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**ZTE CORPORATION**

**中興通訊股份有限公司**

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

**(Stock Code: 763)**

## **2020 FIRST QUARTERLY REPORT**

This announcement is published simultaneously in the Mainland in accordance with the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange and in Hong Kong in accordance with the disclosure obligations under Rule 13.09(2) and Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the inside information provisions set out in Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

### **§ 1 IMPORTANT**

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) warrant that the contents of this quarterly report are true, accurate and complete without false information, misleading statements or material omissions, and collectively and individually accept responsibility therefor.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved at the Sixteenth Meeting of the Eighth Session of the Board of Directors of the Company. Mr. Yuming Bao, Independent Non-executive Director, was unable to attend the Meeting due to personal reasons and has authorised Ms. Cai Manli, Independent Non-executive Director, to vote on his behalf.

- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).
- 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 statements contained in this quarterly report.
- 1.6 China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company’s information disclosure. Investors should beware of investment risks.

## § 2 CORPORATE INFORMATION

### 2.1 Major Accounting Data and Financial Indicators

#### *2.1.1 Major Accounting Data and Financial Indicators of the Company and its subsidiaries (the “Group”)*

Item	As at the end of the reporting period (31 March 2020)	As at the end of last year (31 December 2019)	Change as at the end of the reporting period compared with the end of last year
Total assets ( <i>RMB in thousands</i> )	145,654,417	141,202,135	3.15%
Owners’ equity attributable to holders of ordinary shares of the listed company ( <i>RMB in thousands</i> )	41,265,986	28,826,868	43.15%
Total share capital ( <i>thousand shares</i> ) <sup>Note 1</sup>	4,612,006	4,227,530	9.09%
Net assets per share attributable to holders of ordinary shares of the listed company ( <i>RMB/share</i> )	8.95	6.82	31.23%

Item	The reporting period (Three months ended 31 March 2020)	Same period last year (Three months ended 31 March 2019)	Change compared with the same period last year
Operating revenue (RMB in thousands)	21,484,493	22,201,814	(3.23%)
Net profit attributable to holders of ordinary shares of the listed company (RMB in thousands)	779,988	862,604	(9.58%)
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company (RMB in thousands)	160,155	132,898	20.51%
Net cash flow from operating activities (RMB in thousands)	372,361	1,259,978	(70.45%)
Net cash flow from operating activities per share (RMB/share)	0.08	0.30	(73.33%)
Basic earnings per share (RMB/share) <sup>Note 2</sup>	0.18	0.21	(14.29%)
Diluted earnings per share (RMB/share) <sup>Note 3</sup>	0.18	0.20	(10.00%)
Weighted average return on net assets (%)	2.23%	3.70%	Decreased by 1.47 percentage points
Weighted average return on net assets after extraordinary items (%)	0.46%	0.57%	Decreased by 0.11 percentage points

*Note 1:* The total share capital of the Company had increased from 4,227,529,869 to 4,612,006,291 shares following the addition of 381,098,968 new shares as a result of the non-public issue of A shares and the exercise of 3,377,454 A share options by scheme participants under the 2017 Share Option Incentive Scheme during the reporting period;

*Note 2:* Basic earnings per share for the reporting period and the three months ended 31 March 2019 have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

*Note 3:* As the 2017 share options granted by the Company have given rise to 23,566,000 and 21,176,000 potentially dilutive ordinary shares for the three months ended 31 March 2020 and three months ended 31 March 2019, respectively, dilutive earnings per share have been calculated on the basis of basic earnings per share taking into account the said factor.

*Extraordinary item*

*Unit: RMB in thousands*

<b>Extraordinary item</b>	<b>Amount from the beginning of the year to the end of the reporting period</b>
Non-operating income, other income and others	503,068
Gains/(Losses) from fair value change	225,202
Investment income	52,186
Less: Other non-operating expenses	40,957
Less: Effect of income tax	110,925
Less: Effect of non-controlling interests (after tax)	8,741
<b>Total</b>	<b>619,833</b>

***2.1.2 The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2020 and as at 31 March 2020 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.***

## 2.2 Total number of shareholders and shareholdings of top 10 shareholders and top 10 holders of shares not subject to lock-up of the Company as at the end of the reporting period

### *Total number of shareholders*

As at 31 March 2020 There were 483,643 shareholders in total (comprising 483,330 holders of A shares and 313 holders of H shares).

### *Shareholdings of shareholders holding 5% or above or top 10 shareholders*

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Number of shareholdings as at the end of the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of pledged or frozen shares
1. Zhongxingxin Telecom Company Limited (“Zhongxingxin”) <sup>Note 1</sup>	Domestic general corporation	24.91%	1,148,849,600	—	98,667,983
2. HKSCC Nominees Limited <sup>Note 2</sup>	Foreign shareholder	16.36%	754,410,100	—	Unknown
3. Bank of China Limited — Huaxia Securities 5G Themed Traded Open-ended Index Securities Fund	Other	1.80%	83,127,332	—	Nil
4. Hong Kong Securities Clearing Company Limited <sup>Note 3</sup>	Foreign corporation	1.51%	69,739,888	—	Nil
5. NSSF Portfolio #101	Other	1.27%	58,524,205	42,204,567	Nil
6. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.14%	52,519,600	—	Nil
7. Shenzhen Huitong Rongxin Investment Co., Ltd.	State-owned corporation	0.93%	43,032,108	43,032,108	Nil
8. Nanjing Xinchuangxing Consulting and Management Partnership (Limited Partnership)	Domestic general corporation	0.93%	43,032,108	43,032,108	Nil
9. New China Life Insurance Company Limited — New Traditional Products 2	Other	0.93%	43,032,108	43,032,108	Nil
10. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership)	Other	0.93%	43,032,108	43,032,108	Nil
11. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	Other	0.93%	43,032,108	43,032,108	Nil

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,146,811,600 2,038,000	A share H share
2. HKSCC Nominees Limited	754,410,100	H share
3. Bank of China Limited — Huaxia Securities 5G Themed Traded Open-ended Index Securities Fund	83,127,332	A share
4. Hong Kong Securities Clearing Company Limited	69,739,888	A share
5. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
6. Hunan Nantian (Group) Co., Ltd	41,516,065	A share
7. China Construction Bank Corporation — Guangfa Technology Vanguard Hybrid Securities Fund	24,786,265	A share
8. China Mobile No. 7 Research Institute	19,073,940	A share
9. Qian Hai Life Insurance Co., Ltd. — Dividend Insurance Product Huatai Portfolio	17,405,433	A share
10. China Life Insurance Company Limited — Dividend — Personal Dividend — 005L-FH002 Shen	16,927,682	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<p>1. Zhongxingxin was neither a connected party nor a concerted party of any of the top 10 shareholders and top 10 holders of shares that were not subject to lock-up set out in the table above.</p> <p>2. Save as aforesaid, the Company is not aware of any connected party relationships or concerted party relationships among other top 10 shareholders and other top 10 holders of shares not subject to lock-up.</p>	
Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)	N/A	

*Note 1:* Zhongxingxin, the shareholder of the Company, pledged its holdings of 98,667,983 A shares in the Company for financing requirements on 20 December 2018. As a result of the expiry and renewal of the relevant financing agreement, Zhongxingxin has released the aforesaid pledge and created a new pledge, the details of which are set out in the “Overseas Regulatory Announcement Announcement on the Release of Pledge and Creation of New Pledge against Shares held by the Controlling Shareholder” published by the Company on 26 March 2020. Zhongxingxin completed a sell down of 48,913,100 A shares in the Company by way of block trading at the stock exchange during the period from 2 April 2020 to 7 April 2020, accounting for 1.06% of the total share capital of the Company. As at the date of publication of this report, Zhongxingxin held a total of 1,099,936,500 shares in the Company, accounting for 23.85% of the total share capital. For details, please refer to the “Overseas Regulatory Announcement Announcement on Sell-down the Share in the Company Exceeding 1% by the Controlling Shareholder” published by the Company on 7 April 2020.

*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.

*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).

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

Yes  No

**The Company had no preferential shares.**

### § 3 MATERIAL MATTERS

#### 3.1 Substantial changes in key financial data and financial indicators of the Company and the reasons thereof

*Unit: RMB in thousands*

##### ***Balance sheet***

Item	31 March 2020	31 December 2019	Change	Analysis of reasons for changes
Derivative financial assets	275,950	106,065	160.17%	Reflecting mainly the increase in gain on end-of-period fair-value re-measurement of derivative investments for the period
Construction in progress	813,594	1,171,716	(30.56%)	Attributable mainly to the transfer upon completion of construction in progress to fixed assets
Derivative financial liabilities	64,850	126,223	(48.62%)	Reflecting mainly the decrease in loss on end-of-period fair-value re-measurement of derivative investments for the period.
Bonds payable	2,000,000	—	N/A	Attributable mainly to the issue of SCPs during the period
Long-term loans	16,411,919	10,045,093	63.38%	Attributable mainly to the increase of long-term loans as a percentage of total loans during the period to optimise our debt structure
Capital reserves	23,224,520	12,144,432	91.24%	Attributable mainly to the Company's non-public issue of A shares during the period
Other equity instruments — perpetual capital instruments	—	6,252,364	N/A	Attributable mainly to the payment of 2015 Tranche I Perpetual Medium Term Notes during the period



***Income Statement (Three months ended 31 March)***

<b>Item</b>	<b>Three months ended 31 March 2020</b>	<b>Three months ended 31 March 2019</b>	<b>Change</b>	<b>Analysis of reasons for changes</b>
Taxes and surcharges	168,773	330,778	(48.98%)	Reflecting mainly the decrease in city construction tax and education surcharge for the period
Other income	413,196	204,186	102.36%	Reflecting mainly the increase in software VAT rebate income software products for the period
Investment income	(17,289)	15,852	(209.07%)	Reflecting mainly the decrease in gain from the disposal of listed equity by subsidiary partnership funds of Shenzhen ZTE Capital Management Company Limited (“ZTE Capital”) and loss incurred by associates for the period
Gain/Losses from changes in fair values	150,251	481,299	(68.78%)	Reflecting mainly the decrease in fair value change of equity held by subsidiary partnership funds of ZTE Capital and the decrease in gain on end-of-period fair-value re-measurement of derivative investments for the period
Impairment losses	(508,169)	(384,324)	32.22%	Reflecting mainly the increase in provision for impairment of goods dispatched by the Group during the period
Non-operating income	18,868	40,064	(52.91%)	Reflecting mainly the decrease in compensation income for the period
Non-operating expenses	40,957	116,813	(64.94%)	Reflecting mainly the compensation payment to Shenzhen Investment Holdings Co., Ltd. during the same period last year
Non-controlling interests	12,925	160,746	(91.96%)	Reflecting mainly the decrease in profit recorded by certain subsidiaries with a higher level of minority interests for the period

Item	Three months	Three months	Change	Analysis of reasons for changes
	ended	ended		
	31 March 2020	31 March 2019		
Other comprehensive income, net of tax	199,868	(126,035)	258.58%	Attributable mainly to the Group's gain on translation of foreign operations due to exchange rate volatility for the period versus loss due to exchange rate volatility for the same period last year
Exchange differences on translation of foreign operations	194,566	(115,516)	268.43%	Attributable mainly to the Group's gain on translation of foreign operations due to exchange rate volatility for the period versus loss due to exchange rate volatility for the same period last year
Other comprehensive income attributable to non-controlling interests, net of tax	5,302	(10,519)	150.40%	Attributable mainly to gain on translation of foreign operations due to exchange rate volatility for the period versus loss due to exchange rate volatility for the same period last year registered by subsidiaries

### ***Cash Flow Statement (Three months ended 31 March)***

Item	Three months	Three months	Change	Analysis of reasons for changes
	ended	ended		
	31 March 2020	31 March 2019		
Net cash flows from operating activities	372,361	1,259,978	(70.45%)	Reflecting mainly the decrease in cash received for the sales of goods and provision of labour service and increase in cash paid for the purchase of goods and employment of labour services for the period
Effect of changes in foreign exchange rate on cash and cash equivalents	99,249	(186,629)	153.18%	Attributable mainly to gain on foreign exchange translation due to exchange rate volatility for the period versus loss due to exchange rate volatility for the previous period

## 3.2 Progress of significant events and analysis of their impacts and solutions

### 3.2.1 Provision of any funds by the Company to the controlling shareholders or other connected parties or provision of third-party guarantees in violation of stipulated procedures

Applicable     N/A

### 3.2.2 Others

#### 3.2.2.1 Non-public issuance of A shares by the Company

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

On 15 January 2020, the Company entered into the Subscription Agreement with 10 subscribers. The issue price for the Company's non-public issuance of A shares was set at RMB30.21 per share and a total of 381,098,968 shares were issued, raising gross proceeds of RMB11,512,999,823.28. The new shares under the non-public issue of A shares by the Company were listed on the Shenzhen Stock Exchange on 4 February 2020. For details, please refer to the announcements "DETERMINATION OF ISSUE PRICE FOR THE NON-PUBLIC ISSUANCE OF A SHARES AND ENTERING INTO OF SUBSCRIPTION AGREEMENT", "COMPLETION OF NON-PUBLIC ISSUANCE OF A SHARES" and "Announcement on the Adjustment to the Listing Date of Non-public Issuance of New A Shares" published by the Company on 16 January 2020, 23 January 2020 and 2 February 2020, respectively.

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

On 14 February 2020, the Company applied issue proceeds raised from the non-public issue of A shares in replacement of internal funds previously invested in the projects for which the issue proceeds had been intended with a total fund replacement amount of RMB4,972 million. The application of unused issue proceeds amounting to not more than RMB2,500 million (including RMB2,500 million) as interim working capital replenishment to be utilised over a term of not more than 12 months from the date of approval by the Board of Directors. The aforesaid matter

has been considered and approved by the Fourteenth Meeting of the Eighth Session of the Board of Directors of the Company. For details, please refer to the “Announcement Resolutions of the Fourteenth Meeting of the Eighth Session of the Board of Directors”, “Overseas Regulatory Announcement Announcement on the Application of Issue Proceeds in Replacement of Internal Funds Previously Invested in Projects for which the Issue Proceeds are Intended” and “Overseas Regulatory Announcement Announcement on the Partial Application of Unutilised Issue Proceeds to the Interim Replenishment of Working Capital” published by the Company on 14 February 2020.

#### *3.2.2.2 Completion of payment of 2015 Tranche I Perpetual Medium Term Notes*

To further facilitate the Company’s business development and optimise its debt structure, the “Resolution of on the Proposed Registration and Issue of Perpetual Medium Term Notes” was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company, granting approval to the Company’s application to the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) (“NAFMII”) for the registration and issue of Perpetual Medium Term Notes with an amount of not more than RMB9 billion (including RMB9 billion). The National Association of Financial Market Institutional Investors has accepted the registration of the Company’s RMB9 billion Perpetual Medium Term Notes.

On 27 January 2015, the Company completed the issue of 2015 Tranche I Perpetual Medium Term Notes (“Medium Term Notes”) with an amount of RMB6 billion for a term of 5+N years (maturity upon redemption by the Company pursuant to the terms of the issue). The Medium Term Notes became due on 27 January 2020 (the due payment date coincided with statutory holidays and was rescheduled to 31 January 2020). The Company completed the payment of the principal and interests of the Medium Term Notes with a total amount of RMB6,348,600,000 on 31 January 2020.

#### *3.2.2.3 Issue of 2020 Super and Short-term Commercial Paper*

The “Resolution on the Proposed Registration and Issue of Perpetual Medium Term Notes” and the “Resolution on the Proposed Registration and Issue of Super and Short-term Commercial Paper (“SCP”)” was considered and approved at the Twenty-second Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2017 of the Company. The Company’s Tranche I Perpetual Medium Term Notes with a registered amount of RMB2 billion and SCP with a registered amount of RMB8 billion have been registered and approved by the NAFMII. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Approval of Registration for the Medium Term Notes and Super and Short-term Commercial Paper” published by the Company on 10 October 2019.

On 26 March 2020, the Company completed the issue of the first tranche of SCP of 2020 with an issue amount of RMB2 billion. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Information of the Issue of 2020 Tranche I Super and Short-term Commercial Paper” published by the Company on 26 March 2020.

From 21 April to 22 April 2020, the Company completed the issue of 2020 Tranche II and Tranche III SCP, each of which with an issue amount of RMB1 billion. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Information of the Issue of 2020 Tranche II and Tranche III Super and Short-term Commercial Paper” published by the Company on 22 April 2020.

#### *3.2.2.4 Proposed registration and issue of the Company’s Medium Term Notes*

To expand the Company’s financing options, optimise its debt structure and meet its working capital requirements, the Company has proposed to apply to NAFMII for the registration and issue of Medium Term Notes with an amount of not more than RMB8 billion.

The aforesaid matter has been considered and approved at the Fifteenth Meeting of the Eighth Session of the Board of Directors of the Company and is subject to consideration and approval at the 2019 Annual General Meeting of the Company. For details, please refer to the “Announcement Resolutions of the Fifteenth Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on the Proposed Registration and Issue of Medium Term Notes” published by the Company on 27 March 2020.

#### *3.2.2.5 Provision of guarantees by the Company for its subsidiaries*

1. Provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries by the Company

To facilitate the Company’s overseas business development on an ongoing basis, the Company has proposed to provide a guarantee amount for contract performance (including but not limited to the execution of guarantee agreements by the parent company and the provision of bank guarantees) of not exceeding USD200 million in aggregate for 7 overseas wholly-owned subsidiaries for 2020. The aforesaid guarantee amount will be applied on a revolving basis during an effective period commencing on the date on which the provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries by the Company is considered and approved at the general meeting of the Company and ending on the date of the Company’s 2019 Annual General Meeting. After the 2019 Annual General Meeting of the Company has considered and approved provision of a guarantee amount for contract

performance for overseas wholly-owned subsidiaries by the Company, the Board of Directors of the Company shall be responsible for the approval of specific guarantees within the limit, and shall fulfill obligations in information disclosure.

The aforesaid matter has been considered and passed at the Fifteenth Meeting of the Eighth Session of the Board of Directors pending consideration at the 2019 Annual General Meeting. For details, please refer to the “Announcement Resolutions of the Fifteenth Meeting of the Eighth Session of the Board of Directors” and the “Overseas Regulatory Announcement on the Provision of a Guarantee Amount for Contract Performance for Overseas Wholly-owned Subsidiaries for 2020” published on 27 March 2020 by the Company.

## 2. Guarantees provided by subsidiaries on behalf of fellow subsidiaries

ZICT Technology Co., Ltd (深圳中興網信科技有限公司) (“Shenzhen ZICT”) is a 90%-owned subsidiary of the Company. Hunan ZICT Technology Co., Ltd (湖南中興網信科技有限公司) (“Hunan ZICT”) is a wholly-owned subsidiary of Shenzhen ZICT. Shenzhen ZICT has proposed to enter into a “Facility Agreement” with Shanghai Pudong Development Bank Company Limited, Shenzhen Branch (“SPD Bank”), pursuant to which SPD Bank shall provide a facility of RMB100 million to Shenzhen ZICT. Under the said “Facility Agreement”, Shenzhen ZICT shall enter into relevant loan contracts with SPD Bank. Hunan ZICT has proposed to enter into a “Maximum Mortgage Contract” with SPD Bank to provide guarantee backed by real estate mortgages in respect of the obligations of Shenzhen ZICT under the “Facility Agreement” and relevant loan contracts. The maximum amount of the guarantee shall be RMB100 million and the term of the guarantee shall commence on the date on which the “Maximum Mortgage Contract” comes into effect and end on 3 January 2023.

The aforesaid matter was considered and approved at the Sixteenth Meeting of the Eighth Session of the Board of Directors held on 24 April 2020. For details, please refer to the “Announcement Resolutions of the Sixteenth Meeting of the Eighth Session of the Board of Directors” and the “Overseas Regulatory Announcement on the Provision of Guarantee Between Subsidiaries” published by the Company on 24 April 2020.

### *3.2.2.6 Changes in Directors, Supervisors and senior management of the Company*

On 10 April 2020, Independent Non-executive Director Mr. Yuming Bao has tendered his resignation to the Company to resign as Independent Non-executive Director, as well as the member of each of the specialist committees of the Board of Directors of the Company due to his other personal commitments. Following his resignation, Mr. Yuming Bao will no longer hold any positions with the Company.

As Mr. Yuming Bao's resignation will result in the number of Independent Non-executive Directors of the Company being reduced to less than one-third of the total number of Directors on the Board, in accordance with requirements set out in the pertinent laws and regulations and provisions of the Articles of Association of the Company, Mr. Yuming Bao's resignation will come into effect after a new Independent Non-executive Director has been elected at the general meeting of the Company. Until then, Mr. Yuming Bao will continue to perform his duties as an Independent Non-executive Director and a member of each of the specialist committees of the Board, in accordance with the pertinent laws and regulations and provisions of the Articles of Association of the Company. The Company will nominate the candidate for Independent Non-executive Director as soon as practicable in accordance with statutory procedures and table the nomination at the general meeting for election. For details, please refer to the "Announcement Resignation of Independent Non-executive Director" published by the Company on 13 April 2020.

### *3.2.2.7 Information on the "Share Option Incentive Scheme" of the Company*

The 2017 Share Option Incentive Scheme implemented by the Company has been 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 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. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members). Pursuant to the "Resolution on Matters pertaining to the grant of share options under the 2017 Share Option Incentive Scheme of the Company" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday). Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The exercise price of the share options granted shall be RMB17.06 per A share.

During the reporting period, a total of 3,377,454 A share options were exercised by scheme participants under the 2017 Share Option Incentive Scheme of the Company. As at the end of the reporting period, there were 41,155,159 A share options unexercised and outstanding under the 2017 Share Option Incentive Scheme of the Company, accounting for 0.89% of the total share capital in issue of the Company and 1.07% of the Company's A shares in issue. Details of the exercise of share options by scheme participants during the first exercise period under the 2017 Share Option Incentive Scheme of the Company are set out as follows:

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	126,000	0	42,000	0	0	0	126,000
Wang Xiyu	Executive Vice President	133,434	0	45,966	0	0	0	133,434
Li Ying	Executive Vice President and Chief Financial Officer	79,600	0	26,800	0	0	0	79,600
Xie Junshi	Executive Vice President	112,468	0	0	0	0	0	112,468
Ding Jianzhong	Secretary to the Board and Company Secretary	33,160	0	0	0	0	0	33,160
Other participants	—	44,047,951	0	4,691,361	3,377,454	0	0	40,670,497
<b>Total</b>	<b>—</b>	<b>44,532,613</b>	<b>0</b>	<b>4,806,127</b>	<b>3,377,454</b>	<b>0</b>	<b>0</b>	<b>41,155,159</b>

For details of the 2017 Share Option Incentive Scheme of the Company, please refer to the section headed “Material Matters — (VI) IMPLEMENTATION AND IMPACT OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME” in the 2019 Annual Report of the Company.

### 3.2.2.8 *Material litigation and arbitration during the reporting period*

There was no material litigation or arbitration of the Group occurring during the reporting period. For details of the progress in the reporting period of immaterial litigation and arbitration proceedings occurring prior to the reporting period, please refer to the section headed “Material Matters” in the 2019 Annual Report of the Company.



### 3.2.2.9 Conduct of continuing connected transactions during the reporting period

The connected transactions disclosed in the following table represent connected transactions reaching the benchmark for public disclosure as defined under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of Whether transactions approved in the same cap has classification been (%) exceeded		Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries and companies in which it held equity interests of 30% or above	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials by the Company and its subsidiaries from connected parties were conducted at prices determined through arm's length negotiations and on the basis of normal commercial terms. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB300,000 per unit, cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	8,063.01	0.70%	No	Commercial acceptance bill	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB830-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day.	550.52	0.05%	No	Tele-transfer	N/A	2020-1-17	Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
ZTE Software Technology (Nanchang) Company Limited ("Nanchang Software")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB830-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day.	332.78	0.03%	No	Tele-transfer	N/A	2020-1-17	Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of engineering services	The purchase of personnel hiring services by the Company from the connected party		Work delivery personnel ranging from RMB398-1,322 per head/day; Ancillary product personnel ranging from RMB401-805 per head/day; Core network personnel ranging from RMB485-851 per head/day; Service product personnel ranging from RMB451-793 per head/day; Wireless product personnel ranging from RMB418-774 per head/day; Fixed-line product personnel ranging from RMB418-735 per head/day; Bearer product personnel ranging from RMB418-735 per head/day; Government and energy product personnel ranging from RMB433-1,197 per head/day; Network optimisation personnel ranging from RMB491-958 per head/day.	—	0.00%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		Purchase price not higher than prices at which Zhongxing Hetai sells products (or services) to other customers purchasing similar products (or services) in similar amounts, subject to the actual agreement signed by the two parties.	449.56	0.04%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions approved in the same cap has classification been exceeded (%)	Whether the cap has exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxing Hetai or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities by the Company to the connected party		RMB80/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB62/sq.m./month for hotel properties in Nanjing; RMB84/sq.m./month for hotel properties in Shanghai; RMB53/sq.m./month for hotel properties in Xi'an. The rental fee for related equipment and facilities required by the hotel operations in Shenzhen, Shanghai, Nanjing and Xi'an was RMB1,370,000/year.	1,832.62	22.71%	No	Tele-transfer	N/A	2020-01-17	Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
深圳市航天威華科技發展有限公司 ("航天威華")	Subsidiary of a company for which a connected natural person of the Company acted as senior management	Sale of products	The sale of a full range of government and enterprise products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	16,095.65	0.75%	No	Tele-transfer or bank acceptance bill	N/A	2020-01-17	Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
<b>Total</b>				—	—	<b>27,324.14</b>	<b>N/A</b>	—	—	—	—	—

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries and companies in which it held equity interests of 30% or above by the Group in 2020 be capped at RMB800 million (before VAT); At the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, in 2020 be capped at RMB86.19 million and RMB52.30 million (before VAT), respectively; At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of engineering services from Nanchang Software, a connected party during the periods from 1 November 2019 to 31 October 2020 be capped at RMB1 million; At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of hotel services from Zhongxing Hetai, a connected party, or its subsidiaries by the Group in 2020 be capped at RMB36.50 million (before VAT); At the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020, it was considered and approved that the estimated lease of properties and equipment and facilities to Zhongxing Hetai or its subsidiaries by the Group in 2020 be capped at RMB73.40 million (before VAT); At the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020, it was considered and approved that the estimated sales of products to 航天威華, a connected party, by the Group in 2020 be capped at RMB800 million (before VAT); Continuing connected transactions of sales of relevant products by the Company to 航天威華 with amounts exceeding the scope of the approving authority of the Board of Directors shall be subject approval at the 2019 Annual General Meeting; and Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

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

### 3.3 Undertakings

**1. Undertakings by relevant undertaking parties, including the de facto controller, shareholders, connected parties, acquirer of the Company and the Company completed during the reporting period and outstanding as at the end of the reporting period**

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

- a. Zhongxingxin, the controlling shareholder of the Company, entered into “Non-Competition Agreement” with the Company on 19 November 2004, pursuant to which Zhongxingxin has undertaken to the Company that: Zhongxingxin will not, and will prevent and preclude any of its other subsidiaries from carrying on or participating in any activities in any businesses deemed to be competing with existing and future businesses of the Company in any form (including but not limited to sole ownership, equity joint venture or co-operative joint venture and direct or indirect ownership of equity or other interests in other companies or enterprises, other than through ZTE); Zhongxingxin will immediately terminate and/or procure any of its subsidiaries to terminate any participation in, management or operation of any competing businesses or activities that Zhongxingxin and/or such subsidiaries are participating in or carrying on in any manner at any time.
- b. Zhongxingxin, the controlling shareholder of the Company, provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the Company’s non-public issuance of A shares of 2018: (1) that it will not, for so long as it remains the controlling shareholder of the Company, act beyond its powers to interfere with the Company’s operating and management activities or infringe upon the Company’s interests; (2) that it will willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.
- c. On 7 August 2019, the Company gave an undertaking in respect of the Company’s proposed non-public issue of A Shares in accordance with the pertinent requirements of set out in the “Answers to Certain Questions on Refinancing Business” published by the CSRC: If the non-public issuance of A shares is approved by the competent authorities, including the CSRC and is implemented, prior to the utilisation in full of proceeds from the non-public issuance of A shares

or within 36 months from the date of receipt of the issue proceeds, the Company shall not commit new funds into the quasi-financial business (including fund commitments in various forms such as capital increase, loans and guarantees, among others).

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

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

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

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

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

Applicable     N/A

### 3.5 Other material matters requiring disclosure

#### 3.5.1 Investment in securities

##### 1. Investment in securities as at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains(loss) arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gain/(loss) for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	002902	Mentech <i>Note 1</i>	379.30	Fair-value measurement	4,102.22	(1,530.48)	—	—	1,328.35	(355.04)	2,460.20	Trading financial assets	Issue fund
Stock	300691	Union Optech <i>Note 2</i>	1,277.63	Fair-value measurement	4,743.33	(3,112.69)	—	—	4,303.22	(194.76)	517.94	Trading financial assets	Issue fund
Stock	002796	Shijia Science & Technology <i>Note 2</i>	789.69	Fair-value measurement	2,776.63	(1,986.94)	—	—	3,525.03	574.99	—	Trading financial assets	Issue fund
Stock	002579	China Eagle Electronic <i>Note 2</i>	1,382.31	Fair-value measurement	—	(185.71)	—	1,382.31	—	(185.71)	1,196.60	Trading financial assets	Issue fund
Stock	603068	Beken <i>Note 3</i>	2,175.99	Fair-value measurement	9,097.11	(1,054.63)	—	—	—	(1,054.63)	8,042.47	Trading financial assets	Issue fund
Stock	688019	Anji Technology <i>Note 3</i>	4,350.00	Fair-value measurement	27,512.92	(614.52)	—	—	—	(614.52)	26,898.43	Trading financial assets	Issue fund
Stock	688300	Novoray <i>Note 3</i>	1,000.83	Fair-value measurement	4,090.50	—	—	—	—	—	4,090.50	Trading financial assets	Issue fund
Stock	ENA:TSV	Enablance Technologies <i>Note 4</i>	3,583.26	Fair-value measurement	1,003.94	(527.66)	—	—	—	(527.66)	476.28	Other non-current financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
<b>Total</b>			<b>14,939.01</b>	<b>—</b>	<b>53,326.65</b>	<b>(9,012.63)</b>	<b>—</b>	<b>1,382.31</b>	<b>9,156.60</b>	<b>(2,357.33)</b>	<b>43,682.42</b>	<b>—</b>	<b>—</b>

*Note 1:* The Company and ZTE Capital held in aggregate 31% equity interests in Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership) (“Zhonghe Chunsheng Fund I”), a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Dongguan Mentech Optical & Magnetic Co., Ltd (“Mentech”) are provided with Zhonghe Chunsheng Fund I as the accounting subject.

*Note 2:* The Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) (“Jiaxing Fund”), a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Union Optech Co., Ltd. (“Union Optech”), Suzhou Shijia Science & Technology Inc. (“Shijia Science & Technology”) and Huizhou China Eagle Electronic Technology Co., Ltd (“China Eagle Electronic”) are provided with Jiaxing Fund as the accounting subject.

*Note 3:* The Company and Changshu Changxing Capital Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 25.83% equity interests in Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership) (“Zhonghe Chunsheng Fund III”), a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Beken Corporation (“Beken”), Anji Microelectronics Technology (Shanghai) Co., Ltd. (“Anji Technology”) and Novoray Corporation (“Novoray”) are provided with Zhonghe Chunsheng Fund III as the accounting subject.

*Note 4:* The initial investment for the acquisition of Enablence Technologies Inc. (“Enablence Technologies”) shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD5,203,600, equivalent to approximately RMB4,762,800 based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.91528) on 31 March 2020.

## *2. Details in investment in securities*

### *A. Shareholdings in Mentech*

During the first quarter of 2020, Zhonghe Chunsheng Fund transferred 520,000 shares in Mentech (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 1,248,200 shares in Mentech, accounting for 0.59% of the total share capital of Mentech.

### *B. Shareholdings in Union Optech*

During the first quarter of 2020, Jiaying Fund transferred 2,250,000 shares in Union Optech (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Jiaying Fund held 333,500 shares in Union Optech, accounting for 0.15% of the total share capital of Union Optech.

### *C. Shareholdings in Shijia Science & Technology*

During the first quarter of 2020, Jiaying Fund transferred 771,300 shares in Shijia Science & Technology (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Jiaying Fund no longer held any shares in Shijia Science & Technology.

D. Shareholdings in China Eagle Electronic

During the first quarter of 2020, Zhuhai Topsun Electronic Technology Co., Ltd. (“Zhuhai Topsun”) held by Jiaxing Fund was acquired by China Eagle Electronic (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange). Following the completion of the acquisition, Zhuhai Topsun shares held by Jiaxing Fund was converted to shares in China Eagle Electronic. As at the end of the reporting period, Jiaxing Fund held 1,063,600 shares in China Eagle Electronic, accounting for 0.27% of the total share capital of China Eagle Electronic.

E. Shareholdings in Beken

As at the end of the reporting period, Zhonghe Chunsheng Fund III held 1,122,200 shares in Beken (a company listed on the Shanghai Stock Exchange), accounting for 0.81% of the total share capital of Beken.

F. Shareholdings in Anji Technology

Anji Technology in which Zhonghe Chunsheng Fund III had invested was listed on the STAR Market of the Shanghai Stock Exchange on 22 July 2019. As at the end of the year, Zhonghe Chunsheng Fund III held 2,314,509 shares in Anji, accounting for 4.36% of the total share capital of Anji Technology.

G. Shareholdings in Novoray

Novoray in which Zhonghe Chunsheng Fund III had invested was listed on the STAR Market of the Shanghai Stock Exchange on 15 November 2019. As at the end of the year, Zhonghe Chunsheng Fund III held 1,000,000 shares in Novoray, accounting for 1.16% of the total share capital of Novoray.

H. Shareholdings in Enablence Technologies

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

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

### 3.5.2 Entrusted fund management

1. Particulars of the Group's entrusted fund management during the reporting period is set out in the table below:

*Unit: RMB in ten thousands*

Specific type	Source of funds under entrusted management	Amount of funds under entrusted management incurred <sup>Note 1</sup>	Outstanding balance	Amount overdue and yet to be recouped
Bank investment product	Internal funds	3,752	3,682	—
<b>Total</b>		<b>3,752</b>	<b>3,682</b>	<b>—</b>

*Note 1:* The amount of funds under entrusted management incurred represents the highest daily balance of such entrusted funds during the reporting period, namely, the maximum value of the total outstanding daily balance of such entrusted funds during the reporting period.

2. Details of high-risk entrusted fund management with individually material amounts or a lower level of security or liquidity without guaranteed repayment of principal
- Applicable     N/A
3. Expected inability to recoup the principal amount under entrusted fund management or other situations that might result in impairment
- Applicable     N/A

### 3.5.3 Records of reception of investors, communications and press interviews during the reporting period

- Applicable     N/A

The Company did not host any reception of investors, communications and press interviews during the reporting period.



### 3.6 Derivative Investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment <sup>Note 1</sup>	Initial investment amount in the derivative investment		Opening balance of investment amount <sup>Note 2</sup>	Purchase during the period	Disposal during the period	Impairment provision (if any)	Closing balance of investment amount as a percentage of net assets <sup>Note 3</sup> of the Company at the end of the reporting period		Actual profit or loss for the reporting period	
				Start date	End date					Investment amount	Percentage (%)		
Financial institution	N/A	No	Foreign exchange forwards	—	2019/5/10	2021/2/18	270,630.59	25,668.00	82,795.50	—	213,503.09	5.17%	5,599.87
Financial institution	N/A	No	Foreign exchange forwards	—	2019/5/15	2020/12/4	196,895.87	2,377.82	40,704.52	—	158,569.17	3.84%	4,159.03
Financial institution	N/A	No	Foreign exchange forwards	—	2019/5/15	2021/2/22	180,486.09	25,279.50	74,980.56	—	130,785.03	3.17%	3,430.29
Other financial institutions	N/A	No	Foreign exchange forwards/interest rate swap	—	2019/5/14	2022/12/26	836,548.99	143,889.74	408,051.20	—	572,387.53	13.87%	15,012.86
<b>Total</b>				—	—	—	<b>1,484,561.54</b>	<b>197,215.06</b>	<b>606,531.78</b>	—	<b>1,075,244.82</b>	<b>26.06%</b>	<b>28,202.05</b>
Source of funds for derivative investment				Internal funds									
Litigation (if applicable)				Not involved in any litigation									
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)				“Announcement Resolutions of the Forty-sixth Meeting of the Seven Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2019,” both dated 27 March 2019.									
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)				“Announcement on Resolutions of the 2018 Annual General Meeting” dated 30 May 2019.									
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period				<p>Value-protection derivative investments were conducted by the Company during the first quarter of 2020. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> <li>Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date;</li> <li>Liquidity risks: The value-protection derivative investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company’s current assets was insignificant;</li> <li>Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks;</li> <li>Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks;</li> <li>Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.</li> </ol>									
Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives				The Company has recognised gains/losses from investments in derivatives during the reporting period. Total gain recognised for the reporting period amounted to RMB282 million, comprising gain from fair-value change of RMB231 million and recognised investment gains of RMB51 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.									
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period				There was no significant change in the Company’s accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.									
Specific opinion of Independent Non-executive Directors on the Company’s derivative investments and risk control				<p>Independent Non-executive Directors’ Opinion:</p> <p>The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedures performed have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association of ZTE Corporation.</p>									

*Note 1:* Derivative investments are classified according to the financial institutions involved and the types of such derivative investments;

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

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

**3.7 This quarterly report is published in both Chinese and English. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.**

#### **§ 4 APPENDICES**

**4.1 Balance Sheet (unaudited) (Please see the attached.)**

**4.2 Income Statement (unaudited) (Please see the attached.)**

**4.3 Cash Flow Statement (unaudited) (Please see the attached.)**

## BALANCE SHEET

*RMB in thousands*

Assets	2020.3.31		2019.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	37,912,470	18,390,073	33,309,347	13,001,412
Trading financial assets	468,881	—	560,662	—
Derivative financial assets	275,950	258,441	106,065	103,889
Trade receivables	18,786,651	24,966,131	19,778,280	24,893,537
Receiving financing	2,125,170	1,897,807	2,430,389	1,980,798
Factored trade receivables	377,821	285,675	308,710	230,035
Prepayments	370,446	17,255	402,525	7,559
Other receivables	987,534	34,100,598	1,023,271	32,126,268
Inventories	27,620,399	17,405,629	27,688,508	19,692,914
Contract assets	10,820,595	5,043,395	9,537,850	4,460,977
Other current assets	7,388,836	3,879,727	7,421,567	3,516,370
<b>Total current assets</b>	<b>107,134,753</b>	<b>106,244,731</b>	<b>102,567,174</b>	<b>100,013,759</b>
Non-current assets:				
Long-term trade receivables	2,789,577	7,841,318	2,819,606	7,736,877
Factored long-term trade receivables	163,321	142,340	200,671	200,671
Long-term equity investments	2,261,225	12,167,973	2,327,288	12,270,582
Other non-current financial assets	1,559,035	725,125	1,594,254	725,125
Investment properties	1,957,242	1,562,380	1,957,242	1,562,380
Fixed assets	9,917,567	5,792,907	9,383,488	5,717,601
Construction in progress	813,594	222,969	1,171,716	154,636
Right-of-use assets	955,489	477,116	1,063,781	534,988
Intangible assets	7,497,027	3,443,749	7,718,820	3,064,383
Deferred development costs	2,151,276	105,892	1,876,409	479,320
Goodwill	186,206	—	186,206	—
Deferred tax assets	2,406,735	1,014,392	2,511,372	1,063,838
Other non-current assets	5,861,370	4,802,502	5,824,108	4,749,554
<b>Total non-current assets</b>	<b>38,519,664</b>	<b>38,298,663</b>	<b>38,634,961</b>	<b>38,259,955</b>
<b>Total assets</b>	<b>145,654,417</b>	<b>144,543,394</b>	<b>141,202,135</b>	<b>138,273,714</b>
Legal Representative: Li Zixue	Chief Financial Officer: Li Ying	Head of Finance Division: Xu Jianrui		

RMB in thousands

Liabilities and shareholders' equity	2020.3.31		2019.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	19,090,328	10,996,646	26,645,966	11,729,902
Bank advances on factored trade receivables	378,109	285,963	310,024	230,323
Derivative financial liabilities	64,850	62,783	126,223	115,811
Bonds payable	2,000,000	2,000,000	—	—
Bills payables	8,601,793	14,477,463	9,372,940	19,363,815
Trade payables	17,513,217	29,089,955	18,355,610	29,734,983
Contract liabilities	13,027,828	7,448,873	14,517,057	9,347,162
Salary and welfare payables	10,258,618	6,472,826	8,954,005	5,223,312
Taxes payable	659,236	23,602	888,848	97,735
Other payables	3,674,523	22,875,366	4,621,118	21,362,474
Provisions	2,124,360	1,968,099	1,966,464	1,786,167
Non-current liabilities due within one year	647,159	302,654	612,261	309,489
<b>Total current liabilities</b>	<b>78,040,021</b>	<b>96,004,230</b>	<b>86,370,516</b>	<b>99,301,173</b>
Non-current liabilities:				
Long-term loans	16,411,919	12,381,410	10,045,093	7,550,990
Bank advances on factored long-term trade receivables	163,508	142,527	200,858	200,858
Lease liabilities	530,032	296,427	645,294	337,764
Provision for retirement benefits	143,420	143,420	144,505	144,505
Deferred income	3,210,431	863,297	2,656,024	849,320
Deferred tax liabilities	122,052	—	172,060	—
Other non-current liabilities	3,028,113	2,409,290	3,013,487	2,393,468
<b>Total non-current liabilities</b>	<b>23,609,475</b>	<b>16,236,371</b>	<b>16,877,321</b>	<b>11,476,905</b>
<b>Total liabilities</b>	<b>101,649,496</b>	<b>112,240,601</b>	<b>103,247,837</b>	<b>110,778,078</b>
Shareholders' equity:				
Share capital	4,612,006	4,612,006	4,227,530	4,227,530
Capital reserves	23,224,520	21,076,812	12,144,432	9,996,674
Other comprehensive income	(1,806,414)	661,634	(2,000,980)	696,467
Surplus reserve	2,775,521	2,113,765	2,775,521	2,113,765
Retained profits	12,460,353	3,838,576	11,680,365	4,208,836
Total equity attributable to ordinary shareholders of the parent	41,265,986	32,302,793	28,826,868	21,243,272
Other equity instruments — perpetual capital instruments	—	—	6,252,364	6,252,364
Non-controlling interests	2,738,935	—	2,875,066	—
<b>Total shareholders' equity</b>	<b>44,004,921</b>	<b>32,302,793</b>	<b>37,954,298</b>	<b>27,495,636</b>
<b>Total liabilities and shareholders' equity</b>	<b>145,654,417</b>	<b>144,543,394</b>	<b>141,202,135</b>	<b>138,273,714</b>

## INCOME STATEMENT

*RMB in thousands*

Item	Three months ended 31 March 2020		Three months ended 31 March 2019	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
1. Operating revenue	21,484,493	20,159,177	22,201,814	20,230,480
Less: Operating costs	13,033,239	17,021,746	13,327,317	16,580,161
Taxes and surcharges	168,773	68,989	330,778	205,188
Selling and distribution costs	1,694,584	798,783	1,766,119	929,822
Administrative expenses	1,045,768	874,728	1,260,874	1,044,658
Research and development costs	3,240,607	1,285,988	3,092,545	1,348,563
Finance costs	895,675	46,522	757,696	751,514
Including: Interest expenses	435,179	250,596	407,611	207,712
Interest income	287,488	143,943	151,499	38,772
Add: Other income	413,196	124,959	204,186	13,053
Investment income	(17,289)	(16,386)	15,852	52,070
Including: Share of profits and losses of associates and joint ventures	(100,217)	(98,409)	(165,592)	(137,336)
Loss on derecognition of financial assets at amortised cost	(52,935)	(18,352)	(19,638)	(4,221)
Gains/(Losses) from changes in fair values	150,251	207,580	481,299	(22,623)
Credit impairment losses	(393,293)	(230,673)	(519,485)	(425,675)
Asset impairment losses	(508,169)	(438,043)	(384,324)	(276,773)
2. Operating profit	<u>1,050,543</u>	<u>(290,142)</u>	<u>1,464,013</u>	<u>(1,289,374)</u>
Add: Non-operating income	18,868	9,762	40,064	12,577
Less: Non-operating expenses	<u>40,957</u>	<u>7,337</u>	<u>116,813</u>	<u>91,672</u>
3. Total profit	<u>1,028,454</u>	<u>(287,717)</u>	<u>1,387,264</u>	<u>(1,368,469)</u>
Less: Income tax	<u>219,305</u>	<u>66,307</u>	<u>277,958</u>	<u>114,656</u>
4. Net profit	<u><u>809,149</u></u>	<u><u>(354,024)</u></u>	<u><u>1,109,306</u></u>	<u><u>(1,483,125)</u></u>
Analysed by continuity of operations				
Net profit from continuing operations	809,149	(354,024)	1,109,306	(1,483,125)
Analysed by ownership				
Attributable to holders of ordinary shares of the parent	779,988	(370,260)	862,604	(1,569,081)
Attributable to holders of perpetual capital instruments	16,236	16,236	85,956	85,956
Non-controlling interests	12,925	—	160,746	—

*RMB in thousands*

Item	Three months ended 31 March 2020		Three months ended 31 March 2019	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
5. Other comprehensive income, net of tax	<b>199,868</b>	<b>(34,833)</b>	(126,035)	(211)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	<b>194,566</b>	<b>(34,833)</b>	(115,516)	(211)
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods				
Exchange differences on translation of foreign operations	<u>194,566</u>	<u>(34,833)</u>	<u>(115,516)</u>	<u>(211)</u>
	<u>194,566</u>	<u>(34,833)</u>	<u>(115,516)</u>	<u>(211)</u>
Items of other comprehensive income, net of tax	<u>194,566</u>	<u>(34,833)</u>	<u>(115,516)</u>	<u>(211)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>5,302</u>	<u>—</u>	<u>(10,519)</u>	<u>—</u>
6. Total comprehensive income	<u><b>1,009,017</b></u>	<u><b>(388,857)</b></u>	<u>983,271</u>	<u>(1,483,336)</u>
Attributable to holders of ordinary shares of the parent	<b>974,554</b>	<b>(405,093)</b>	747,088	(1,569,292)
Attributable to holders of perpetual capital instruments	<b>16,236</b>	<b>16,236</b>	85,956	85,956
Attributable to non-controlling interests	<b>18,227</b>	<b>—</b>	150,227	<b>—</b>
7. Earnings per share				
(1) Basic earnings per share	<b>RMB0.18</b>		RMB0.21	
(2) Diluted earnings per share	<b>RMB0.18</b>		RMB0.20	

## CASH FLOW STATEMENT

*RMB in thousands*

Item	Three months ended 31 March 2020		Three months ended 31 March 2019	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>1. Cash flows from operating activities</b>				
Cash received from sale of goods or rendering of services	19,968,724	18,993,963	20,894,666	21,250,945
Refunds of taxes	1,022,847	791,662	1,146,208	1,003,548
Cash received relating to other operating activities	1,365,169	574,477	1,252,977	398,230
<b>Sub-total of cash inflows</b>	<b>22,356,740</b>	<b>20,360,102</b>	<b>23,293,851</b>	<b>22,652,723</b>
Cash paid for goods and services	14,927,302	19,569,159	14,134,003	18,727,185
Cash paid to and on behalf of employees	3,573,775	1,045,662	3,470,650	1,113,825
Cash paid for various types of taxes	1,675,949	620,941	2,090,948	654,570
Cash paid relating to other operating activities	1,807,353	964,983	2,338,272	1,377,703
<b>Sub-total of cash outflows</b>	<b>21,984,379</b>	<b>22,200,745</b>	<b>22,033,873</b>	<b>21,873,283</b>
<b>Net cash flows from operating activities</b>	<b>372,361</b>	<b>(1,840,643)</b>	<b>1,259,978</b>	<b>779,440</b>
<b>2. Cash flows from investing activities</b>				
Cash received from sale of investments	1,262,745	847,800	831,459	558,128
Cash received from return on investment	53,282	2,897,825	99,030	94,207
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	5,905	4,622	6,887	6,666
Net cash received from the disposal of subsidiaries and other operating units	377	—	377,834	—
Cash received relating to other investing activities	245,000	245,000	—	—
<b>Sub-total of cash inflows</b>	<b>1,567,309</b>	<b>3,995,247</b>	<b>1,315,210</b>	<b>659,001</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	1,216,929	485,584	1,165,206	428,031
Cash paid for acquisition of investments	2,089,900	2,029,600	51,717	36,668
Cash paid relating to other investing activities	33,709	6,000,000	2,200,000	2,200,000
<b>Sub-total of cash outflows</b>	<b>3,340,538</b>	<b>8,515,184</b>	<b>3,416,923</b>	<b>2,664,699</b>
<b>Net cash flows from investing activities</b>	<b>(1,773,229)</b>	<b>(4,519,937)</b>	<b>(2,101,713)</b>	<b>(2,005,698)</b>

*RMB in thousands*

Item	Three months ended 31 March 2020		Three months ended 31 March 2019	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>3. Cash flows from financing activities</b>				
Cash received from investments	11,541,224	11,529,224	—	—
Including: Capital injection into subsidiaries by minority shareholders	12,000	—	—	—
Cash received from borrowings	16,860,628	13,690,321	13,600,116	6,626,797
Cash received relating to other financing activities	3,000	—	—	6,626,797
<b>Sub-total of cash inflows</b>	<b>28,404,852</b>	<b>25,219,545</b>	13,600,116	6,626,797
Cash repayment of borrowings	16,113,724	7,679,267	5,621,069	4,807,162
Cash paid for perpetual capital instruments	6,000,000	6,000,000	—	—
Cash payments for distribution of dividends or for interest expenses	772,490	571,703	993,589	556,417
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	103,221	—	76,902	—
Cash paid relating to other financing activities	168,853	51,039	573,981	—
<b>Sub-total of cash outflows</b>	<b>23,055,067</b>	<b>14,302,009</b>	7,188,639	5,363,579
<b>Net cash flows from financing activities</b>	<b>5,349,785</b>	<b>10,917,536</b>	6,411,477	1,263,218



*RMB in thousands*

Item	Three months ended 31 March 2020		Three months ended 31 March 2019	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
4. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>99,249</u>	<u>75,513</u>	<u>(186,629)</u>	<u>(121,715)</u>
5. Net increase in cash and cash equivalents	<u>4,048,166</u>	<u>4,632,469</u>	<u>5,383,113</u>	<u>(84,755)</u>
Add: cash and cash equivalents at the beginning of the period	<u>28,505,800</u>	<u>10,032,692</u>	<u>21,134,112</u>	<u>10,147,946</u>
6. Net balance of cash and cash equivalents at the end of the period	<u>32,553,966</u>	<u>14,665,161</u>	<u>26,517,225</u>	<u>10,063,191</u>

By Order of the Board  
**Li Zixue**  
*Chairman*

Shenzhen, the PRC  
24 April 2020

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