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ZTE CORPORATION

中興通訊股份有限公司

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

(Stock Code: 763)

2021 INTERIM REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that the contents of the 2021 Interim Report (the “Interim Report”) are true, accurate and complete without any false information, misleading statements or material omissions, and accept individual and collective legal responsibility.

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

- 1.2 There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of the Interim Report.
- 1.3 The Interim Report has been considered and approved at the Thirty-ninth Meeting of the Eighth Session of the Board of Directors of the Company. Mr. Xu Ziyang, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Gu Junying, Director, to vote on his behalf.
- 1.4 The interim financial reports of ZTE and its subsidiaries (the “Group”) for the six months ended 30 June 2021 were unaudited.

- 1.5 Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Interim Report.
- 1.6 No profit distribution or conversion of capital reserves will be implemented in respect of the interim period of 2021.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE	
Stock code	000063 (A Shares)	763 (H Shares)
Place of listing	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China	
Postal code	518057	
Principal place of business in Hong Kong	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	IR@zte.com.cn	

2.2 Contact persons and correspondence

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

3. SUMMARY OF THE COMPANY'S BUSINESS

3.1 Principal businesses

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

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

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

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

3.2 The industry in which we operate

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

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

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

4. HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

4.1 Statement on the alignment in preparation of financial statements in accordance with the PRC Accounting Standards for Business Enterprises (“ASBEs”)

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

4.2 Statement on retrospective adjustments to or restated accounting data of the previous year by the Company because of changes in accounting policies or for the rectification of accounting errors

Applicable N/A

4.3 Major accounting data and financial indicators of the Group

Unit: RMB in thousands

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

Unit: RMB in thousands

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

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

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

4.4 Extraordinary gains or losses items and amounts of the Group

Unit: RMB in thousands

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

4.5 Differences in accounting data between domestic and overseas accounting standards

Applicable N/A

5. SHAREHOLDINGS OF THE SHAREHOLDERS

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

Total number of shareholders

As at 30 June 2021

There were 514,768 shareholders (comprising 514,456 holders of A shares and 312 holders of H shares)

Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares

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

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,005,840,400	A share
	2,038,000	H share
2. HKSCC Nominees Limited	752,366,075	H share
3. Hong Kong Securities Clearing Company Limited	83,780,165	A share
4. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
5. Shenzhen Huitong Rongxin Investment Co., Ltd.	43,032,108	A share
6. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership)	43,032,108	A share
7. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	43,032,108	A share
8. Hunan Nantian (Group) Co., Ltd.	41,516,065	A share
9. New China Life Insurance Company Limited — New Traditional Products 2	40,032,165	A share
10. NSSF Portfolio #112	39,287,181	A share
Descriptions of any connected party relationships or concerted actions among the above shareholders	<ol style="list-style-type: none"> 1. Zhongxingxin was neither a connected party nor a party of concerted action of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up. 	
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A	

Description of the above-mentioned shareholders' delegated/entrusted voting rights and waiver of voting rights	N/A
Special description for the existence of special repurchase account among the top 10 shareholders	N/A
Top 10 shareholders and top 10 holders of shares that were not subject to lock-up of the Company conducted any transactions on agreed repurchases during the reporting period	N/A

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

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

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

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

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

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

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

5.2 Changes in controlling shareholder and de facto controller

Applicable N/A

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

5.3 Disclosure of interest of substantial shareholders of the Company in shares and underlying shares required by Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and Hong Kong Listing Rules

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

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

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

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

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

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

6. PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

7. THE COMPANY HAD NO PREFERENTIAL SHARES

8. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

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

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

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

For details of the share options of A shares of the Company held by Directors and senior management of the Company during the reporting period, please refer to the section headed “9. IMPLEMENTATION OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME” in this announcement.

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

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2021 are set out in the section headed “8.1 Changes in the shareholdings and share options of the Company’s Directors, Supervisors and senior management” in this announcement.

Save as disclosed above, as at 30 June 2021, 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 Issues (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2021, none of the Directors, Supervisors or the Chief Executive 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.

9. IMPLEMENTATION OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME

9.1 Summary of the 2017 Share Option Incentive Scheme

(1) Approval procedures fulfilled and grant of options

The 2017 Share Option Incentive Scheme implemented by the Company has been considered and approved by the Remuneration and Evaluation Committee, the Seventeenth Meeting of the Seventh Session of the Board of Directors, the Fourteenth Meeting of the Seventh Session of the Supervisory Committee, the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 of the Company. A total of not more than 150,000,000 share options was granted to the Directors, senior management and key business personnel of the Company. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to, the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members).

As considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company held on 6 July 2017, the number of participants was adjusted from 2,013 to 1,996 and the number of share options to be granted was adjusted from 150,000,000 to 149,601,200 under the 2017 Share Option Incentive Scheme. The date of grant was set for 6 July 2017 (Thursday), the initial exercise price of the share options granted shall be RMB17.06 per A share.

(2) *Adjustments to participants, number of share options, exercise price and adjustments thereto*

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

As considered and passed at the Twenty-second Meeting of the Eighth Session of the Board of Directors of the Company held on 28 August 2020, the cancellation of 66 share options unexercised as at the close of the exercise period under first exercise period and the adjustment of the exercise price of share options under the 2017 Share Option Incentive Scheme to RMB16.86 per share were approved.

As considered and passed at the Thirty-sixth Meeting of the Eighth Session of the Board of Directors of the Company held on 29 June 2021, the number of participants under the 2017 Share Option Incentive Scheme was adjusted from 1,687 to 1,573, the volume of share options granted was adjusted from 39,726,486 to 37,289,056, and the fulfilment of the exercise conditions for the third exercise period of the 2017 Share Option Incentive Scheme of the Company was confirmed. A total of 2,437,430 share options, comprising share options previously granted to original participants who no longer qualified as participants and share options not exercisable as a result of the non-fulfillment of exercise conditions were cancelled.

As considered and passed at the Thirty-eighth Meeting of the Eighth Session of the Board of Directors of the Company held on 24 August 2021, the adjustment of the exercise price of share options under the 2017 Share Option Incentive Scheme to RMB16.66 per share was approved.

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

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

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

The third exercise period under the 2017 Share Option Incentive Scheme of the Company shall be dates on which the share options are exercisable during the period from 14 July 2021 to 5 July 2022. The number of participants under the 2017 Share Option Incentive Scheme was 1,573, and the volume of share options exercisable was 37,289,056. During the period after the end of the reporting period up to the date of the publication of this announcement, the Company completed the cancelation of 2,437,430 granted share options. The number of share options exercised in the third exercise period of 2017 Share Option Incentive Scheme was 24,274,777.

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

9.2 Summary of the 2020 Share Option Incentive Scheme

(1) Approval procedures fulfilled and grant of options

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

As considered and passed at the Twenty-seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 6 November 2020, the number of participants was adjusted from not more than 6,124 to 6,123, the number of share options to be granted was adjusted from not more than 163,492,000 to 163,472,000, of which the number of share options to be granted initially was adjusted from not more than 158,492,000 to 158,472,000 and the number of reserved share options remained 5,000,000 under the share option incentive scheme. The date of initial grant was set for 6 November 2020 (Friday), the initial exercise price of the share options for the initial grant shall be RMB34.47 per A share.

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

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

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

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

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

For other information on the Company's share option incentive scheme, please refer to the section headed "Corporate Governance — (VII) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in the Interim Report.

10. REPORT OF THE BOARD OF DIRECTORS

10.1 Review of business in the first half of 2021

(1) Overview of the domestic telecommunications industry for the first half of 2021

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

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

Source: MIIT

(2) Overview of the global telecommunications industry for the first half of 2021

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

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

(3) Operating results of the Group for the first half of 2021

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

A. By market

The domestic market

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

The international market

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

B. By business segment

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

Carriers' network

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

Government and corporate business

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

Consumer business

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

10.2 Management discussion and analysis of operations

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

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

Unit: RMB in thousands

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

(1) Analysis of change in revenue

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

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

reported a 17.65% year-on-year increase in operating revenue compared to the same period last year, reflecting mainly the growth in revenue of domestic subsidiaries and the domestic server business over the same period last year. The consumer business reported a 66.63% year-on-year increase in operating revenue compared to the same period last year, reflecting mainly the growth in revenue from home terminals and handset products over the same period last year.

(2) *Analysis of operating cost and gross profit*

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

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

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

Unit: RMB in thousands

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

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

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

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

10.2.2 Research and development expenditure of the Group

Unit: RMB in thousands

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

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

10.2.3 Breakdown of the Group's expenses by principal items

Unit: RMB in thousands

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

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

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

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

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

10.2.4 Other items of the Company's profit components

Unit: RMB in thousands

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

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

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

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

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

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

10.2.5 Breakdown of the Group's cash flow

Unit: RMB in thousands

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

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

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

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

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

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

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

Details of acquisition and disposal of subsidiaries, associates and joint ventures of the Group in the first half of 2021 are set out in the section headed "Material Matters" in the Interim Report.

10.2.7 Debt-equity ratio and the basis of calculation

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

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

10.2.8 Capital resources and use

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

10.2.9 Indebtedness

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

(1) Analysed by maturity profile

Unit: RMB in thousands

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

(2) Analysed by security

Unit: RMB in thousands

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

10.2.10 Foreign exchange risk and relevant hedge

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

10.2.11 Contractual obligations

Unit: RMB in thousands

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

10.2.12 Capital commitments

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

Unit: RMB in thousands

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

10.2.13 Contingent liabilities

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

10.2.14 Plans for investments or acquisition of capital assets

Details of the Group's investments and their performance and prospects and future plans for investments or acquisition of capital assets, please refer to the section headed "Report of the Board of Directors — (II) 7. Analysis of Investments" and "Material Matters" in the Interim Report.

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

10.3 Business outlook for the second half of 2021 and risk exposures

10.3.1 Business outlook for the second half of 2021

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

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

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

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

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

10.3.2 Risk exposures

(1) Country risks

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

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risks

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

(4) Interest rate risk

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

(5) Customer credit risk

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

11. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

11.1 Compliance of the Corporate Governance Code

During the period from 1 January to 30 June 2021, the Company was in full compliance with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules.

11.2 Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company had adopted the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules. Having made due enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements in the Model Code during the reporting period.

12. FINANCIAL REPORTS

12.1 The Audit Committee

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

12.2 Audit opinion

Unaudited Audited

12.3 Financial statements (Unaudited) and notes thereto (Please see Appendix)

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
27 August 2021

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

APPENDIX: FINANCIAL STATEMENTS (UNAUDITED) AND NOTES THERETO

CONSOLIDATED BALANCE SHEET

RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

RMB'000

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

Li Zixue
Legal Representative

Li Ying
Chief Financial Officer

Xu Jianrui
Head of Finance Division

CONSOLIDATED INCOME STATEMENT

RMB'000

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

CONSOLIDATED INCOME STATEMENT (CONTINUED)

RMB'000

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

RMB'000

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

RMB'000

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

CONSOLIDATED CASH FLOW STATEMENT

RMB'000

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	57,879,831	51,930,178
Refunds of taxes	2,826,692	1,970,019
Cash received relating to other operating activities	2,620,132	2,686,249
Sub-total of cash inflows	63,326,655	56,586,446
Cash paid for goods and services	35,185,808	36,597,288
Cash paid to and on behalf of employees	12,880,301	11,013,040
Cash paid for various types of taxes	3,862,435	3,543,500
Cash paid relating to other operating activities	4,369,676	3,391,848
Sub-total of cash outflows	56,298,220	54,545,676
Net cash flows from operating activities	7,028,435	2,040,770
II. Cash flows from investing activities		
Cash received from sale of investments	3,927,641	1,342,817
Cash received from return on investment	92,361	214,682
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	14,032	7,898
Net cash received from the disposal of subsidiaries and other operating units	1,043,652	377
Cash received relating to other investing activities	—	245,000
Sub-total of cash inflows	5,077,686	1,810,774
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	2,988,051	2,722,869
Cash paid for acquisition of investments	8,771,072	6,702,118
Other cash paid in relation to investing activities	—	33,709
Sub-total of cash outflows	11,759,123	9,458,696
Net cash flows from investing activities	(6,681,437)	(7,647,922)

BALANCE SHEET

RMB'000

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

BALANCE SHEET (CONTINUED)

RMB'000

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

INCOME STATEMENT

RMB'000

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

INCOME STATEMENT (CONTINUED)

RMB'000

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

STATEMENT OF CHANGES IN EQUITY

RMB'000

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

RMB'000

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

CASH FLOW STATEMENT

RMB'000

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	55,708,144	46,987,381
Refunds of taxes	1,291,719	1,449,017
Cash received relating to other operating activities	<u>762,903</u>	<u>807,272</u>
Sub-total of cash inflows	<u>57,762,766</u>	<u>49,243,670</u>
Cash paid for goods and services	45,023,046	45,214,325
Cash paid to and on behalf of employees	4,111,210	3,479,049
Cash paid for various types of taxes	804,387	924,655
Cash paid relating to other operating activities	<u>2,457,805</u>	<u>2,235,172</u>
Sub-total of cash outflows	<u>52,396,448</u>	<u>51,853,201</u>
Net cash flows from operating activities	<u>5,366,318</u>	<u>(2,609,531)</u>
II. Cash flows from investing activities		
Cash received from sale of investments	3,918,950	861,230
Cash received from return on investments	685,025	3,792,067
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	19,000	5,586
Cash received relating to other investing activities	<u>1,120,000</u>	<u>3,125,000</u>
Sub-total of cash inflows	<u>5,742,975</u>	<u>7,783,883</u>
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	1,246,338	1,039,365
Cash paid for acquisition of investments	9,152,920	4,040,600
Other cash paid in relation to investing activities	<u>—</u>	<u>6,050,000</u>
Sub-total of cash outflows	<u>10,399,258</u>	<u>11,129,965</u>
Net cash flows from investing activities	<u>(4,656,283)</u>	<u>(3,346,082)</u>

CASH FLOW STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	—	11,545,524
Cash received from borrowings	<u>14,144,360</u>	<u>27,079,645</u>
Sub-total of cash inflows	<u>14,144,360</u>	<u>38,625,169</u>
Cash repayment of borrowings	7,828,070	12,664,267
Cash payment for perpetual capital instruments	—	6,000,000
Cash payments for distribution of dividends and profits or for interest expenses	373,080	856,609
Other cash paid in relation to financing activities	<u>71,819</u>	<u>71,492</u>
Sub-total of cash outflows	<u>8,272,969</u>	<u>19,592,368</u>
Net cash flows from financing activities	<u>5,871,391</u>	<u>19,032,801</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>(107,013)</u>	<u>85,535</u>
V. Net increase in cash and cash equivalents	6,474,413	13,162,723
Add: cash and cash equivalents at the beginning of the period	<u>20,097,442</u>	<u>10,032,692</u>
VI. Net balance of cash and cash equivalents at the end of the period	<u><u>26,571,855</u></u>	<u><u>23,195,415</u></u>

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1. Basis of preparation

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.

1.2. Changes in accounting policies

No major changes in accounting policies occurred during the reporting period.

2. OPERATING SEGMENT INFORMATION

Operating segment

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

- (1) Carriers’ network is focused on meeting carriers’ requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, telecommunication software systems and services and other innovative technologies and product solutions;
- (2) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, as well as the provision of related software application and value-added services;
- (3) The Government and Corporate Business is focused on meeting requirements of government and corporate clients, providing informatisation solutions for the government and corporations through the application of products such as “communications networks, IOT, Big Data and cloud computing”.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profit from continuing operations, which is consistent with the Group's total profit from continuing operations, except for the exclusion of finance costs, research and development costs, impairment losses, fair value gains from financial instruments, investment income as well as head office and corporate expenses.

Segment assets exclude derivative financial instruments, deferred tax assets, cash and cash equivalents, long-term equity investments, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, borrowings, other payables, short-term bonds payable, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	Carriers' network RMB'000	Consumer business RMB'000	Government and corporate business RMB'000	Total RMB'000
Segment revenue				
Six months ended 30 June 2021				
Revenue from external transactions	35,051,703	12,352,332	5,606,964	53,010,999
Rental income	—	—	59,971	59,971
Sub-total	<u>35,051,703</u>	<u>12,352,332</u>	<u>5,666,935</u>	<u>53,070,970</u>
Segment results	<u>12,004,790</u>	<u>1,512,075</u>	<u>1,105,848</u>	<u>14,622,713</u>
Unallocated revenue				1,410,880
Unallocated cost				(10,829,799)
Finance costs				(480,702)
Gain from changes in fair values				874,661
Investment gain from associates and joint ventures				<u>(70,777)</u>
Total profit				<u>5,526,976</u>
Total assets				
30 June 2021				
Segment assets	44,496,643	14,581,238	7,193,932	66,271,813
Unallocated assets				<u>99,630,304</u>
Sub-total				<u>165,902,117</u>
Total liabilities				
Segment liabilities	12,895,204	3,553,002	2,084,815	18,533,021
Unallocated liabilities				<u>97,202,879</u>
Sub-total				<u>115,735,900</u>
Supplemental information				
Six months ended 30 June 2021				
Depreciation and amortisation expenses	1,463,506	515,745	236,611	2,215,862
Capital expenditure	1,762,295	621,038	284,916	2,668,249
Asset impairment losses	27,032	9,526	4,370	40,928
Credit impairment loss	(82,723)	(29,152)	(13,374)	(125,249)

	Carriers' network <i>RMB'000</i>	Consumer business <i>RMB'000</i>	Government and corporate business <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue				
Six months ended 30 June 2020				
Revenue from external transactions	34,969,589	7,413,186	4,747,816	47,130,591
Rental income	—	—	68,782	68,782
Sub-total	<u>34,969,589</u>	<u>7,413,186</u>	<u>4,816,598</u>	<u>47,199,373</u>
Segment results	<u>9,558,202</u>	<u>1,042,922</u>	<u>927,505</u>	<u>11,528,629</u>
Unallocated revenue				915,830
Unallocated cost				(9,284,563)
Finance costs				(632,833)
Gain from changes in fair values				377,724
Investment gain from associates and joint ventures				<u>(63,816)</u>
Total profit				<u>2,840,971</u>
Total assets				
31 December 2020				
Segment assets	47,217,457	9,296,544	7,190,730	63,704,731
Unallocated assets				<u>86,930,175</u>
Sub-total				<u>150,634,906</u>
Total liabilities				
Segment liabilities	11,852,008	1,896,156	1,804,938	15,553,102
Unallocated liabilities				<u>88,959,298</u>
Sub-total				<u>104,512,400</u>
Supplemental information				
Six months ended 30 June 2020				
Depreciation and amortisation expenses	1,263,094	267,763	450,140	1,980,997
Capital expenditure	2,213,218	469,179	454,903	3,137,300
Asset impairment losses	(108,232)	(22,944)	(14,909)	(146,085)
Credit impairment loss	(203,569)	(43,154)	(28,038)	(274,761)

Group Information

Geographic information

Revenue from external customers

	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000
The PRC	35,954,824	31,751,164
Asia (excluding the PRC)	7,140,276	6,923,102
Africa	2,351,270	2,522,750
Europe, America and Oceania	7,624,600	6,002,357
	<u>53,070,970</u>	<u>47,199,373</u>

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	30 June 2021 RMB'000	31 December 2020 RMB'000
The PRC	23,628,811	23,868,451
Asia (excluding the PRC)	1,704,581	1,903,610
Africa	506,218	543,826
Europe, America and Oceania	405,770	113,328
	<u>26,245,380</u>	<u>26,429,215</u>

Non-current assets, excluding long-term receivables, factored long-term receivables, long-term equity investments, other non-current financial assets, deferred tax assets, goodwill and other non-current assets, are analysed by geographic locations where the assets are located.

Information of major customers

Operating revenue of RMB16,602,146,000 was derived from carriers' network and consumer business revenue from one major customer (first half of 2020: RMB14,884,180,000 from one major customer).

3. OPERATING REVENUE AND COSTS

	Six months ended 30 June 2021		Six months ended 30 June 2020	
	Revenue <i>RMB'000</i>	Cost <i>RMB'000</i>	Revenue <i>RMB'000</i>	Cost <i>RMB'000</i>
Principal business	51,434,237	32,871,077	46,122,101	30,644,231
Other business	1,636,733	1,021,705	1,077,272	774,072
	<u>53,070,970</u>	<u>33,892,782</u>	<u>47,199,373</u>	<u>31,418,303</u>

Operating revenue is analysed as follows:

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Revenue from customer contract	53,010,999	47,130,591
Rental income — operating leases	59,971	68,782
	<u>53,070,970</u>	<u>47,199,373</u>

Breakdown of revenue from customer contracts:

	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000
Major operating area		
The PRC	35,894,853	31,682,382
Asia (excluding the PRC)	7,140,276	6,923,102
Africa	2,351,270	2,522,750
Europe, America and Oceania	7,624,600	6,002,357
	<u>53,010,999</u>	<u>47,130,591</u>
Types of key products		
Sale of products	17,754,461	12,540,730
Rendering of services	3,767,790	6,277,650
Network construction	31,488,748	28,312,211
	<u>53,010,999</u>	<u>47,130,591</u>
Timing of revenue recognition		
Recognition of revenue at a point in time	49,243,209	40,852,941
Recognition of revenue over a period of time	3,767,790	6,277,650
	<u>53,010,999</u>	<u>47,130,591</u>
Revenue included in the opening book value of contract liabilities and recognized for the period is as follows:		
	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000
Revenue included in the opening book value of contract liabilities and recognized for the period	<u>6,173,073</u>	<u>6,643,607</u>

4. TAXES AND SURCHARGES

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
City maintenance and construction tax	139,950	119,525
Education surcharge	110,571	91,981
Property tax	40,239	20,338
Stamp duty	35,973	32,425
Others	58,938	47,577
	<u>385,671</u>	<u>311,846</u>

5. SELLING AND DISTRIBUTION COSTS

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Wages, welfare and bonuses	2,468,358	2,496,826
Services charges	280,796	452,148
Travelling expenses	259,253	223,271
Service fees	95,010	117,210
Office expense	108,630	112,859
Advertising and promotion expenses	488,612	337,090
Others	469,145	201,191
	<u>4,169,804</u>	<u>3,940,595</u>

6. ADMINISTRATIVE EXPENSES

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Wages, welfare and bonuses	1,160,306	983,163
Office expenses	85,489	37,331
Amortisation and depreciation charges	308,698	232,439
Lease expenses	32,095	26,049
Travelling expenses	27,736	27,617
Audit fees	8,429	9,227
Others	920,785	949,300
	<u>2,543,538</u>	<u>2,265,126</u>

7. RESEARCH AND DEVELOPMENT COSTS

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Wages, welfare and bonuses	5,996,212	4,560,698
Direct material costs	241,769	232,602
Amortisation and depreciation charges	1,344,819	955,618
Office expenses	157,372	123,215
Technical cooperation fee	794,836	500,842
Others	326,398	264,401
	<u>8,861,406</u>	<u>6,637,376</u>

8. FINANCE COSTS

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Interest expenses	665,129	847,922
Including: Interest expenses on lease liabilities	34,490	44,961
Interest expense on long-term payables	28,781	31,643
Interest expense on SCPs	9,172	23,414
Less: Interest income	661,600	581,860
Loss on foreign currency exchange	406,610	257,510
Bank charges	70,563	109,261
	<u>480,702</u>	<u>632,833</u>

Details of interest income are as follows:

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Interest income from cash	517,400	448,939
Interest income from finance contract	110,626	100,024
Interest income from finance lease	33,574	32,897
	<u>661,600</u>	<u>581,860</u>

9. OTHER INCOME

	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000	Relating to asset/ income
Refund of VAT on software products (<i>Note 1</i>)	801,562	513,313	Relating to income
Refund of handling charges for personal tax	21,893	12,856	Relating to income
Others	444,251	334,002	Relating to income
	<u>1,267,706</u>	<u>860,171</u>	

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

10. INVESTMENT INCOME

	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000
Investment loss from long-term equity investment under equity method	(70,777)	(63,816)
Investment income arising from financial assets at fair value through profit or loss during the period of holding	6,254	5,769
Investment (loss)/income arising from the disposal of derivative financial assets	(71,317)	70,475
Investment income arising from the disposal of financial assets at fair value through profit or loss	82,358	100,596
Investment income/(loss) from the disposal of long-term equity interests	862,666	(12,970)
Loss upon derecognition of financial assets at amortised cost	(106,075)	(69,797)
	<u>703,109</u>	<u>30,257</u>

11. GAIN/LOSS FROM CHANGES IN FAIR VALUES

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Financial assets at fair value through current profit or loss	607,798	454,773
Derivative financial instruments	265,985	(80,671)
Investment properties at fair value	878	3,622
	<u>874,661</u>	<u>377,724</u>

12. CREDIT IMPAIRMENT LOSSES

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Impairment loss of trade receivables	55,706	205,715
Impairment losses on receivable financing	3,025	1,013
Impairment loss of other receivables	74,101	63,165
(Reversal)/loss of impairment of long-term receivables	(7,831)	4,738
Loss/(reversal) of impairment of factored trade receivables	155	(17)
Loss of impairment of long-term factored receivables	93	147
	<u>125,249</u>	<u>274,761</u>

13. ASSET IMPAIRMENT LOSSES

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
(Reversal)/loss on inventories provisions	(161,051)	134,538
Long-term equity investment impairment loss	16,070	7,165
Impairment loss of contract assets	29,855	4,382
Impairment loss of intangible assets	16,214	—
Impairment loss of fixed assets	57,984	—
	<u>(40,928)</u>	<u>146,085</u>

14. GAIN ON ASSET DISPOSAL

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Gain on disposal of fixed assets	<u>47,494</u>	<u>—</u>

15. NON-OPERATING INCOME/NON-OPERATING EXPENSES

Non-operating income

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>	Amount of extraordinary gain/loss recognised for the six months ended 30 June 2021 <i>RMB'000</i>
Income from contract penalty and reward	15,581	11,316	15,581
Others	<u>127,593</u>	<u>44,343</u>	<u>127,593</u>
	<u>143,174</u>	<u>55,659</u>	<u>143,174</u>

Non-operating expenses

	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000	Amount of extraordinary gain/loss recognised for the six months ended 30 June 2021 RMB'000
Compensation and indemnity	83,036	6,602	83,036
Others	<u>78,878</u>	<u>48,686</u>	<u>78,878</u>
	<u>161,914</u>	<u>55,288</u>	<u>161,914</u>

16. INCOME TAX

	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000
Current income tax	540,084	510,981
Deferred income tax	<u>436,266</u>	<u>6,609</u>
	<u>976,350</u>	<u>517,590</u>

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Total profit	5,526,976	2,840,971
Tax at statutory tax rate (<i>Note 1</i>)	1,381,744	710,243
Effect of different tax rates applicable to certain subsidiaries	(516,163)	(392,114)
Adjustment to current tax in previous periods	(14,795)	27,241
Profits and losses attributable to jointly-controlled entities and associates	10,617	9,720
Income not subject to tax	(14,030)	(44,620)
Additional deduction for R&D expenses, interest on perpetual instruments and non-deductible tax expenses	(121,434)	(81,776)
Utilisation of tax losses from previous years	(11,601)	(5,951)
Unrecognised tax losses and temporary difference available for setoff	<u>262,012</u>	<u>294,847</u>
Tax charge at the Group's effective rate	<u><u>976,350</u></u>	<u><u>517,590</u></u>

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

17. DIVIDEND

Pursuant to the resolution passed at the general meeting held on 25 June 2021, the Company shall pay a cash dividend of RMB0.2 (2020: RMB0.2) per share to all shareholders. Based on the total share capital in issue of 4,637,709,675 shares (2020: 4,613,434,898) as at the shareholding record date, the total amount of profit distribution shall be RMB927,541,935 (2020: RMB922,686,980), the implementation of which was completed on 20 August 2021.

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

18. EARNINGS PER SHARE

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

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period, as the numerator, is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognised as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current period, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

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

	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	<u>4,078,613</u>	<u>1,857,289</u>
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	4,613,435	4,612,335
Diluting effect — weighted average number of ordinary shares ('000 shares) <i>Note 1</i>		
Stock option	<u>17,177</u>	<u>22,143</u>
Adjusted weighted average number of ordinary shares of the Company ('000 shares)	<u>4,630,612</u>	<u>4,634,478</u>

Note 1: The calculation of the diluted earnings/(losses) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares.

19. TRADE RECEIVABLES AND RECEIVABLE FINANCING

Trade receivables

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

Aging analysis of trade receivables was as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Within 1 year	14,524,864	15,962,806
1 to 2 years	1,653,792	2,030,116
2 to 3 years	1,260,714	1,372,649
Over 3 years	6,327,179	6,079,878
	23,766,549	25,445,449
Less: bad debt provision for trade receivables	9,200,394	9,554,429
	14,566,155	15,891,020

	30 June 2021			31 December 2020						
	Book balance Amount RMB'000	Percentage (%)	Bad debt provision Amount RMB'000	Percentage (%)	Book value RMB'000	Book balance Amount RMB'000	Percentage (%)	Bad debt provision Amount RMB'000	Percentage (%)	Book value RMB'000
Standalone bad debt provision	3,688,477	16	3,688,477	100	—	4,002,648	16	4,002,648	100	—
For which provision for bad debt is recognised by group with credit risk characteristics	<u>20,078,072</u>	84	<u>5,511,917</u>	27	14,566,155	<u>21,442,801</u>	84	<u>5,551,781</u>	26	15,891,020
	<u>23,766,549</u>	100	<u>9,200,394</u>	39	14,566,155	<u>25,445,449</u>	100	<u>9,554,429</u>	38	15,891,020

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

	Book balance RMB'000	Bad debt provision RMB'000	Expected credit loss rate
Overseas carriers 1*	418,051	418,051	100%
Overseas carriers 2*	243,869	243,869	100%
Overseas carriers 3*	242,243	242,243	100%
Overseas carriers 4*	198,527	198,527	100%
Overseas carriers 5*	91,379	91,379	100%
Others (Customer 6 to Customer 40)*	<u>2,494,408</u>	<u>2,494,408</u>	100%
	<u>3,688,477</u>	<u>3,688,477</u>	100%

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

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

	Book balance <i>RMB'000</i>	Bad debt provision <i>RMB'000</i>	Expected credit loss rate
Overseas carriers 1*	437,501	437,501	100%
Overseas carriers 2*	275,245	275,245	100%
Overseas carriers 3*	242,243	242,243	100%
Overseas carriers 4*	234,235	234,235	100%
Overseas carriers 5*	126,316	126,316	100%
Others (Customer 6 to Customer 40)*	<u>2,687,108</u>	<u>2,687,108</u>	100%
	<u>4,002,648</u>	<u>4,002,648</u>	100%

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

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

	30 June 2021			31 December 2020		
	Carrying amount estimated to be in default <i>RMB'000</i>	Expected credit loss rate (%)	Expected credit loss during the entire subsistence <i>RMB'000</i>	Carrying amount estimated to be in default <i>RMB'000</i>	Expected credit loss rate (%)	Expected credit loss during the entire subsistence <i>RMB'000</i>
0-6 months	12,288,030	2	291,438	13,794,187	2	334,348
6-12 months	1,519,750	14	217,450	1,359,046	19	252,669
1-2 years	1,540,584	27	421,619	1,798,892	34	606,115
2-3 years	1,010,050	85	861,752	917,238	86	785,211
Over 3 years	<u>3,719,658</u>	100	<u>3,719,658</u>	<u>3,573,438</u>	100	<u>3,573,438</u>
	<u>20,078,072</u>		<u>5,511,917</u>	<u>21,442,801</u>		<u>5,551,781</u>

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

	Opening balance <i>RMB'000</i>	Charge/ reversal for the period <i>RMB'000</i>	Write off during the period <i>RMB'000</i>	Effect of exchange rate <i>RMB'000</i>	Others <i>RMB'000</i>	Closing balance <i>RMB'000</i>
30 June 2021						
Bad debt provision	9,555,334	55,861	(207,684)	(168,775)	(33,282)	9,201,454
Including: Trade receivables	9,554,429	55,706	(207,684)	(168,775)	(33,282)	9,200,394
Factored trade receivables	905	155	—	—	—	1,060
31 December 2020						
Bad debt provision	13,100,538	182,221	(3,366,645)	(360,780)	—	9,555,334
Including: Trade receivables	13,100,250	181,604	(3,366,645)	(360,780)	—	9,554,429
Factored trade receivables	288	617	—	—	—	905

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

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

Customer	Amount <i>RMB'000</i>	As a percentage of total trade receivables	Closing balance of bad debt provision <i>RMB'000</i>
Customer 1	1,887,813	7.94%	35,471
Customer 2	1,133,715	4.77%	536,299
Customer 3	833,501	3.51%	146,842
Customer 4	799,088	3.36%	25,120
Customer 5	460,332	1.94%	18,538
	<u>5,114,449</u>	<u>21.52%</u>	<u>762,270</u>

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

Customer	Amount <i>RMB'000</i>	As a percentage of total trade receivables	Closing balance of bad debt provision <i>RMB'000</i>
Customer 1	2,232,144	8.77%	26,232
Customer 2	1,408,616	5.54%	565,335
Customer 3	1,178,784	4.63%	23,841
Customer 4	711,336	2.80%	21,340
Customer 5	497,233	1.95%	13,352
	<u>6,028,113</u>	<u>23.69%</u>	<u>650,100</u>

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

Transfer of trade receivables that did not qualify for derecognition was separately classified as “Factored trade receivables” and “Bank advances on factored trade receivables”.

Receivable financing

	30 June 2021 RMB'000	31 December 2020 RMB'000
Commercial acceptance bills	4,614,011	1,465,791
Bank acceptance bills	2,137,406	504,833
	<u>6,751,417</u>	<u>1,970,624</u>

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

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

	30 June 2021		31 December 2020	
	Derecognised RMB'000	Not derecognised RMB'000	Derecognised RMB'000	Not derecognised RMB'000
Commercial acceptance bills	365,365	—	1,614,429	—
Bank acceptance bills	954,872	—	1,369,471	—
	<u>1,320,237</u>	<u>—</u>	<u>2,983,900</u>	<u>—</u>

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

	Opening balance RMB'000	Charge for the period RMB'000	Reversal for the period RMB'000	Closing balance RMB'000
30 June 2021	<u>1,439</u>	<u>3,025</u>	<u>—</u>	<u>4,464</u>
31 December 2020	<u>1,936</u>	<u>(497)</u>	<u>—</u>	<u>1,439</u>

20. TRADE PAYABLES AND BILLS PAYABLE

Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
0 to 6 months	19,029,820	16,404,105
6 to 12 months	433,512	371,996
1 year to 2 years	211,850	181,788
2 years to 3 years	180,956	155,278
Over 3 years	44,944	38,566
	<u>19,901,082</u>	<u>17,151,733</u>

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

As at 30 June 2021, were no material trade payables aged over 1 year (31 December 2020: Nil).

Bills payable

	30 June 2021 RMB'000	31 December 2020 RMB'000
Bank acceptance bills	3,870,265	5,624,190
Commercial acceptance bills	4,927,631	5,739,866
	<u>8,797,896</u>	<u>11,364,056</u>

21. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.