling against ZTE Brazil under the Sued Case, ZTE Brazil will be allowed to set off a compensation amount of BRL176,997,100 (equivalent to approximately RMB236 million as at the date of ruling, subject to inflationary adjustments as at the date of actual set-off).

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Company is currently not able to make reliable estimates on outcome of the litigation.

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2022 where BRL amounts are translated at the exchange rate of BRL1: RMB1.3331

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

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

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

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

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)**2. Contingent events (continued)**

2.2. (continued)

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

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

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

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

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

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

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)**2. Contingent events (continued)**

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

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

On 26 May 2022, Shandong ICT received a writ of summons from Rengcheng Court and an application for modification of litigation petition from 興濟置業, who had modified the litigation claim amount from RMB90,499,085.06 to RMB94,148,627.01. On 18 July 2022, Rengcheng District People’s Court commenced first trial and a ruling has yet to be given.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

- 2.5. On 15 April 2018, the U.S. Department of Commerce’s Bureau of Industry and Security (“BIS”) signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the “15 April 2018 Denial Order”). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) (“ZTE”) from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations (“EAR”), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p.17644) on 23 April 2018.

In June 2018, ZTE and BIS entered into a superseding settlement agreement (“2018 Superseding Settlement Agreement”) to supersede the settlement agreement signed between ZTE and BIS in March 2017 (“2017 Settlement Agreement”). The 2018 Superseding Settlement Agreement came into effect via a superseding order relating to ZTE on 8 June 2018 (the “8 June 2018 Order”). In accordance with the 2018 Superseding Settlement Agreement, the Company had paid civil monetary penalties totalling USD1.4 billion, including a lump sum payment of USD1 billion and an additional penalty of USD0.4 billion placed in an escrow account with a U.S. bank suspended during the period of ten years from the issuance of the 8 June 2018 Order (the “Probationary Period”) (The USD0.4 billion penalty will be waived after the end of Probationary Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the “New Denial Order”) for a period of ten years from the issuance of the 8 June 2018 Order that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE’s compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)**2. Contingent events (continued)**

2.5. (continued)

To fulfill the obligations under the 2018 Superseding Settlement Agreement and 2017 Settlement Agreement, the Company is required to provide and implement a comprehensive and updated export control compliance programme that covers all levels of ZTE.

In the event of the Company's violation of obligations under the 2018 Superseding Settlement Agreement or 2017 Settlement Agreement, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; (ii) the USD0.4 billion placed in an escrow account with a U.S. bank shall become payable immediately and shall be paid in full or in part.

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and export control compliance team members with global coverage and engaged a number of counsels and consultants; established and enhanced the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System to automate key aspects of export compliance management; carried out ECCN Publication Project, which makes available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the EAR via a public website; continued to provide online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring and compliance audits; and made continuous investment on the work on export control compliance.

In 2022, the Company has complied with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses.

Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as a foundation for the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually build its value for its customers, shareholders, and employees, and build a compliant and healthy business environment with customers and partners through the dedication and vigilance to export compliance of every employee.

During the period from 1 January 2022 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent events will not have any material adverse impact on the current financial conditions and operating results of the Group.

- 2.6. As at 31 December 2022, an amount of RMB11,213,625,000 (31 December 2021: RMB12,974,135,000) was outstanding under the bank guarantee letters issued by the Group.

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XIII. POST-BALANCE SHEET DATE EVENTS

On 10 March 2023, in accordance with the profit distribution proposal recommended by the Board, a cash dividend of RMB4 (before tax) for every 10 shares was paid to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. In the event of changes in the total share capital after the announcement of the profit distribution proposal but before its implementation, the total share capital shall be readjusted on the basis of the total share capital as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2022 according to the existing proportion for distribution. The aforesaid matter is subject to consideration and approval at the general meeting.

XIV. OTHER SIGNIFICANT MATTERS**1. Segment reporting****(1) Operating segment**

For management purposes, the Group is organised into business units based on its products and services and has 3 reportable operating segments as follows:

- (a) Carriers' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, server and storage 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 and corporate clients through the development, production and sale of products such as home information terminal, smart phones, mobile Internet terminals, innovative fusion terminals, as well as the provision of related software application and value-added services;
- (c) The Government and Corporate Business is focused on meeting requirements of government and corporate clients, providing informatisation solutions for the government and corporations through the application of products such as "communications networks, IOT, Big Data and cloud computing".

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profit from continuing operations, which is consistent with the Group's total profit from continuing operations, except for the exclusion of finance costs, research and development costs, impairment losses, fair value gains from financial instruments, investment income as well as head office and corporate expenses.

Segment assets exclude derivative financial instruments, deferred tax assets, cash on hand, long-term equity investments, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, borrowings, other payables, short-term bonds payable, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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XIV. OTHER SIGNIFICANT MATTERS (continued)**1. Segment reporting (continued)****(1) Operating segment (continued)**

2022

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
2022				
Revenue from external transactions	80,040,647	28,286,048	14,504,888	122,831,583
Rental income	—	—	122,835	122,835
Sub-total	80,040,647	28,286,048	14,627,723	122,954,418
Segment results	30,403,591	2,695,713	2,503,449	35,602,753
Unallocated revenue				2,088,776
Unallocated cost				(27,728,539)
Finance costs				(163,207)
Loss from changes in fair values				(1,141,849)
Investment gain from associates and joint ventures				93,722
Total profit				8,751,656
Total assets				
31 December 2022				
Segment assets	48,909,213	16,531,799	8,938,339	74,379,351
Unallocated assets				106,574,223
Sub-total				180,953,574
Total liabilities				
31 December 2022				
Segment liabilities	12,271,166	3,465,853	2,242,602	17,979,621
Unallocated liabilities				103,430,730
Sub-total				121,410,351
Supplemental information				
2022				
Depreciation and amortisation expenses	2,832,661	1,001,051	517,680	4,351,392
Capital expenditure	3,784,552	1,337,446	691,641	5,813,639
Asset impairment losses	(774,684)	(273,770)	(141,576)	(1,190,030)
Credit impairment losses	(240,409)	(84,960)	(43,935)	(369,304)

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XIV. OTHER SIGNIFICANT MATTERS (continued)**1. Segment reporting (continued)****(1) Operating segment (continued)**

2021

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
2021				
Revenue from external transactions	75,711,611	25,730,783	12,952,445	114,394,839
Rental income	—	—	126,802	126,802
Sub-total	75,711,611	25,730,783	13,079,247	114,521,641
Segment results	25,845,673	2,544,657	2,450,846	30,841,176
Unallocated revenue				2,191,490
Unallocated cost				(24,735,911)
Finance costs				(962,906)
Gain from changes in fair values				1,099,364
Investment gain from associates and joint ventures				65,713
Total profit				8,498,926
Total assets				
31 December 2021				
Segment assets	45,860,402	14,625,857	7,922,424	68,408,683
Unallocated assets				100,354,742
Sub-total				168,763,425
Total liabilities				
31 December 2021				
Segment liabilities	11,487,916	3,081,890	1,984,547	16,554,353
Unallocated liabilities				98,921,412
Sub-total				115,475,765
Supplemental information				
2021				
Depreciation and amortisation expenses	3,008,418	1,022,419	519,707	4,550,544
Capital expenditure	3,293,634	1,119,350	568,978	4,981,962
Asset impairment losses	(1,005,748)	(341,806)	(173,744)	(1,521,298)
Credit impairment losses	(177,801)	(60,426)	(30,715)	(268,942)

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XIV. OTHER SIGNIFICANT MATTERS (continued)**1. Segment reporting (continued)****(2) Geographic information***Revenue*

	2022	2021
The PRC	85,246,318	78,066,467
Asia (excluding the PRC)	14,915,193	14,379,464
Africa	5,512,707	4,937,822
Europe, America and Oceania	17,280,200	17,137,888
	122,954,418	114,521,641

Total non-current assets

	31 December 2022	31 December 2021
The PRC	23,654,703	22,993,371
Asia (excluding the PRC)	1,337,111	1,477,536
Africa	445,055	454,790
Europe, America and Oceania	377,511	445,927
	25,814,380	25,371,624

Non-current assets, excluding long-term receivables, factored long-term receivables, long-term equity investments, other non-current financial assets, deferred tax assets, goodwill and other non-current assets, are analysed by geographic locations where the assets are located.

(3) Information of major customers

Operating revenue of RMB37,132,449,000 was derived from Carriers' network and consumer business revenue from one major customer (2021: RMB36,409,812,000 from one major customer).

2. # Directors' and Supervisors' remuneration

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Directors' and Supervisors' remuneration set out as follows:	2022	2021
Other remuneration:		
Salaries, bonuses, allowances and welfare	9,223	8,159
Performance-related bonuses*	35,050	31,074
Retirement benefit scheme contributions	269	220
	44,542	39,453

Note: Share option expense or share-based payment expense recognised for 2022 in respect of share options or units granted to Directors and Supervisors of the Company under the initial grant of the 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme amounted to RMB8,555,000 (2021: RMB25,822,000).

* Certain Executive Directors of the Company were entitled to bonus payments in amounts determined according to their performance.

During the year, no Director or Supervisor waived or agreed to waive any emolument. No emoluments were paid by the Group to the Directors an inducement to join or upon joining the Group or as compensation for loss of office (2021: nil).

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2022.

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. # Directors' and Supervisors' remuneration (continued)

(a) Independent Non-executive Directors

	2022	2021
Cai Manli	363	250
Gordon Ng	363	250
Zhuang Jiansheng	363	250
	1,089	750

There were no other emoluments payable to the Independent Non-executive Directors during the year (2021: Nil).

(b) Executive directors, Non-executive Directors and Supervisors

	Directors fee	Salaries, bonuses, allowances and welfare	Performance-related bonuses	Retirement benefit scheme contributions	Total	Share option scheme cost
2022						
<i>Executive directors:</i>						
Li Zixue	—	1,758	7,688	35	9,481	Note 2, Note 3
Xu Ziyang (President)	—	1,610	10,643	42	12,295	Note 1, Note 2, Note 3
Gu Junying	—	1,560	8,002	57	9,619	Note 2, Note 3
	—	4,928	26,333	134	31,395	—
<i>Non-executive directors:</i>						
Li Buqing	—	175	—	—	175	Note 2
Zhu Weimin	—	175	—	—	175	Note 2
Fang Rong	—	175	—	—	175	Note 2
	—	525	—	—	525	—
<i>Supervisors:</i>						
Xie Daxiong	—	1,214	5,687	45	6,946	Note 3
Xia Xiaoyue	—	582	1,577	45	2,204	—
Li Miaona*	—	548	1,453	45	2,046	—
Jiang Mihua*	—	—	—	—	—	—
Hao Bo*	—	—	—	—	—	—
Li Quancai**	—	337	—	—	337	—
Shang Xiaofeng**	—	—	—	—	—	—
Zhang Sufang**	—	—	—	—	—	—
	—	2,681	8,717	135	11,533	—
	—	8,134	35,050	269	43,453	—

* Appointed on 30 March 2022

** Resigned on 30 March 2022

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. # Directors' and Supervisors' remuneration (continued)

(b) Executive directors, Non-executive Directors and Supervisors (continued)

	Director fee	Salaries, bonuses, allowances and welfare	Performance-related bonuses	Retirement benefit scheme contributions	Total	Share option scheme cost
2021						
<i>Executive directors:</i>						
Li Zixue	—	1,678	6,740	32	8,450	Note 2, Note 3
Xu Ziyang (President)	—	1,621	9,461	38	11,120	Note 1, Note 2, Note 3
Gu Junying	—	1,496	7,260	54	8,810	Note 2, Note 3
	—	4,795	23,461	124	28,380	—
<i>Non-executive directors:</i>						
Li Buqing	—	100	—	—	100	Note 2
Zhu Weimin	—	100	—	—	100	Note 2
Fang Rong	—	100	—	—	100	Note 2
	—	300	—	—	300	—
<i>Supervisors:</i>						
Xie Daxiong	—	1,149	5,500	39	6,688	Note 3
Xia Xiaoyue	—	532	1,091	39	1,662	—
Li Quancai	—	633	1,022	18	1,673	—
Shang Xiaofeng	—	—	—	—	—	—
Zhang Sufang	—	—	—	—	—	—
	—	—	7,613	96	10,023	—
	—	7,409	31,074	220	38,703	—

Note 1: As at the end of the year, Executive Director Xu Ziyang held 0 share options under the 2017 Share Option Incentive Scheme. The fair value of share options granted under the 2017 Share Option Incentive Scheme was RMB1,477,496,000. The Company recognized share option expense of RMB0 for 2022 (2021: RMB47,171,000). Share option expense for Executive Directors amounted to RMB0 (2021: RMB116,000).

Note 2: As at the end of the year, Executive Directors Li Zixue, Xu Ziyang and Gu Junying respectively held 120,000 (2021: 180,000) share options under the 2020 Share Option Incentive Scheme. Non-executive Directors Li Buqing, Zhu Weimin and Fang Rong respectively held 33,000 (2021: 50,000) share options under the initial grant of the 2020 Share Option Incentive Scheme. The fair value of share options granted under the initial grant of the 2020 Share Option Incentive Scheme was RMB1,444,549,000. The Company recognized share option expense of RMB427,934,000 for 2022 (2021: RMB746,653,000). Share option expense for Executive Directors and Non-executive Directors amounted to RMB1,215,000 (2021: RMB3,366,000).

Note 3: Executive Directors Li Zixue, Xu Ziyang and Gu Junying and Supervisor Xie Daxiong subscribed for 12 million, 12 million, 9 million and 3,026,000 units respectively under the 2020 Management Stock Ownership Scheme. The Company recognized share option expense of RMB23,377,000 under the 2020 Management Stock Ownership Scheme for 2022 (2021: RMB71,147,000). Share option expense for Executive Directors and Supervisors amounted to RMB7,340,000 (2021: RMB22,340,000).

For details of the aforesaid matters pertaining to the Company's 2017 Share Option Incentive Scheme, 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership Scheme, please refer to Note XI.2 and 3.

The Company did not provide any loans to Directors, Supervisors and their related parties. The Company has not provided any loans to employees participating in the share schemes and personnel receiving shares in the Company.

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XIV. OTHER SIGNIFICANT MATTERS (continued)**3. # Five highest paid employees of the Group for the year**

The five highest paid employees of the Group during the year included 1 Director (2021: 1 Director), details of whose remuneration are set out in the 9 above:

	2022	2021
Salaries, bonuses, allowances and welfare	6,891	6,613
Performance-related bonuses	48,364	45,035
Retirement benefit scheme contributions	222	194
	55,477	51,842

Note: Share option expense or share-based payment expense recognised for 2022 in respect of share options or units granted to the aforesaid five employees under the initial grant of the 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme amounted to RMB8,918,000 (2021: RMB27,636,000).

Number of non-director and non-supervisor personnel receiving remuneration (before personal income tax) within the following scope is as follows:

	2022	2021
RMB8,500,001-RMB9,000,000	—	1
RMB9,000,001-RMB9,500,000	—	—
RMB9,500,001-RMB10,000,000	1	1
RMB10,000,001-RMB10,500,000	1	—
RMB10,500,001-RMB11,000,000	—	2
RMB11,000,001-RMB11,500,000	1	—
RMB11,500,001-RMB12,000,000	1	—
	4	4

No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2021: nil).

4. # Net current assets/(liabilities)

	31 December 2022 Group	31 December 2021 Group	31 December 2022 Company	31 December 2021 Company
Current assets	137,873,843	127,871,085	126,019,989	107,161,255
Less: current liabilities	78,423,500	78,685,256	80,839,210	80,474,462
Net current assets/ (liabilities)	59,450,343	49,185,829	45,180,779	26,686,793

5. # Total assets less current liabilities

	31 December 2022 Group	31 December 2021 Group	31 December 2022 Company	31 December 2021 Company
Total assets	180,953,574	168,763,425	167,251,328	148,700,059
Less: current liabilities	78,423,500	78,685,256	80,839,210	80,474,462
Total assets less current liabilities	102,530,074	90,078,169	86,412,118	68,225,597

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

(1) The aging analysis of trade receivables is set out as follows:

	31 December 2022	31 December 2021
Within 1 year	23,482,314	15,015,331
1-2 years	2,823,754	2,110,408
2-3 years	1,789,390	1,104,192
Over 3 years	7,877,687	8,906,033
	35,973,145	27,135,964
Less: bad debt provision for trade receivables	6,231,419	6,165,477
	29,741,726	20,970,487

	31 December 2022				31 December 2021			
	Book balance		Expected credit loss for the entire subsisting period		Book balance		Expected credit loss for the entire subsisting period	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	1,716,579	5	1,716,579	100	1,905,415	7	1,905,415	100
For which bad debt provision has been collectively made								
0-6 months	19,766,326	55	212,972	1	12,585,587	46	154,720	1
6-12 months	3,622,881	10	96,378	3	1,774,953	6	53,205	3
12-18 months	1,968,620	5	122,355	6	1,344,145	5	93,285	7
18-24 months	824,172	2	60,794	7	702,067	3	27,757	4
2-3 years	1,721,933	5	187,655	11	979,226	4	266,225	27
Over 3 years	6,352,634	18	3,834,686	60	7,844,571	29	3,664,870	47
	34,256,566	95	4,514,840	13	25,230,549	93	4,260,062	17
	35,973,145	100	6,231,419	17	27,135,964	100	6,165,477	23

(2) Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision/ (reversal) for the year	Write off for the year	Effect of exchange rate movement	Closing balance
31 December 2022	6,165,477	640,171	(580,931)	6,702	6,231,419

As at 31 December 2022, RMB183,920,000 (2021: RMB176,984,000) was reversed in respect of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately. There was a write-off in the amount of RMB301,693,000 (31 December 2021: RMB1,593,497,000) in respect of bad-debt provision for trade receivables.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)**2. Other receivables**

	31 December 2022	31 December 2021
Interest receivable	535,047	266,150
Dividend receivable	2,786,303	1,056,533
Other receivables	28,967,697	27,449,570
	32,289,047	28,772,253

(1) Other receivables

The aging analysis of other receivables:

	31 December 2022	31 December 2021
Within 1 year	22,633,564	21,449,993
1–2 years	3,322,903	2,201,432
2–3 years	1,919,949	2,767,257
Over 3 years	1,097,731	1,040,327
	28,974,147	27,459,009
Bad debt provision	(6,450)	(9,439)
Total	28,967,697	27,449,570

(2) Other receivables are analysed as follows:

	31 December 2022	31 December 2021
Staff loans	24,378	50,680
Transactions with third parties	28,943,319	27,398,890
Total	28,967,697	27,449,570

3. Long-term trade receivables

	31 December 2022	31 December 2021
Loans granted to subsidiaries (Note 1)	3,038,980	4,045,099
Installment payments for the provision of telecommunication system construction projects	2,419,781	2,176,930
Less: Bad debt provision for long-term receivables	35,930	21,846
	5,422,831	6,200,183

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the year are as follows:

	Opening balance	Provision/ (reversal) for the year	Closing balance
31 December 2022	21,846	14,084	35,930
31 December 2021	27,841	(5,995)	21,846

The interest rate of long-term trade receivables ranged from 4.10%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as “Factored long-term trade receivables” and “Bank advances on factored long-term trade receivables”.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments

		31 December 2022	31 December 2021
Equity method			
Joint Ventures	(1)	463,711	440,481
Associates	(2)	937,766	895,369
Less: Provision for impairment in long-term equity Investments		—	—
		1,401,477	1,335,850
Cost method			
Subsidiaries	(3)	16,322,307	16,007,470
Less: Provision for impairment in long-term equity investments	(4)	381,166	385,757
		15,941,141	15,621,713
		17,342,618	16,957,563

(1) Joint Ventures

	Movements during the year									
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	10,752	—	—	—	—	—	—	—	10,752	—
德特賽維技術有限公司	28,527	—	—	6,307	—	88	—	—	34,922	—
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	401,202	—	—	16,835	—	—	—	—	418,037	—
	440,481	—	—	23,142	—	88	—	—	463,711	—

(2) Associates

	Movements during the year										
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Others	Closing book balance	Impairment provision at the end of the year
Whale Cloud Technology Co., Ltd.	702,183	—	—	44,852	—	—	—	—	—	747,035	—
Xingyun Times Technology Company Limited	131,694	—	—	(4,829)	—	—	—	—	—	126,865	—
Qingdao Hongtu Zhanlu II Private Equity Investment Fund Partnership Enterprise (Limited Partnership)	—	10,000	—	—	—	—	—	—	—	10,000	—
中興耀維科技江蘇有限公司*	430	—	(430)	—	—	—	—	—	—	—	—
Zhongxing (Wenzhou) Railway Communication Technology Company Limited	25,248	—	—	5,887	—	—	(1,606)	—	—	29,529	—
Other investment	35,814	—	—	(11,490)	13	—	—	—	—	24,337	—
	895,369	10,000	(430)	34,420	13	—	(1,606)	—	—	937,766	—

* 中興耀維科技江蘇有限公司 was no longer accounted for as an associate following the loss of significant influence after the disposal of the entire equity interest held in the company during the year.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term equity investments (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	—	263,293	100%	100%	880,000
Shenzhen ZTE Kangxun Telecom Company Limited	580,000	580,000	—	580,000	100%	100%	—
ZTE Microelectronics Technology Co., Ltd	2,702,784	2,702,784	—	2,702,784	87%	87%	—
Anhui Wantong Posts and Telecommunication Company Limited	—	179,767	(179,767)	—	**	—	8,100
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	100%	100%	800,000
Xi'an Zhongxing New Software Company Limited	340,000	600,000	(260,000)	340,000	100%	100%	50,000
ZTE (H.K.) Limited	2,226,963	853,800	1,373,163	2,226,963	100%	100%	—
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100%	100%	—
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	—	1,000,000	100%	100%	—
Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)	—	45,000	(45,000)	—	—	*	172,400
ZTE Smart Auto Company Limited	790,500	790,500	—	790,500	86%	86%	—
Zhongxing Opto-electronic Technology Company Limited	1,000,000	1,000,000	—	1,000,000	100%	100%	—
ZTE (Xi'an) Co., Ltd.	—	500,000	(500,000)	—	***	—	—
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	—	1,000,000	100%	100%	—
Nubia Technology Limited	1,124,402	1,124,402	—	1,124,402	78%	78%	—
Shenzhen Renxing Technology Company Limited	720,000	720,000	—	720,000	100%	100%	—
Zhongxing Smart Technology Nanjing Company Limited	1,000,000	1,000,000	—	1,000,000	100%	100%	—
Other investment	3,029,365	3,102,924	(73,559)	3,029,365	—	—	95,200
		16,007,470	314,837	16,322,307			2,005,700

* This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Group was in a position to exercise control over this subsidiary.

** The Company has ceased to exercise control over this company following its disposal before 31 December 2022.

*** The Company has ceased to exercise control over this company following its deregistration with industrial and commercial authorities before 31 December 2022.

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
Other investment	376,101	(4,591)	371,510
	385,757	(4,591)	381,166

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Operating revenue and costs

	2022		2021	
	Revenue	Cost	Revenue	Cost
Principal operations	109,579,399	101,954,623	96,590,434	90,225,835
Other businesses	14,091,134	239,135	13,878,631	395,208
	123,670,533	102,193,758	110,469,065	90,621,043

6. Investment income

	2022	2021
Investment gain from long-term equity investment under equity method	57,562	70,810
Investment income from long-term equity investment under cost method	2,005,700	2,986,065
Investment gain earned during the period of holding financial assets at fair value through profit or loss for the period	20,696	16,949
Investment loss/(income) from disposal of long-term equity investment	(204,567)	1,037,421
Investment income from disposal of derivative investments	262,028	125,375
Investment loss from disposal of financial assets at fair value through profit or loss for the period	(12,239)	—
Loss on derecognition of financial assets at amortised cost and financial assets at fair value through other comprehensive income	(200,416)	(96,182)
	1,928,764	4,140,438

7. Gains from asset disposal

	2022	2021
Gains from disposal of fixed assets	—	74,479
Gains from disposal of intangible assets	—	157,265
Gains from disposal of right-of-use assets	6,713	—
	6,713	231,744

Supplementary Information to the Financial Statements

Year ended 31 December 2022
(English translation for reference only)

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	2022
Gain from the disposal of non-current assets	11,029
Investment gain from the disposal of long-term equity investments	(27,221)
Gain/loss from fair-value change in derivative financial assets and derivative financial liabilities and investment gain from disposal of derivative financial assets and derivative financial liabilities other than effective value-protection hedge relating to the normal operation of the Company (Note 2)	16,062
Reversal of impairment provision for individually tested receivables	186,211
Gain/loss from change in fair value of investment properties	(3,300)
Other gains other than income from software VAT rebate and income from handling charge for withholding personal tax	536,365
Net amount of other non-operating income and expenses and others other than the above	(43,178)
Other profit or loss items meeting the criteria for extraordinary profit or loss	1,578,446
	2,254,414
Effect of income tax	(338,164)
Effect of non-controlling interests (net of tax)	(2,814)
	1,913,436

Note 1: The Group recognises extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	2022	Reason
Refund of VAT on software products	1,334,195	Incurred in operation on an ongoing basis
Tax handling fee	22,412	Incurred in operation on an ongoing basis
Investment gain and gain/loss from fair-value change of equity disposals by ZTE Capital Company Limited ("ZTE Capital")	102,875	Within the scope of business of ZTE Capital

Note 2: The Company has entered into a series of forward exchange contracts. Subject to compliance with conditions for hedge accounting, the Company has elected not to apply hedge accounting. The gain/loss of hedging instruments was included in recurring gain/loss to the extent of the exchange gain/loss of the hedged items. Gain/loss arising from effective hedge items for value protection in relation to the Company's ordinary business for the year amounted to RMB35,021,000.

Supplementary Information to the Financial Statements

Year ended 31 December 2022
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2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE**31 December 2022**

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	14.66%	RMB1.71	RMB1.71
Net profit after extraordinary items attributable to ordinary shareholders of the Company	11.19%	RMB1.30	RMB1.30

31 December 2021

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	14.49%	RMB1.47	RMB1.47
Net profit after extraordinary items attributable to ordinary shareholders of the Company	7.03%	RMB0.71	RMB0.71

Documents Available for Inspection

- Financial statements duly signed under the hand and seal by the Company's legal representative, Chief Financial Officer and Head of Finance Division;
- Original copy of the auditors' report affixed with seal of the accountants' firm and duly signed under the hand and seal of the certified public accountants;
- Original copies of all of the Company's documents and announcements published in 2022; and
- Articles of Association.

By order of the Board
Li Zixue
Chairman

11 March 2023



ZTE 中兴通讯股份有限公司
ZTE CORPORATION