

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

**ZTE中兴**

**ZTE CORPORATION**

**中兴通讯股份有限公司**

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

**(Stock Code: 763)**

## **2014 THIRD QUARTERLY REPORT**

This announcement is published simultaneously in the Mainland pursuant to the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange and in Hong Kong pursuant to 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 (the “Company”) confirm that this quarterly report does not contain any false information or misleading statements or have material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 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 Twenty-second Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf. Mr. Dong Lianbo, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Tan Zhenhui, Independent Non-executive Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Chen Naiwei, 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. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, 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. Only information of the Company published in the aforesaid media should be relied upon.

## §2 CORPORATE INFORMATION

### 2.1 Brief analysis of the overall operating conditions of the Company and its subsidiaries (the "Group") during the reporting period

During the reporting period, there was stable growth in equipment investment by the global telecommunications industry. With the large-scale deployment of 4G networks and the further development of the mobile internet, carriers were actively investigating the latest focuses of the industry, such as the enhancement of LTE network performance, operations based on the value of flow volume, value-added big data business, innovative businesses based on internet of things integration, and network information security, etc, with a view to achieving effective transformation of their businesses. In line with such trend, the Group launched innovative solutions on the back of a reinforced M-ICT Strategy (as defined in the "Glossary" section of the 2014 Interim Report) and enhanced in-house innovative capabilities. In the domestic market, the large-scale operation of 3G networks started following a period of large-scale construction, while the building of 4G networks were extensively rolled out. The Group actively tracked the equipment investment plans of carriers and effectively increased its market shares by offering competitive, innovative solutions. In the international market, the Group achieved quality growth on the back of prudent operations as it continued to adopt the strategy of focusing on populous nations and mainstream global carriers.

For the nine months ended 30 September 2014, the Group reported operating revenue of RMB58.801 billion, representing a 7.78% increase compared to the same period last year. Net profit attributable to shareholders of the listed company amounted to RMB1.832 billion, representing a 232.04% increase over the same period last year. Basic earnings per share amounted to RMB0.53.

Analysed by product, for the nine months ended 30 September 2014, the Group's operating revenue from carriers' networks increased by 12.83%, as compared to the same period last year, reflecting primarily growth in operating revenue from TD-SCDMA system equipment, TD-LTE system equipment and FDD-LTE system equipment. Operating revenue from handset terminals was largely unchanged from the same period last year, while operating revenue from telecommunications software systems, services and other products increased by 6.63%, as compared to the same period last year, reflecting mainly growth in operating revenue from video and network terminal products and other products.

Looking to the next reporting period, opportunities as well as challenges will remain for the development of telecommunications industry. Future trends in technological development will include 5G, ultra-broadband, medium- to high-end storage and servers, and wearable terminals boasting more sophisticated smart-phone features. The Group will strive to realise breakthroughs in its operations as it continues to operate carriers' network products and strengthen the vertical integration of its government and corporate network business and handset terminal business in ongoing reinforcement of its M-ICT Strategy.

## 2.2 Major Accounting Data and Financial Indicators

### 2.2.1 Major Accounting Data and Financial Indicators of the Group

In the preparation of the Company's 2014 third quarterly financial statements, retrospective adjustments were made to figures for the corresponding period of 2013. The retrospective adjustments have affected the weighted average return on net assets and the weighted average return on net assets after extraordinary items for the three months and nine months ended 30 September 2013, but have had no impact on profit and loss. For details please refer to the section headed "3.1 Implementation of new or amended accounting standards" in this quarterly report.

<b>Item</b>	<b>As at the end of the reporting period (30 September 2014)</b>	<b>As at the end of last year (31 December 2013)</b>	<b>Change as at the end of the reporting period compared with the end of last year</b>
Total assets ( <i>RMB in thousands</i> )	<b>102,630,355</b>	100,079,497	2.55%
Owners' equity attributable to shareholders of the listed company ( <i>RMB in thousands</i> )	<b>24,221,830</b>	22,532,648	7.50%
Total share capital ( <i>thousand shares</i> )	<b>3,437,541</b>	3,437,541	—
Net assets per share attributable to shareholders of the listed company ( <i>RMB/share</i> ) <sup>Note 1</sup>	<b>7.05</b>	6.55	7.63%

Item	Three months ended 30 September 2014	Change compared with the same period last year	Nine months ended 30 September 2014	Change compared with the same period last year
Operating revenue (RMB in thousands)	21,103,394	23.75%	58,800,703	7.78%
Net profit attributable to shareholders of the listed company (RMB in thousands)	703,320	191.12%	1,831,526	232.04%
Net profit after extraordinary items attributable to shareholders of the listed company (RMB in thousands)	390,885	351.96%	1,323,189	298.71%
Net cash flows from operating activities (RMB in thousands)	(520,865)	(244.57%)	194,444	104.88%
Net cash flows from operating activities per share (RMB/share) <i>Note 2</i>	(0.15)	(250.00%)	0.06	105.17%
Basic earnings per share (RMB/share) <i>Note 3</i>	0.20	185.71%	0.53	231.25%
Diluted earnings per share (RMB/share) <i>Note 4</i>	0.20	185.71%	0.53	231.25%
Weighted average return on net assets (%)	2.96%	Increased by 1.84 percentage points	7.82%	Increased by 5.26 percentage points
Weighted average return on net assets after extraordinary items (%)	1.63%	Increased by 1.23 percentage points	5.65%	Increased by 8.74 percentage points

*Note 1:* Net asset per share attributable to shareholders of the listed company as at the end of the third quarter of 2014 and the end of 2013 was calculated on the basis of the total share capital as at the end of each period;

*Note 2:* Net cash flows from operating activities per share for the nine months and three months ended 30 September 2014 and the nine months and three months ended 30 September 2013 were calculated on the basis of the total share capital as at the end of each period;

*Note 3:* Basic earnings per share for the nine months and three months ended 30 September 2014 and the nine months and three months ended 30 September 2013 were calculated on the basis of the total share capital as at the end of each period;

*Note 4:* As the Share Option Incentive Scheme of the Company had no dilutive effect during the reporting period, and there were no Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up for the corresponding period last year, the amount of diluted earnings per share was equivalent to that of basic earnings per share.

*Extraordinary items*

*Unit: RMB in thousands*

<b>Extraordinary item</b>	<b>Amount</b>	
	<b>Three months ended 30 September 2014</b>	<b>Nine months ended 30 September 2014</b>
Non-operating income	177,312	562,760
Gains/(Losses) from fair value change	254,965	196,196
Investment income	31,874	(5,703)
Less: Gains/(Losses) on disposal of non-current assets	36,198	52,377
Less: Other non-operating expenses	60,383	102,833
Less: Effect of income tax	55,135	89,706
<b>Total</b>	<b>312,435</b>	<b>508,337</b>

*2.2.2 The amounts of net profit and shareholders' equity of the Group for the nine months ended 30 September 2014 and as at 30 September 2014 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.*

**2.3 Total number of shareholders, shareholdings of top 10 shareholders and top 10 holders of shares that were not subject to lock-up of the Company at the end of the reporting period**

*Total number of shareholders*

As at 30 September 2014      There were 167,932 shareholders in total  
(comprising 167,572 holders of A shares and 360 holders of H shares).

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

Name of shareholders		Nature of shareholders	Percentage of shareholding	Number of shares held at the end of the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1.	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.78%	1,058,191,944	—	Nil
2.	HKSCC Nominees Limited	Foreign shareholders	18.28%	628,330,935	—	Unknown
3.	CITIC Trust Co., Ltd. — Wealth Management 06	Others	1.48%	50,924,000	—	Unknown
4.	Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.09%	37,450,609	—	Unknown
5.	China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	Others	0.69%	23,584,259	—	Unknown
6.	China Minsheng Bank Corp., Ltd. — Yinhua SZSE 100 Classified Fund	Others	0.64%	21,922,652	—	Unknown
7.	China Life Insurance (Group) Company — Traditional — General Insurance Products	Others	0.64%	21,855,662	—	Unknown
8.	NSSF Portfolio #113	Others	0.57%	19,711,011	—	Unknown
9.	Seventh Research Institute of China Mobile	Others	0.46%	15,894,950	—	Unknown
10.	ICBC — Bosera Select Stock Fund	Others	0.44%	14,999,656	—	Unknown

*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	1,058,191,944	A share
2. HKSCC Nominees Limited	628,330,935	H share
3. CITIC Trust Co., Ltd. — Wealth Management 06	50,924,000	A share
4. Hunan Nantian (Group) Co., Ltd.	37,450,609	A share
5. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	23,584,259	A share
6. China Minsheng Bank Corp., Ltd. — Yinhua SZSE 100 Classified Fund	21,922,652	A share
7. China Life Insurance (Group) Company — Traditional — General Insurance Products	21,855,662	A share
8. NSSF Portfolio #113	19,711,011	A share
9. Seventh Research Institute of China Mobile	15,894,950	A share
10. ICBC — Bosera Select Stock Fund	14,999,656	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<ol style="list-style-type: none"> <li>1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares that were not subject to lock-up listed above.</li> <li>2. China Life Insurance (Group) Company, the fund manager of the 7th ranking shareholder, was the controlling shareholder of China Life Insurance Company Limited, the fund manager of the 5th ranking shareholder, among the top 10 shareholders.</li> <li>3. 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.</li> </ol>	
Description of involvement in financing and securities lending businesses of top 10 holders of shares not subject to lock-up (if any)	N/A	

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

Yes  No

**The Company had no preferential shares**



## §3 MATERIAL MATTERS

### 3.1 Implementation of new or amended accounting standards

In 2014, the Ministry of Finance formulated and promulgated “ASBE No. 39 — Fair Value Measurement”, “ASBE No. 40 — Joint Venture Arrangements”, amended and promulgated “ASBE No. 2 — Long-term Equity Investment”, “ASBE No. 9 — Employees’ Remuneration”, “ASBE No. 30 — Presentation of Financial Statements” and “ASBE No. 33 — Consolidated Financial Statements”. The Company adopted the aforesaid accounting standards in the preparation of its 2013 financial statements.

### 3.2 Substantial changes in major accounting items and financial indicators of the Company and the reasons thereof

*Unit: RMB in thousands*

#### *Balance Sheet*

Item	As at 30 September 2014	As at 31 December 2013	Change	Analysis of reasons
Cash	14,343,653	20,903,035	(31.38%)	Mainly attributable to the Company’s increased cash outlay for debt repayment for the period
Financial assets dealt with at fair value through current profit or loss	542,269	217,454	149.37%	Mainly attributable to the Company’s reclassification of available-for-sale financial assets as trading financial assets for the period
Inventories	19,819,365	12,434,352	59.39%	Mainly attributable to the stocking of raw materials for the manufacturing of 4G products during the period
Financial liabilities dealt with at fair value through current profit or loss	113,282	67,779	67.13%	Mainly attributable to loss arising from revaluation of fair value of certain derivative investments at the end of the period
Bills payable	12,634,781	8,498,021	48.68%	Mainly attributable to increased use of acceptance bills in payments for the period
Advances from customers	3,903,530	2,776,366	40.60%	Mainly attributable to the increase in prepayments from customers for newly signed contracts for the period
Taxes payable	(2,286,507)	(1,251,859)	(82.65%)	Mainly reflecting the decrease in VAT payable for the period as a result of the increase in input VAT
Dividends payable	8,113	34,963	(76.80%)	Mainly reflecting the payment during the period of dividend declared in the previous period by certain subsidiaries
Long-term liabilities due within one year	6,077,585	2,753,925	120.69%	Mainly reflecting the transfer of bonds due within one year to this item for the period
Long-term loans	8,628,211	5,385,673	60.21%	Mainly attributable to the increase in the Company’s bank loans for the period
Bonds payable	—	6,119,590	N/A	Mainly reflecting the transfer of bonds to long-term liabilities due within one year for the period



*Income Statement (Nine months ended 30 September)*

<b>Item</b>	<b>Nine months ended 30 September 2014</b>	<b>Nine months ended 30 September 2013 (Restated)</b>	<b>Change</b>	<b>Analysis of reasons</b>
Taxes and surcharges	936,197	701,984	33.36%	Mainly attributable to the increase of taxable revenue for the period
Impairment losses	1,128,476	1,768,560	(36.19%)	Mainly attributable to the decrease in bad debt provision of trade receivables for the period
Gains/(Losses) from changes in fair values	196,196	100,304	95.60%	Mainly attributable to the gains arising from revaluation of fair value of the Company's trading financial assets for the period
Investment income	(37,435)	838,850	(104.46%)	Mainly attributable to investment income resulting from the disposal of equity interests in Shenzhen ZNV Technology Co., Ltd. during the same period last year and the absence of such transactions for the period
Non-operating expenses	155,210	105,108	47.67%	Mainly attributable to the increase in losses on disposal of fixed assets for the period
Income tax	835,740	432,809	93.10%	Mainly attributable to the increase in taxable profit reported by certain subsidiaries for the period
Other comprehensive income	(158,984)	(430,517)	63.07%	Mainly attributable to the decrease in losses on foreign currency translation difference for the period

*Income Statement (Three months ended 30 September)*

<b>Item</b>	<b>Three months ended 30 September 2014</b>	<b>Three months ended 30 September 2013 (Restated)</b>	<b>Change</b>	<b>Analysis of reasons</b>
Research and development costs	2,437,205	1,509,274	61.48%	Mainly attributable to the increase in the Company's investment in research and development for the period
Finance expenses	936,978	378,279	147.69%	Mainly attributable to the increase in exchange losses due to exchange rate volatility for the period
Impairment losses	(13,519)	841,872	(101.61%)	Mainly attributable to the decrease in bad debt provision of trade receivables for the period
Gains/(Losses) from changes in fair values	254,965	(62,584)	507.40%	Mainly attributable to the gains arising from revaluation of fair value of certain derivative investments at the end of the period versus revaluation losses for the same period last year
Investment income	38,938	29,719	31.02%	Mainly attributable to the increase in gains from certain derivative investments for the period
Non-operating expenses	96,581	62,910	53.52%	Mainly attributable to the increase in losses on disposal of fixed assets for the period
Income tax	363,065	20,272	1,690.97%	Mainly attributable to the increase in taxable profit reported by certain subsidiaries for the period
Non-controlling interests	(7,748)	9,349	(182.88%)	Mainly attributable to losses incurred by certain subsidiaries with higher levels of non-controlling interests for the period
Other comprehensive income	(157,526)	(330,679)	52.36%	Mainly attributable to the decrease in losses on foreign currency translation difference for the period
Comprehensive income attributable to non-controlling interests	(8,436)	9,348	(190.24%)	Mainly attributable to losses incurred by certain subsidiaries with higher levels of non-controlling interests for the period

## Cash Flow Statement

Item	Nine months ended 30 September 2014	Nine months ended 30 September 2013	Change	Analysis of reasons
Net cash flows from operating activities	194,444	(3,980,803)	104.88%	Mainly attributable to the increase in cash received for the sales of goods and provision of services and other cash received in connection with operating activities for the period
Net cash flows from investing activities	(1,513,208)	(716,322)	(111.25%)	Mainly attributable to the receipt of consideration for the transfer of equity interests in Shenzhen ZNV Technology Co., Ltd. during the same period last year and the absence of such transactions for the period
Net cash flows from financing activities	(5,495,114)	(2,928,966)	(87.61%)	Mainly attributable to the increase in cash paid for debt repayment exceeding the increase in cash received from loan drawdowns for the period
Effect of changes in foreign exchange rate on cash	(247,789)	(718,186)	65.50%	Mainly attributable to the decrease in exchange losses due to exchange rate volatility for the period

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

#### 3.3.1 Statement of qualified opinion

Applicable  N/A

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

Applicable  N/A

### 3.3.3 Execution and performance of material contracts in day-to-day operations

During the reporting period, the Company did not enter into any material contracts requiring disclosure. Progress of material contracts entered into prior to the reporting period is set out as follows:

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012–2015 between the Company and Qualcomm	21 February 2012	By reference to market prices	Subject to the long-term supply contracts signed between the two parties and specific purchase orders	No	Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012–2014 between the Company and Broadcom	21 February 2012	By reference to market prices		No	Under normal progress

### 3.3.4 Others

#### 3.3.4.1 Provision of guarantee for ZTE HK by the Company

In order to reduce the debt financing cost of the Company and the subsidiaries included in its consolidated financial statements and meet additional working capital requirements of the Company, the Company proposed to seek debt financing (including but not limited to bank facilities and the issue of corporate bonds) of not more than RMB2,000 million in the overseas market with ZTE (H.K.) Limited (“ZTE HK”), its wholly-owned subsidiary, as the principal. In view of the current financial conditions and credit rating of ZTE HK, the Company would provide guarantee for ZTE HK by way of joint liability assurance for an amount of not more than RMB2,000 million in relation to the aforesaid debt financing of ZTE HK, in order to secure debt financing at favourable costs.

The aforesaid matter was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2014 of the Company. For details please refer to the “Announcement of Resolutions of the Twentieth Meeting of the Sixth Session of the Board of Directors” and “Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary” published on 22 August 2014 and “Announcement on Resolutions of the First Extraordinary General Meeting of 2014” published on 15 October 2014 by the Company.

#### *3.3.4.2 Registration and issue of perpetual medium term note by the Company*

To further facilitate the Company’s business development and optimise its debt structure, the Company has proposed to apply to National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) for the registration and issue of perpetual medium term note with an amount of not more than RMB9 billion. Perpetual medium term note refers to medium term note under which the issuer does not specify due dates but has the options of redeeming the note and deferring interest payments, while creditors are, usually, not entitled to demand redemption but are entitled to interest payments as agreed.

The aforesaid matter was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2014 of the Company. For details please refer to the “Announcement of Resolutions of the Twentieth Meeting of the Sixth Session of the Board of Directors” and “Announcement on Resolutions of the First Extraordinary General Meeting of 2014” published on 22 August 2014 and 15 October 2014, respectively, by the Company.

#### *3.3.4.3 Provision of guarantee for ZTE Malaysia by the Company*

ZTE proposes to provide joint liability guarantee for ZTE (MALAYSIA) CORPORATION SDN BHD (“ZTE Malaysia”) in respect of the performance obligations under the “CONTRACT FOR THE DELIVERY, SUPPLY, INSTALLATION, TESTING AND COMMISSIONING OF EQUIPMENT AND SOFTWARE AND PROVISION OF SERVICES FOR U MOBILE’S 3G/LTE SYSTEM” (the “UM Wireless Capacity Expansion Contract”) for an amount of not more than USD20 million, for a term commencing on the date on which the “UM Wireless Capacity Expansion Contract” comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the “UM Wireless Capacity Expansion Contract” is completed. In addition, ZTE also proposes to apply to the relevant bank for the issuance of a bank letter of guarantee to provide guarantee for a maximum amount of USD2 million, on a cumulative basis, in respect of the performance obligations by ZTE Malaysia under the “UM Wireless Capacity Expansion Contract,” for an effective term of not more than three years from the date on which the bank letter of guarantee comes into effect upon issuance.

The aforesaid guarantee was considered and approved at the Twenty-first Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company. For details please refer to the “Announcement of Resolutions of the Twenty-first Meeting of the Sixth Session of the Board of Directors” and “Announcement on Third-party Guarantee” published on 23 September 2014 and “Announcement on Resolutions of the First Extraordinary General Meeting of 2014” published on 15 October 2014 by the Company.

#### *3.3.4.4 Information on the share option incentive scheme of the Company*

The share option incentive scheme implemented by the Company is aimed at further improving the corporate governance structure of the Company, bolstering its incentive mechanism, strengthening the loyalty and sense of responsibility on the part of the management team and key employees of the Company, retaining talents to facilitate the sustainable development of the Company and ensure the achievement of the Company's development objectives. The share option incentive scheme implemented by the Company has been approved by regulatory authorities including SASAC of the State Council, China Securities Regulatory Commission ("CSRC") and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. Pursuant to the "Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company" considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant has been set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 Scheme Participants. For details of the share option incentive scheme implemented by the Company, please refer to the section headed "Material Matters — (VII) Information on the Share Option Incentive Scheme of the Company" in the 2014 Interim Report of the Company.

The share option incentive scheme of the Company was under normal operation during the reporting period.

#### *3.3.4.5 Information on the corporate bonds of the Company*

To meet the Company's working capital requirements, further improve its debt structure and lower its finance costs, the Company was given approval to issue corporate bonds with a nominal value of not more than RMB6 billion in accordance with relevant provisions of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, Trial Measures for the Issue of Corporate Bonds and other pertinent laws, regulations and regulatory documents, following consideration and approval at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 March 2012 and the First Extraordinary General Meeting of 2012 of the Company held on 11 April 2012 and approval by the CSRC by virtue of the document Zheng Jian Xu Ke [2012] No. 754. The bonds were issued at a price of RMB100 each with a coupon interest rate of 4.20% for a term of 3 years. The issue was conducted by way of a combination of online offering to public investors and offline bid placing to institutional investors. Corporate bonds under the issue were listed on the Shenzhen Stock Exchange on 16 July 2012 under the bond code "112090" and the abbreviated bond name "12中興01".

The corporate bond interest payment for 2014 was completed on 13 June 2014 and the total amount of interest payment made was RMB252 million. For details please refer to the Overseas Regulatory Announcement published by the Company on 4 June 2014.



As at 30 September 2014, there were 195 holders of corporate bonds of the Company, the top ten of which are set out as follows:

No.	Name of bond holders	Number of bonds held	Bond holding ratio
1	China Merchants Bank Co., Ltd.	10,000,000	16.67%
2	Industrial and Commercial Bank of China Limited	9,300,000	15.50%
2	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Fund	4,660,000	7.77%
5	Sha Dinan	1,856,236	3.09%
6	China Merchants Securities Co., Ltd.	1,597,205	2.66%
7	Bank of China Investment Management — BOC — Bank of China Limited	1,241,882	2.07%
8	China Merchants Bank Co., Ltd.—BOC Stable Profit and Dividend Bond Fund	1,199,016	2.00%
9	China Merchants Bank Co., Ltd.— BOC Multi-strategic Flexible Allocation Hybrid Fund	1,022,991	1.70%
10	NSSF Portfolio #409	1,000,000	1.67%

#### 3.3.4.6 Material litigation and arbitration during the reporting period

There was no material litigation or arbitration of the Group occurring during the reporting period. Details of the progress in the reporting period of immaterial litigation and arbitration proceedings occurring prior to the reporting period are set out in the following:

Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. (“China Construction Fifth Division”), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People’s Court of Shenzhen, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24.912 million and damages of RMB11.319 million payable to the Company. The court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division be revoked and a penalty payment for work delay in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division had appealed against the said judgement. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending the final judgement of the case of China Construction Fifth Division’s lawsuit at the Intermediate Court.

In October and November 2009, the Company further instituted two lawsuits with the Nanshan District People’s Court of Shenzhen, demanding China Construction Fifth Division to undertake a penalty payment for work delay in the amount of RMB30.615 million and the payment of RMB39.537 million, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are under trial suspension.

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate People’s Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate People’s Court handed down a first trial judgement in November 2012, ruling that



the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division filed an appeal with Guangdong Higher People's Court against the said judgement, and the Guangdong Higher People's Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and the second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company.

In July 2014, China Construction Fifth Division instituted a lawsuit with the Nanshan District People's Court of Shenzhen, demanding the refund of RMB24.596 million together with interest of RMB9,118,000 (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. Currently, the above case is under trial suspension.

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

### 3.3.4.7 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 the 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 in the same classification (%)	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries	Controlling shareholder of the Company and its subsidiaries	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 and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties 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-RMB30,000 per unit; and cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB5,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB11,000-50,000 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.	40,948.06	1.12%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna")	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party	Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features.	59,222.34	1.63%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "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 the Chairman of the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	1,562.41	0.04%	Tele-transfer	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Software Technology (Nanchang) Company Limited ("Nanchang Software")	A company of which the majority of board members can be controlled by another company for which the Chairman of the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	1,605.33	0.04%	Tele-transfer	N/A	21 January 2014	Announcement No. 201403 "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") and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Purchase of hotel services	The purchase of hotel services by the Company from the connected party	The purchase of hotel services by the Company from the connected party	Single room: RMB240-380/night; Double room: RMB240-380/night; Suite: RMB500-600/night. The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	2,523.52	0.07%	Tele-transfer	N/A	27 April 2013 30 May 2014	Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"  Announcement No. 201424 "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	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
							transactions in the same classification (%)				
Zhongxing Development Company Limited ("Zhongxing Development")	A company for which the Chairman of the Company concurrently acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m., and lease of 25 ground level parking spaces and 138 underground parking spaces by the Company from the connected party		Monthly rent of RMB130/sq.m.; monthly rent of ground level parking spaces of RMB150 each; monthly rent of underground parking spaces of RMB500 each. (property management undertaken by ZTE and no management fees are payable)	3,429.99	7.88%	Tele-transfer	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development")	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. by the Company from the connected party		Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and cafeteria respectively and monthly management fee of RMB2.5/sq.m.	602.30	1.38%	Tele-transfer	N/A	14 December 2011	Announcement No. 201153 "Announcement on Connected Transactions"
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		Six months ended 30 June 2014: Rent: RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of depreciation of assets. Six months ended 31 December 2014: Rent: RMB68/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB42/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB110/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB41/sq.m./month for hotel and related equipment and facilities in Xi'an.	4,013.38	27.94%	Tele-transfer	N/A	27 April 2013 30 May 2014	Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Financial services	The provision of deposit services by ZTE Group Finance Co., Ltd. ("ZTE Group Finance") to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; in case the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	4,140.46 <sup>Note 1</sup>	1.32%	Tele-transfer	N/A	30 May 2014	Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
深圳市航天歐華科技發展有限公司 ("航天歐華")	Subsidiary of a company for which a Director of the Company acted as director	Sale of products	The sale of digital communications products and communications 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 of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	20,842.73	0.35%	Tele-transfer or bank acceptance bill	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
<b>Total</b>						<b>138,890.52</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 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 its operations.
Effect of the connected transaction on the independence of the listed company	All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. 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)	<p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2014 be capped at RMB1,000 million (before VAT);</p> <p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2014 be capped at RMB800 million (before VAT);</p> <p>At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Company in 2014 be capped at RMB82 million and RMB18 million, respectively (before VAT);</p> <p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB50.80 million for a term commencing on 18 April 2013 and ending on 17 April 2015;</p> <p>At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 13 December 2011, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB11.40 million for a term commencing on 1 January 2012 and ending on 31 December 2014;</p> <p>At the Second Meeting of the Sixth Session of the Board of Directors of the Company held on 26 April 2013, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2013 and ending on 30 June 2014; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB48 million for the period commencing on 1 July 2013 and end on 30 June 2014; at the Eighteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 29 May 2014, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2014 and ending on 30 June 2015; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB75 million for the period commencing on 1 July 2014 and end on 30 June 2015;</p> <p>At the Eighteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 29 May 2014, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2014 shall be capped at RMB54 million;</p> <p>At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was considered and approved that the sales of digital communications products and communications products to 航天賦華 by the Company in 2014 be capped at RMB600 million (before VAT); and</p> <p>Please refer to the above table for details of the execution of the aforesaid connected transactions.</p>
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

*Note 1:* The amount represented the estimated maximum daily deposit balance (principal cum interest) for the nine months ended 30 September 2014.

*Note 2:* ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2014, and the funds utilised for settlement were limited to the cash deposits placed with ZTE Group Finance by Zhongxing Hetai and its subsidiaries. No handling fees were charged for such settlement service.

### 3.4 Undertakings by the Company or shareholders interested in 5% or more of the shares in the Company occurring during the reporting period or occurring in previous periods but subsisting in the reporting period

Applicable  N/A

Zhongxingxin, 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 shall prevent and preclude any of its other subsidiaries from carrying on or participating 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, except 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.

On 10 December 2007, Zhongxingxin gave an undertaking that it shall disclose any intention in future to dispose of unlocked shares in the Company via the securities trading system and 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.

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

√ Applicable □ N/A

Preliminary results announcement	Significant growth		
	From the beginning of the year to the end of the next reporting period (Year ended 31 December 2014)	Same period last year (Year ended 31 December 2013)	Increase/decrease (%)
Estimated accumulated net profit (RMB in ten thousands)	Profit: 250,000–280,000	Profit: 135,766	Increase: 84.14%–106.24%
Basic earnings per share (RMB/share)	Profit: 0.73–0.81	Profit: 0.39	Increase: 87.18%–107.69%
Explanatory remarks on the preliminary results announcement	Mainly attributable to expected continuous improvements in contract profitability and enhancements in asset quality in 2014. Benefitting from ongoing commencement of 4G constructions in the PRC market and the implementation of the Group's M-ICT Strategy, the Group is reporting positive performance in profitability and expects sound growth in operating revenue for 2014 as compared to the previous year.		

*Note:* The preliminary results announcement has not been pre-audited by certified public accountants, “net profit” means net profit attributable to shareholders of the listed company.

**3.6 Other material matters requiring disclosure**

**3.6.1 Investment in securities and holdings of equity interests in other listed companies**

*1. Investment in securities*

(1) Securities investment at the end of the reporting period

*Unit: RMB in ten thousands*

Type of securities	Stock code	Stock name	Initial investment	Shares held	Shareholding	Shares held	Shareholding	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
				at the beginning of the period (10 thousands shares)	percentage at the beginning of the period	at the end of the period (10 thousands shares)	percentage at the end of the period				
Convertible bonds <small>Note 1</small>	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	15,676.10	1,921.71	Other receivables	Initial investment
Stock	00633.HK	China All Access <small>Note 2</small>	16,309.61	11,200	8.43%	11,200	7.73%	26,787.26	11,700.46	Trading financial assets	Initial investment
Other securities investments held at the end of the reporting period			—	—	—	—	—	—	—	—	—
<b>Total</b>			<b>32,619.22</b>	<b>N/A</b>	<b>—</b>	<b>N/A</b>	<b>—</b>	<b>42,463.36</b>	<b>13,622.17</b>	<b>—</b>	<b>—</b>

*Note 1:* China All Access (Holdings) Limited (“China All Access”) is a company listed on the Hong Kong Stock Exchange. The initial investment for the acquisition of convertible bonds of China All Access by ZTE HK, a wholly-owned subsidiary of the Company, amounted to approximately

HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013. The book value of the investment as at the end of the reporting period was approximately HKD197.9 million, equivalent to approximately RMB156.8 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.79196) on 30 September 2014.

*Note 2:* The initial investment for ZTE HK's acquisition of China All Access shares amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013. The book value of the investment as at the end of the reporting period was approximately HKD338.2 million, equivalent to approximately RMB267.9 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.79196) on 30 September 2014.

## (2) Details in securities investment

### A. Holdings of China All Access convertible bonds

Pursuant to the "Resolution on the subscription for shares and convertible bonds of China All Access (Holdings) Limited by ZTE HK" considered and passed at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012, ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited" with China All Access on 16 November 2012. On 15 January 2013, ZTE HK completed subscription for convertible bonds with a principal amount of HKD201.5 million issued by China All Access for a total cash consideration of HKD201.5 million.

As at the end of the reporting period, ZTE HK held convertible bonds of China All Access in the amount of HKD201.5 million. The convertible bonds held by ZTE HK have been classified as other receivables and interest income arising from the convertible bonds has been included in current profit and loss.

### B. Shareholdings in China All Access

Pursuant to the "Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited" entered into by ZTE HK, a wholly-owned subsidiary of the Company, with China All Access on 16 November 2012, ZTE HK subscribed for 112 million shares allotted and issued by China All Access on 15 January 2013 for a total cash consideration of HKD201.5 million.

As at the end of the reporting period, ZTE HK held 112 million shares in China All Access, accounting for approximately 7.73% of the total share capital of China All Access (following the share placing by China All Access in April 2014). Such shares are subject to a lock-up period of one year (from 15 January 2013 to 15 January 2014). Lock-up of the shares has been released since 16 January 2014. The shares held by ZTE HK have been classified as trading financial assets for accounting purposes and gains/(losses) from fair value change have been measured at fair value.

## 2. Holdings of equity interests in other listed companies

### (1) Holdings of equity interests in other listed companies at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held		Shareholding percentage at the end of the period	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares	
				at the beginning of the period (10 thousands shares)	at the end of the period (10 thousands shares)						
Stock	300322	Speed <sup>Note</sup>	762.79	240	2.14%	480	2.14%	9,648.00	—	Available-for-sale financial assets	Initial investment
<b>Total</b>			<b>762.79</b>	<b>240</b>	<b>—</b>	<b>480</b>	<b>—</b>	<b>9,648.00</b>	<b>—</b>	<b>—</b>	<b>—</b>

*Note:* Figures corresponding to Huizhou Speed Wireless Technology Co., Ltd. (“Speed”) are provided with Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (“Zhonghe Chunsheng Fund”) as the accounting subject.

### (2) Details in holdings of equity interests in other listed companies

As at the end of the reporting period, the Company and Shenzhen ZTE Capital Management Company Limited held in aggregate 31% equity interests in Zhonghe Chunsheng Fund. Zhonghe Chunsheng Fund was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund held 4.80 million shares in Speed, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 2.14% of the total share capital of Speed (following Speed’s implementation of its 2013 profit distribution and capitalisation of capital reserves plans).

### 3. 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.



### 3.6.2 Reception of investors and analysts, communications and press interviews during the reporting period

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Materials furnished
External meetings	August 2014	Shanghai	Hua Chuang Securities investors' meeting	Customers of Hua Chuang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Shenzhen	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Shanghai	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Shenzhen	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Chengdu	Sinolink Securities investors' meeting	Customers of Sinolink Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Shenzhen	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
Company visits by investors	July to September 2014	Company	Verbal	<p><b>Overseas investors</b>            UBS Asset Management, BOCI, Teng Yue Partners, AIA International Limited, SPARX Asia Investment Advisors Limited, Asiya Investment, Balyasny Asset Management, Ashmore Investment Management, Guotai Jun'an (Hong Kong), AGF Investments, East Capital, Fidelity Investments, Thornourg Investment Management, Norges Bank, Resona Bank, UBS, Northcape Capital, Egerton Capital (UK) LLP, City National Rochdale Investment Management, HSBC Global Asset Management (Hong Kong) Limited, China Merchant Securities (HK), Cantor Fitzgerald, CLSA</p>	Day-to-day operations of the Company	Published announcements and regular reports
	July to September 2014	Company	Verbal	<p><b>Domestic investors</b>            China Merchant Securities, Guangzheng Hang Seng Securities, Rongheng Capital, Everbright Securities, Shenyin Wanguo, 新思路投資, CITIC Securities, Bosera Fund, Rongtong Fund, Invesco Great Wall, CCB Fund, China AMC, Beijing Da Guan Investment</p>	Day-to-day operations of the Company	Published announcements and regular reports

### 3.7 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	Start date	End date	Opening balance of investment amount	Impairment provision (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets <sup>Note 2</sup> of the Company at the end of the period (%)	Actual profit or loss for the reporting period
HSBC	N/A	No	Interest rate swap	—	2011-12-19	2016-7-8	30,484.50	—	30,747.00	1.27%	—
Standard Chartered Bank	N/A	No	Interest rate swap	—	2011-12-22	2016-7-8	30,484.50	—	30,747.00	1.27%	—
BOC	N/A	No	Foreign exchange forwards	—	2013-5-16	2015-3-5	500,142.76	—	291,219.89	12.02%	432.00
BNP Paribas	N/A	No	Foreign exchange forwards	—	2013-1-29	2015-3-12	333,810.82	—	228,043.89	9.41%	(512.78)
CITIC	N/A	No	Foreign exchange forwards	—	2013-8-6	2015-3-12	158,747.41	—	63,296.21	2.61%	(2,772.44)
Other banks	N/A	No	Foreign exchange forwards	—	2013-5-14	2015-3-10	282,019.80	—	213,350.70	8.81%	2,813.22
<b>Total</b>				—	—	—	<b>1,335,689.79</b>	—	<b>857,404.69</b>	<b>35.39%</b>	<b>(40.00)</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 of Resolutions of the Fortieth Meeting of the Fifth Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2013,” both dated 27 March 2013, and “Announcement of Resolutions of the Sixteenth Meeting of the Sixth Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2014,” both dated 26 March 2014.							
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)				“Announcement of Resolutions of the 2012 Annual General Meeting” dated 30 May 2013 and “Announcement of Resolutions of the 2013 Annual General Meeting” dated 29 May 2014.							
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				Value-protection derivative investments were conducted by the Company during the first three quarters of 2014. The major risks and control measures are discussed as follows: <ol style="list-style-type: none"> <li>1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the cumulative gains or losses on revaluation on the maturity date;</li> <li>2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company's budget of foreign exchange income and expenditure and foreign exchange exposure and these investments 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>3. 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>4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks;</li> <li>5. 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>							
Market prices or fair-value change 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 gains from investments in derivatives during the reporting period were recognised by the Company. Total losses recognised for the reporting period amounted to RMB0.4 million, comprising gains from fair value change of RMB9.75 million and recognised investment losses of RMB10.15 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. 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.							
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period				Independent Non-executive Directors' Opinion: The Company 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. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.							
Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control											

Note 1: Derivative investments are classified according to their types and the bankers involved;

Note 2: Net assets as at the end of the reporting period represented net assets attributable to shareholders of the listed company as at the end of the reporting period.

### **3.8 Development and implementation of internal control in the third quarter of 2014**

The Company's internal control work during the first quarter of 2014 mainly involved overall review and evaluation of its internal control work in 2013, the convening of the start-up meeting for internal control and risk management in 2014 and planning for internal control and risk management in 2014. During the second quarter of 2014, the Company engaged an independent consultant agency and made improvements to the conventions, processes and methodologies relating to risk management and internal control in a systematic manner to drive the advanced development of and enhance specialisation in risk management and internal control; For details of the development and implementation of internal control during the first half of 2014, please refer to the section headed "Material Matters" in the 2014 Interim Report of the Company.

Details of the Company's implementation of internal control in the third quarter of 2014 are as follows:

1. Several training sessions on risk management and internal control tailored for intermediary management officers and members of the risk control teams were held to drive company-wide implementation of conventions, processes and methodologies relating to risk management and internal control.
2. Self-inspection was conducted in accordance with the "Reference Handbook for Internal Audit and Self-inspection of Listed Companies" issued by the Shenzhen Bureau of the China Securities Regulatory Commission; self-assessment of internal control and improvement and updating of the internal control handbook started in the second quarter of 2014 has basically been completed.
3. Ongoing control over significant operating risks was exercised; the contingency system of linkage from headquarters through basic units was established in response to risks such as the Ebola outbreak in several African countries, deterioration of political situations in certain countries and volatility in the exchange rates of selected foreign currencies.

**3.9 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	2014.9.30		2013.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current Assets:				
Cash	14,343,653	6,040,358	20,903,035	12,163,330
Financial assets dealt with at fair value through current profit or loss	542,269	72,229	217,454	69,300
Bills receivable	3,276,296	2,420,623	3,500,671	2,851,182
Trade receivables	26,403,813	37,201,663	21,393,257	34,030,487
Factored trade receivables	3,177,843	1,549,623	3,338,801	2,084,134
Prepayments	785,221	31,845	751,405	29,328
Dividends receivable	—	1,987,128	—	1,970,264
Other receivables	1,640,621	5,995,374	1,729,163	10,454,633
Inventories	19,819,365	10,503,131	12,434,352	7,056,518
Amount due from customers for contract works	8,397,955	4,414,797	12,137,144	7,029,635
<b>Total current assets</b>	<b>78,387,036</b>	<b>70,216,771</b>	<b>76,405,282</b>	<b>77,738,811</b>
Non-current assets:				
Available-for-sale financial assets	1,533,774	373,555	1,630,271	373,555
Long-term receivables	357,062	4,522,124	366,762	4,517,856
Factored long-term receivables	2,046,444	1,514,869	2,311,525	1,968,052
Long-term equity investments	461,128	6,868,422	478,037	6,430,526
Investment properties	1,932,721	1,557,492	1,855,246	1,496,338
Fixed assets	7,306,926	4,527,647	7,449,476	4,751,559
Construction in progress	228,048	14,930	177,423	14,393
Intangible assets	1,297,575	460,402	1,236,755	451,947
Deferred development costs	3,340,062	816,434	2,932,148	665,650
Deferred tax assets	1,278,031	650,368	1,353,033	762,009
Long-term deferred assets	58,729	47,834	70,942	50,778
Other non-current assets	4,402,819	4,166,758	3,812,597	3,596,641
<b>Total non-current assets</b>	<b>24,243,319</b>	<b>25,520,835</b>	<b>23,674,215</b>	<b>25,079,304</b>
<b>TOTAL ASSETS</b>	<b>102,630,355</b>	<b>95,737,606</b>	<b>100,079,497</b>	<b>102,818,115</b>

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

RMB in thousands

Liabilities and shareholders' equity	2014.9.30		2013.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	11,147,094	6,717,628	12,589,032	8,375,865
Financial liabilities dealt with at fair value through current profit or loss	113,282	20,768	67,779	12,575
Bank advances on factored trade receivables	3,212,298	1,584,078	3,377,374	2,122,707
Bills payable	12,634,781	13,903,125	8,498,021	10,250,993
Trade payables	16,428,939	27,100,885	16,492,534	34,200,975
Amount due to customers for contract works	3,301,436	1,884,612	3,682,564	2,496,029
Advances from customers	3,903,530	2,691,367	2,776,366	2,896,512
Salary and welfare payables	2,678,983	653,287	2,462,006	688,982
Taxes payable	(2,286,507)	(2,406,138)	(1,251,859)	(1,286,296)
Dividends payable	8,113	156	34,963	152
Other payables	6,630,738	17,189,516	8,478,144	17,178,123
Deferred income	448,954	220,255	408,845	80,401
Provisions	617,674	333,459	601,111	349,291
Long-term liabilities due within one year	6,077,585	6,065,286	2,753,925	—
<b>Total current liabilities</b>	<b>64,916,900</b>	<b>75,958,284</b>	<b>60,970,805</b>	<b>77,366,309</b>
Non-current liabilities:				
Long-term loans	8,628,211	2,989,880	5,385,673	1,780,000
Bank advances on factored long-term receivables	2,046,444	1,514,869	2,311,525	1,968,052
Bonds payable	—	—	6,119,590	6,119,590
Long-term salary and welfare payables	95,108	95,108	95,806	95,806
Deferred tax liabilities	164,252	138,400	139,900	138,400
Other non-current liabilities	1,294,772	1,293,702	1,430,509	1,430,509
<b>Total non-current liabilities</b>	<b>12,228,787</b>	<b>6,031,959</b>	<b>15,483,003</b>	<b>11,532,357</b>
<b>Total liabilities</b>	<b>77,145,687</b>	<b>81,990,243</b>	<b>76,453,808</b>	<b>88,898,666</b>
Shareholders' equity:				
Share capital	3,437,541	3,437,541	3,437,541	3,437,541
Capital reserves	9,464,873	9,451,161	9,491,663	9,316,668
Surplus reserves	1,613,195	951,439	1,613,195	951,439
Retained profits	10,765,314	(75,024)	8,933,788	128,756
Proposed final dividend	—	—	103,126	103,126
Foreign currency translation differences	(1,059,093)	(17,754)	(1,046,665)	(18,081)
Total equity attributable to equity holders of the parent	24,221,830	13,747,363	22,532,648	13,919,449
Non-controlling interests	1,262,838	—	1,093,041	—
<b>Total shareholders' equity</b>	<b>25,484,668</b>	<b>13,747,363</b>	<b>23,625,689</b>	<b>13,919,449</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>102,630,355</b>	<b>95,737,606</b>	<b>100,079,497</b>	<b>102,818,115</b>

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

# INCOME STATEMENT

*RMB in thousands*

Item	Nine months ended 30 September 2014		Nine months ended 30 September 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
1. Operating revenue	58,800,703	54,607,241	54,557,494	49,828,976
Less: Operating costs	40,203,711	47,359,065	38,966,324	44,567,328
Taxes and surcharges	936,197	530,629	701,984	394,904
Selling and distribution costs	7,116,114	4,537,465	7,143,889	4,380,381
Administrative expenses	1,537,064	905,020	1,540,250	893,302
Research and development costs	6,563,751	1,620,882	5,136,829	1,279,866
Finance expenses	1,444,948	1,014,063	1,748,405	1,338,369
Impairment losses	1,128,476	773,986	1,768,560	1,385,975
Add: Gains/(Losses) from changes in fair values	196,196	55,890	100,304	66,366
Investment income	(37,435)	1,483,430	838,850	1,753,840
Including: Share of profits and losses of associates and joint ventures	(40,178)	(34,282)	(29,511)	(25,908)
2. Operating profit	29,203	(594,549)	(1,509,593)	(2,590,943)
Add: Non-operating income	2,828,630	523,996	2,627,690	637,973
Less: Non-operating expenses	155,210	47,237	105,108	47,354
Including: Gains/(losses) on disposal of non-current assets	52,377	44,087	20,101	13,948
3. Total profit	2,702,623	(117,790)	1,012,989	(2,000,324)
Less: Income tax	835,740	85,990	432,809	(183,200)
4. Net profit	1,866,883	(203,780)	580,180	(1,817,124)
Net profit attributable to owners of the parent	1,831,526	(203,780)	551,599	(1,817,124)
Non-controlling interests	35,357	—	28,581	—

*RMB in thousands*

Item	Nine months ended 30 September 2014		Nine months ended 30 September 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
5. Earnings per share				
(1) Basic earnings per share	<b>RMB0.53</b>		RMB0.16	
(2) Diluted earnings per share	<b>RMB0.53</b>		RMB0.16	
6. Other comprehensive income				
Other comprehensive income that cannot be reclassified to profit or loss in subsequent accounting periods				
Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans	—	—	—	—
Other comprehensive income to be reclassified to profit or loss in subsequent accounting periods subject to certain conditions				
Gain or loss arising from changes in fair values of available-for-sale financial assets	<b>(146,109)</b>	—	102,388	—
Effective portion of gain or loss arising from cash flow hedging instruments	<b>848</b>	—	5,186	—
Exchange differences on translation of foreign operations	<b>(13,723)</b>	<b>327</b>	(538,091)	(871)
	<b>(158,984)</b>	<b>327</b>	(430,517)	(871)
Other comprehensive income, net of income tax effect on respective items	<b>(158,984)</b>	<b>327</b>	(430,517)	(871)
7. Total comprehensive income	<b><u>1,707,899</u></b>	<b><u>(203,453)</u></b>	<b><u>149,663</u></b>	<b><u>(1,817,995)</u></b>
Comprehensive income attributable to owners of the parent	<b>1,673,837</b>	<b>(203,453)</b>	120,788	(1,817,995)
Comprehensive income attributable to non-controlling interests	<b>34,062</b>	—	28,875	—

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao



# INCOME STATEMENT

*RMB in thousands*

Item	Three months ended 30 September 2014		Three months ended 30 September 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
1. Operating revenue	21,103,394	19,784,935	17,052,710	16,565,150
Less: Operating costs	14,693,881	17,005,886	11,732,150	14,744,500
Taxes and surcharges	263,908	146,899	339,348	162,966
Selling and distribution costs	2,374,779	1,501,226	2,476,380	1,537,971
Administrative expenses	464,813	286,733	479,462	233,098
Research and development costs	2,437,205	511,393	1,509,274	368,058
Finance expenses	936,978	597,005	378,279	367,877
Impairment losses	(13,519)	(169,480)	841,872	713,531
Add: Gains/(Losses) from changes in fair values	254,965	93,788	(62,584)	(23,667)
Investment income	38,938	11,246	29,719	4,808
Including: Share of profits and losses of associates and joint ventures	270	—	133	—
2. Operating profit	239,252	10,307	(736,920)	(1,581,710)
Add: Non-operating income	915,966	183,750	1,071,038	305,619
Less: Non-operating expenses	96,581	25,456	62,910	12,212
Including: Gains/(losses) on disposal of non-current assets	36,198	34,718	12,930	10,524
3. Total profit	1,058,637	168,601	271,208	(1,288,303)
Less: Income tax	363,065	130,251	20,272	(190,843)
4. Net profit	695,572	38,350	250,936	(1,097,460)
Net profit attributable to owners of the parent	703,320	38,350	241,587	(1,097,460)
Non-controlling interests	(7,748)	—	9,349	—

*RMB in thousands*

Item	Three months ended 30 September 2014		Three months ended 30 September 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
5. Earnings per share				
(1) Basic earnings per share	<b>RMB0.20</b>		RMB0.07	
(2) Diluted earnings per share	<b>RMB0.20</b>		RMB0.07	
6. Other comprehensive income				
Other comprehensive income that cannot be reclassified to profit or loss in subsequent accounting periods				
Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans	—	—	—	—
Other comprehensive income to be reclassified to profit or loss in subsequent accounting periods subject to certain conditions				
Gain or loss arising from changes in fair values of available-for-sale financial assets	<b>(13,502)</b>	—	41,901	—
Effective portion of gain or loss arising from cash flow hedging instruments	—	—	(2,327)	—
Exchange differences on translation of foreign operations	<b>(144,024)</b>	<b>(426)</b>	(370,253)	(580)
	<b>(157,526)</b>	<b>(426)</b>	(330,679)	(580)
Other comprehensive income, net of income tax effect on respective items	<b>(157,526)</b>	<b>(426)</b>	(330,679)	(580)
7. Total comprehensive income	<b><u>538,046</u></b>	<b><u>37,924</u></b>	<b><u>(79,743)</u></b>	<b><u>(1,098,040)</u></b>
Comprehensive income attributable to owners of the parent	<b>546,482</b>	<b>37,924</b>	(89,091)	(1,098,040)
Comprehensive income attributable to non-controlling interests	<b>(8,436)</b>	—	9,348	—

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

## CASH FLOW STATEMENT

*RMB in thousands*

Item	Nine months ended 30 September 2014		Nine months ended 30 September 2013	
	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	64,442,477	54,130,549	58,901,866	47,420,251
Refunds of taxes	5,071,607	2,915,212	5,617,725	3,845,217
Cash received relating to other operating activities	2,197,821	1,830,377	765,011	566,660
<b>Sub-total of cash inflows</b>	<b>71,711,905</b>	<b>58,876,138</b>	<b>65,284,602</b>	<b>51,832,128</b>
Cash paid for goods and services	52,233,657	51,072,828	51,593,711	49,368,600
Cash paid to and on behalf of employees	8,966,640	3,045,833	8,596,292	3,136,313
Cash paid for all types of taxes	4,900,392	674,863	4,506,817	605,675
Cash paid relating to other operating activities	5,416,772	3,958,518	4,568,585	3,787,075
<b>Sub-total of cash outflows</b>	<b>71,517,461</b>	<b>58,752,042</b>	<b>69,265,405</b>	<b>56,897,663</b>
<b>Net cash flows from operating activities</b>	<b>194,444</b>	<b>124,096</b>	<b>(3,980,803)</b>	<b>(5,065,535)</b>
<b>2. Cash flows from investing activities</b>				
Cash received from sale of investments	1,087,611	21,300	624,568	21,300
Cash received from return on investments	55,233	51,247	387,885	284,242
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	49,384	41,172	56,563	55,912
Net cash received from the disposal of subsidiaries and other business units	—	1,343	1,124,477	1,155,511
<b>Sub-total of cash inflows</b>	<b>1,192,228</b>	<b>115,062</b>	<b>2,193,493</b>	<b>1,516,965</b>
Cash paid to acquisition of fixed assets, intangible assets and other long-term assets	1,431,348	471,861	1,550,271	810,880
Cash paid for acquisition of investments	1,274,088	501,672	1,359,544	211,466
<b>Sub-total of cash outflows</b>	<b>2,705,436</b>	<b>973,533</b>	<b>2,909,815</b>	<b>1,022,346</b>
<b>Net cash flows from investing activities</b>	<b>(1,513,208)</b>	<b>(858,471)</b>	<b>(716,322)</b>	<b>494,619</b>

RMB in thousands

Item	Nine months ended 30 September 2014		Nine months ended 30 September 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>3. Cash flows from financing activities</b>				
Cash received from capital injections	211,000	—	15,000	—
Including: Capital injection into subsidiaries by non-controlling shareholders	211,000	—	15,000	—
Cash received from borrowings	31,870,221	9,311,911	17,785,936	12,956,417
<b>Sub-total of cash inflows</b>	<b>32,081,221</b>	<b>9,311,911</b>	<b>17,800,936</b>	<b>12,956,417</b>
Cash repayments of borrowings	35,870,978	13,381,654	19,304,664	14,103,996
Cash payments for distribution of dividends or for interest expenses	1,705,357	1,061,462	1,425,238	1,004,472
Including: Distribution of dividends and profits by subsidiaries to non-controlling shareholders	30,470	—	—	—
<b>Sub-total of cash outflows</b>	<b>37,576,335</b>	<b>14,443,116</b>	<b>20,729,902</b>	<b>15,108,468</b>
<b>Net cash flows from financing activities</b>	<b>(5,495,114)</b>	<b>(5,131,205)</b>	<b>(2,928,966)</b>	<b>(2,152,051)</b>
<b>4. Effect of changes in foreign exchange rate on cash</b>	<b>(247,789)</b>	<b>(95,189)</b>	<b>(718,186)</b>	<b>(231,477)</b>
<b>5. Net increase in cash and cash equivalents</b>	<b>(7,061,667)</b>	<b>(5,960,769)</b>	<b>(8,344,277)</b>	<b>(6,954,444)</b>
Add: cash and cash equivalents at the beginning of the period	20,118,274	11,756,439	22,659,635	15,276,437
<b>6. Net balance of cash and cash equivalents at the end of the period</b>	<b>13,056,607</b>	<b>5,795,670</b>	<b>14,315,358</b>	<b>8,321,993</b>

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

By Order of the Board  
**Hou Weigui**  
Chairman

Shenzhen, the PRC  
23 October 2014

*As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyou; six non-executive directors, Hou Weigui, Zhang Jianheng, Xie Weiliang, Wang Zhanchen, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Richard Xike Zhang.*