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ZTE

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)

2017 THIRD 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”) confirm that there are no false information and misleading statements in this quarterly report nor any 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-fourth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Yin Yimin, Chairman, to vote on his behalf. Mr. Wang Yawen, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Tian Dongfang, 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. Yin Yiming, Chairman of the Company, Mr. Shao Weilin, 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. Only information of the Company published in the aforesaid media should be relied upon and investors are advised to be aware of the investment risks involved.

§ 2 CORPORATE INFORMATION

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

As global carriers continued to make large-scale investments in the construction of infrastructure network facilities, they sought to explore and set up operations in new technologies, businesses and structures in addition to constantly upgrading their existing networks, in a bid to stay ahead in competition. Leading carriers of China, the United States and Japan were actively driving the progress of 5G technical verification and the formulation of 5G standards, in order to expedite commercial applications on a trial basis. Deployment efforts in relation to the Internet of Things (“IOT”) were also gaining pace, as the market was all set for large-scale applications.

For the nine months ended 30 September 2017, the Company continued to enhance the competitiveness of its products, while going to further depths in the development of the global carriers’ market. In the domestic market, we secured further market shares for core products, such as 4G and optical transmission products, as we actively worked with the big three carriers to support their requirements in network construction and technical evolution. Meanwhile, we also took the lead in passing the second-stage function tests for the national 5G technical verification process. In the international market, we enjoyed stronger approval ratings from high-end customers and a further optimised market profile, due to our persistent focus on populous nations and mainstream carriers and the ongoing increase in our strategic investment. In connection with the consumer business, we sustained fast growth in North America and positive developments in the domestic market on the back of our ability in R&D innovation and global presence. In the IOT sector, we launched our prototype NB-IOT secure chips and accounted for a strong share of the first NB-IOT network construction projects of domestic carriers. Moves to establish our presence in the international market for this sector have also begun, our overall technological edge and leading market position has been reinforced.

For the nine months ended 30 September 2017, the Company reported operating revenue of RMB76.58 billion, representing growth of 7.01% as compared to the previous year which mainly reflected the year-on-year growth in revenue from 4G system products, fixed-line network and bearer systems in the domestic market, handset products in the international markets and home terminal products in the domestic market. Net profit attributable to holders of ordinary shares of the listed company amounted to RMB3.905 billion, representing a year-on-year increase of 36.58%. Basic earnings per share amounted to RMB0.93.

For the next reporting period, the Group will further focus on premium customers and seek consistent enhancement of customer satisfaction. We will persist in maintaining our leadership in technology and continue to increase our investment in the R&D of core products, such as 5G products. Seizing opportunities presented by changing technologies and landscapes in the global telecommunications market, we will make steadfast efforts to enhance our global market position with stronger market shares. On a firm foundation underpinned by high-calibre staff, compliance in operations and internal control, the Group will achieve prudent and sustainable development.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	As at the end of the reporting period (30 September 2017)	As at the end of last year (31 December 2016)	Change as at the end of the reporting period compared with the end of last year
Total assets (<i>RMB in thousands</i>)	146,028,404	141,640,910	3.10%
Owners' equity attributable to holders of ordinary shares of the listed company (<i>RMB in thousands</i>)	30,865,790	26,401,151	16.91%
Total share capital (<i>thousand shares</i>) ^{Note 1}	4,192,672	4,184,628	0.19%
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	7.36	6.31	16.64%

Item	Three months ended 30 September 2017	Change compared with the same period last year	Nine months ended 30 September 2017	Change compared with the same period last year
Operating revenue (<i>RMB in thousands</i>)	22,569,143	(5.20%)	76,579,739	7.01%
Net profit attributable to holders of ordinary shares of the listed company (<i>RMB in thousands</i>)	1,611,785	47.53%	3,904,652	36.58%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company (<i>RMB in thousands</i>)	(389,192)	(181.24%)	1,562,316	(27.41%)
Net cash flows from operating activities (<i>RMB in thousands</i>)	1,036,069	191.23%	(3,170,483)	(360.02%)
Net cash flows from operating activities per share (<i>RMB/share</i>)	0.25	192.59%	(0.76)	(362.07%)
Basic earnings per share (<i>RMB/share</i>) ^{Note 2}	0.38	46.15%	0.93	34.78%
Diluted earnings per share (<i>RMB/share</i>) ^{Note 3}	0.37	42.31%	0.92	35.29%
Weighted average return on net assets (%)	5.36%	Increased by 1.94 percentage points	13.64%	Increased by 4.39 percentage points
Weighted average return on net assets after extraordinary items (%)	(1.59%)	Decreased by 3.03 percentage points	5.46%	Decreased by 1.50 percentage points

Note 1: For the nine months ended 30 September 2017, the total share capital of the Company increased from 4,184,628,172 shares to 4,192,671,843 shares following the exercise of 8,043,671 A share options by scheme participants under the 2013 Share Option Incentive Scheme of the Company;

Note 2: Basic earnings per share for the nine months and three months ended 30 September 2017 and the same periods last year have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

Note 3: As the 2013 Share Options granted by the Company have given rise to 43,247,000 and 21,095,000 potentially dilutive ordinary shares for the nine months ended 30 September 2017 and the nine months ended 30 September 2016, respectively, dilutive earnings per share for the nine months and three months ended 30 September 2017 and the same periods last year have been calculated on the basis of basic earnings per share taking into account the said factor.

Extraordinary item

Unit: RMB in thousands

Extraordinary item	Amount	
	Three months ended 30 September 2017	Nine months ended 30 September 2017
Non-operating income and others	251,375	751,023
Gains/(Losses) from fair value change	7,494	(50,561)
Investment income	2,112,918	2,159,339
Less: Losses on disposal of non-current assets	38,568	64,924
Less: Other non-operating expenses	(23,139)	29,129
Less: Effect of income tax	353,453	414,862
Less: Effect of non-controlling interests (after tax)	1,928	8,550
Total	2,000,977	2,342,336

2.2.2 The amounts of net profit and shareholders' equity of the Group for the nine months ended 30 September 2017 and as at 30 September 2017 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.

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

Total number of shareholders

As at 30 September 2017 There were 166,740 shareholders in total (comprising 166,392 holders of A shares and 348 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 shares as 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 Telecommunication Equipment Company Limited ("Zhongxingxin")	State-owned corporation	30.34%	1,271,868,333	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	17.99%	754,129,280	—	Unknown
3. Sun Huigang (孫惠剛)	Domestic natural person	1.53%	63,956,298	—	Nil
4. Central Huijin Asset Management Ltd.	State-owned corporation	1.25%	52,519,600	—	Nil
5. China Securities Finance Corporation Limited	General domestic corporation	1.23%	51,638,797	—	Nil
6. NSSF Portfolio #104	Others	1.10%	46,188,841	—	Nil
7. Hunan Nantian (Group) Co., Ltd	State-owned corporation	1.01%	42,260,065	—	Nil
8. NSSF Portfolio #401	Others	0.60%	25,000,076	—	Nil
9. NSSF Portfolio #111	Others	0.57%	23,716,835	—	Nil
10. NSSF Portfolio #117	Others	0.47%	19,745,938	—	Nil

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A share
	2,038,000	H share
2. HKSCC Nominees Limited	754,129,280	H share
3. Sun Huigang (孫惠剛)	63,956,298	A share
4. Central Huijin Asset Management Ltd.	52,519,600	A share
5. China Securities Finance Corporation Limited	51,638,797	A share
6. NSSF Portfolio #104	46,188,841	A share
7. Hunan Nantian (Group) Co., Ltd	42,260,065	A share
8. NSSF Portfolio #401	25,000,076	A share
9. NSSF Portfolio #111	23,716,835	A share
10. NSSF Portfolio #117	19,745,938	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<ol style="list-style-type: none"> 1. Zhongxingxin was neither a connected party nor a concerted party of any of the other top ten shareholders and other top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save as aforesaid, the Company is not aware of any connected party relationships or concerted party relationships among other top ten shareholders and other top ten holders of shares that were not subject to lock-up. 	
Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)	N/A	

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

Yes No

The Company had no preferential shares.

§ 3 MATERIAL MATTERS

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

Unit: RMB in thousands

Balance sheet

Item	30 September 2017	31 December 2016	Change	Analysis of reasons for changes
Derivative financial assets	26,707	54,857	(51.32%)	Attributable mainly to the settlement of certain derivative investments upon maturity for the period
Bills receivable	3,707,552	1,984,493	86.83%	Attributable mainly to the increase in payments in the form of acceptance bills received for the period
Factored trade receivables	5,087,575	2,261,280	124.99%	Attributable mainly to the increase in factored trade receivables not eligible for derecognition for the period
Long-term equity investments	4,030,833	665,876	505.34%	Attributable mainly to the accounting of the remaining equity interests in Nubia Technology Limited (“Nubia”) based on fair value following the disposal of partial equity interests in Nubia during the period
Goodwill	462,830	186,206	148.56%	Attributable mainly to goodwill arising from the acquisition of subsidiaries during the period
Derivative financial liabilities	67,887	40,148	69.09%	Attributable mainly to loss arising from the fair-value re-measurement at the end of the period on certain derivative investments for the period
Bank advances on factored trade receivables	5,101,233	2,263,015	125.42%	Attributable mainly to the increase in factored trade receivables not eligible for derecognition for the period
Dividends payable	1,924	50,317	(96.18%)	Attributable mainly to the payment of dividend declared in the previous period by certain subsidiaries during the period
Other payables	9,346,894	13,660,418	(31.58%)	Attributable mainly to the payment of penalties to relevant U.S. government authorities for the period
Deferred income	1,381,370	712,657	93.83%	Attributable mainly to the increase in government grants received for the period
Provisions	593,167	887,366	(33.15%)	Attributable mainly to the decrease in provision for handset price match for the period
Non-current liabilities due within one year	3,946,997	1,932,025	104.29%	Attributable mainly to the increase in long-term loans due within one year for the period
Long-term loans	2,029,919	5,018,276	(59.55%)	Attributable mainly to the reclassification of long-term loans due within one year as non-current liabilities due within one year for the period
Deferred tax liabilities	145,981	98,380	48.38%	Attributable mainly to the provision for deferred income tax liabilities in respect of revaluation gains of identifiable assets of acquired subsidiaries for the period
Other comprehensive income	(489,374)	(822,724)	40.52%	Attributable mainly to gains from volatility in the market values of restricted equity interests in listed companies held by subsidiary fund partnerships of Shenzhen ZTE Capital Management Company Limited (“ZTE Capital”) for the period and to gains on translation of the statements denominated in foreign currencies owing to exchange rate volatility for the period
Retained profits	14,186,890	10,282,238	37.97%	Attributable mainly to the increase in profit for the period

Income Statement (Nine months ended 30 September)

Item	Nine months ended 30 September 2017	Nine months ended 30 September 2016	Change	Analysis of reasons for changes
Taxes and surcharges	687,974	507,398	35.59%	Attributable mainly to the adjustment in the reporting of real estate tax, land use tax, vehicle and vessel tax and stamp duty for presentation under “Tax and surcharges” instead of under “Administrative expenses” for the period in accordance with the provisions of Cai Kuai [2016] No. 22, whereas no retrospective adjustment was required for the same period last year
Finance expenses	594,389	140,760	322.27%	Attributable mainly to exchange losses due to exchange rate volatility for the period versus exchange gains due to exchange rate volatility for the same period last year
Gains/(Losses) from changes in fair values	(50,561)	(14,083)	(259.02%)	Attributable mainly to the increase in loss arising from fair-value re-measurement at the end of the period on derivative investments for the period
Investment income	2,314,659	937,437	146.91%	Attributable mainly to gains from the disposal of certain equity investments in Nubia for the period
Non-operating income	97,922	3,324,369	(97.05%)	Attributable mainly to changes in the presentation of government grants as a result of amendments to the accounting standard relating to government grants for the period
Income tax	996,485	764,931	30.27%	Attributable mainly to the increase in the Group’s profit for the period
Non-controlling interests	14,462	187,439	(92.28%)	Attributable mainly to the decrease in profit reported by subsidiaries with higher levels of non-controlling interests for the period
Changes in the fair value of available-for-sale financial assets	190,107	97,345	95.29%	Attributable mainly to the increase in gains from volatility in the market values of restricted equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital for the period
Effective portion of hedging instruments	(3,951)	(65,991)	94.01%	Attributable mainly to the decrease in loss arising from fair-value re-measurement at the end of the period of hedging instruments for the period
Exchange differences on translation of foreign operations	147,194	(8,972)	1,740.59%	Attributable mainly to gains on translation of the statements denominated in foreign currencies owing to exchange rate volatility for the period versus translation losses for the same period last year
Other comprehensive income attributable to non-controlling interests, net of tax	353,572	133,370	165.11%	Attributable mainly to the increase in gains from volatility in the market values of restricted equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital for the period

Income Statement (Three months ended 30 September)

Item	Three months ended 30 September 2017	Three months ended 30 September 2016	Change	Analysis of reasons for changes
Administrative expenses	764,854	529,472	44.46%	Attributable mainly to the increase in staff expenses for the period
Impairment losses	618,452	228,434	170.74%	Attributable mainly to the increase in provision for impairment of dispatched goods for the period
Gains/(Losses) from changes in fair values	7,494	22,267	(66.34%)	Attributable mainly to the decrease in gains arising from fair-value re-measurement at the end of the period on derivative investments for the period
Investment income	2,262,663	579,472	290.47%	Attributable mainly to gains from the disposal of certain equity investments in Nubia for the period
Non-operating income	28,519	1,060,639	(97.31%)	Attributable mainly to changes in the presentation of government grants as a result of amendments to the accounting standard relating to government grants for the period
Non-operating expenses	15,429	39,160	(60.60%)	Attributable mainly to the decrease in the provision of penalty expenses in respect of pending litigation for the period
Effective portion of hedging instruments	6,704	(6,484)	203.39%	Attributable mainly to gains arising from fair-value re-measurement at the end of the period of hedging instruments for the period versus loss for the same period last year
Exchange differences on translation of foreign operations	(108,109)	404,400	(126.73%)	Attributable mainly to losses on translation of the statements denominated in foreign currencies owing to exchange rate volatility for the period versus gains for the same period last year
Other comprehensive income attributable to non-controlling interests, net of tax	369,325	278,763	32.49%	Attributable mainly to the increase in gains from volatility in the market values of restricted equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital for the period

Cash Flow Statement

Item	Nine months ended 30 September 2017	Nine months ended 30 September 2016	Change	Analysis of reasons for changes
Net cash flows from operating activities	(3,170,483)	1,219,302	(360.02%)	Attributable mainly to the payment of penalties to relevant U.S. government authorities for the period
Net cash flows from investing activities	(4,387,188)	(2,589,903)	(69.40%)	Attributable mainly to the increase in cash paid for the acquisition of fixed assets, intangible assets and other long-term assets for the period
Net cash flows from financing activities	2,304,580	(560,872)	510.89%	Attributable mainly to the increase in cash received from borrowings for the period

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

3.2.1 Statement of qualified opinion

Applicable N/A

3.2.2 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

3.2.3 Execution and performance of material contracts in day-to-day operations

During the reporting period, the Company did not enter into any materials 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	Completed
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Completed
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

3.2.4 Others

3.2.4.1 Progress of asset transactions

1. The acquisition of equity interests in Netaş, a listed Turkish company, by the Company

For details of the acquisition of 48.04% equity interests in NETAŞ TELEKOMÜNİKASYON A.Ş. (“Netaş”), a listed Turkish company, by ZTE Cooperatief U.A. (“ZTE Cooperatief”), a wholly-owned subsidiary of the Company, please refer to the “Announcement Acquisition of 48.04% Equity Interests in Netaş, a Listed Turkish Company”, “Overseas Regulatory Announcement Updates on the Acquisition of 48.04% Equity Interests in Netaş, a Listed Turkish Company” and “Overseas Regulatory Announcement Updates on the Acquisition of 48.04% Equity Interests in Netaş, a Listed Turkish Company” published by the Company on 6 December 2016, 8 May 2017 and 28 July 2017, respectively. ZTE Cooperatief and OEP Turkey Tech. B. V. (“OEP”) have determined the finalised transaction price for the 48.04% equity interests to be USD101,280,539. The two parties have completed the transaction of the equity interests.

ZTE Cooperatief has completed a Mandatory Tender Offer in accordance with Turkish laws and regulations. Currently, ZTE Cooperatief holds 23,351,328 A shares and 7,817,023.34 B shares in Netaş, totally accounting for 48.05% of the issued shares of Netaş. For details, please refer to

the “Overseas Regulatory Announcement Updates on the Acquisition of 48.04% Equity Interests in Netaş, a Listed Turkish Company” published by the Company on 18 October 2017.

2. Acquisition of land use rights by the Company through bidding

Owing to the requirements of its operations and development, the Company entered into the bidding for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen listed on Shenzhen Land & Real Estate Exchange Center. On 27 June 2017, the Company entered into a confirmation with Shenzhen Land & Real Estate Exchange Center confirming its successful bid for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District for a consideration of RMB3,542 million. On 14 July 2017, the Company and the Nanshan Bureau of Shenzhen Urban Planning Land and Resources Commission of the Shenzhen Municipality entered into the Land Use Rights Transfer Agreement. The Company plans to develop the aforesaid land site into commercial complex buildings for use as office premises of the Group or for investment purposes. The acquisition would satisfy the business development needs of the Group.

The aforesaid matter was considered and approved at the Nineteenth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Overseas Regulatory Announcement Resolutions of the Nineteenth Meeting of the Seventh Session of the Board of Directors” and “DISCLOSEABLE TRANSACTION ACQUISITION OF LAND USE RIGHTS IN SHENZHEN” published by the Company on 27 June 2017.

3. Disposal of 10.1% equity interests in Nubia by the Company

Based on considerations in relation to the strategic development of Nubia, the Company, Pingxiang Yingcai Investment Consulting Company Limited, Suning Commerce Group Co., Ltd., Nanjing Hengmian Enterprise Management Partnership (Limited Partnership), Nanchang Gaoxin New Industry Investment Co., Ltd. (“Nanchang Gaoxin”) and Nubia entered into the Sale and Purchase Agreement in Nubia Technology Limited (“Sale and Purchase Agreement”) and Nubia Technology Limited Shareholders’ Agreement on 27 July 2017. Pursuant to the Sale and Purchase Agreement, the Company transferred 10.1% equity interests in subsidiary Nubia to Nanchang Gaoxin for a consideration of RMB727.2 million. As at the end of the reporting period, the aforesaid transfer of equity interests had been completed. The Company currently holds 49.9% equity interests in Nubia, which is no longer included in the Company’s consolidated statements.

The aforesaid matter was considered and approved at the Twenty-first Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Overseas Regulatory Announcement Resolutions of the Twenty-first Meeting of the Seventh Session of the Board of Directors” and “DISCLOSEABLE TRANSACTION DISPOSAL OF 10.1% OF THE EQUITY INTEREST IN NUBIA TECHNOLOGY LIMITED” published by the Company on 27 July 2017.

3.2.4.2 Change in the Directors, Supervisors and Senior Management of the Company

On 11 August 2017, the Supervisory Committee of the Company received a Resignation Report in writing from Staff Representative Supervisor Mr. Zhou Huidong. Due to his other personal commitments, Mr. Zhou Huidong has tendered his resignation from the position of Staff Representative Supervisor of the Company. The resignation of Mr. Zhou Huidong came into

effect upon delivery of the Resignation Report at the Supervisor Committee. For details of the aforesaid matter, please refer to the “Announcement Resignation of Staff Representative Supervisor” published by the Company on 11 August 2017.

As disclosed in the “Announcement of Change of Executive Vice President and Chief Financial Officer and Re-designation of Director” published by the Company on 29 September 2017, Mr. Wei Zaisheng, Executive Director, Executive Vice President and Chief Financial Officer of the Company tendered to the Board of Directors his resignation from the position of Executive Vice President and Chief Financial Officer of the Company owing to changes in work. At the same time, Mr. Wei Zaisheng’s position as Executive Director of the Company was re-designated as Non-executive Director. Other than that, Mr. Wei Zaisheng was not holding any other position at the Company. The resignation and re-designation as Director of Mr. Wei Zaisheng became effective on 29 September 2017, and the term of office of Mr. Wei Zaisheng as Non-executive Director of the Company will end on the date on which the term of the Seventh Session of the Board of Directors concludes (namely, 29 March 2019).

Pursuant to the “Resolution on the Appointment of Senior Management” considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors of the Company held on 29 September 2017, Mr. Shao Weilin was elected Executive Vice President and Chief Financial Officer of the Company for a term commencing on the date on which the appointment was considered and approved at the meeting of the Board of Directors and ending on the date on which the term of the Seventh Session of the Board of Directors concludes (namely, 29 March 2019).

3.2.4.3 Provision of guarantee for ZTE (Wenzhou) Railway Communication Technology Limited by the Company

The Company and ZTE (Wenzhou) Railway Communication Technology Limited (“ZTE Wenzhou”), a subsidiary of the Company, have proposed to form a joint tendering entity to bid for the public security communications systems integration and equipment procurement project for the first-phase construction of Wenzhou Suburban Railway Line S1 (the “Wenzhou Public Security Communications Project”). If the project tender is successful, the Company and ZTE Wenzhou will enter into the “Wenzhou Suburban Railway Line S1 Phase I Construction — Public Security Communications Systems Integration and Equipment Procurement Contract” (the “Wenzhou Public Security Communications Contract”) with Wenzhou Xingfu Railway Transportation Corporation (“Wenzhou Xingfu Railway Corporation”), pursuant to which the Company and ZTE Wenzhou will provide public security communications systems integration and equipment procurement services to Wenzhou Xingfu Railway Corporation. The Company has proposed to provide guarantee for tender deposit amounting to RMB800,000 in respect of the tendering obligations of ZTE Wenzhou for the Wenzhou Public Security Communications Project for a period commencing on the closing date for the tender and ending on the date of execution of the “Wenzhou Public Security Communications Contract” if the project tender is successful, or a period commencing on the closing date for the project tender and ending on the date on which a notice of unsuccessful bidding is received if the tender is not successful. The Company has proposed to provide, upon successful bidding, guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE Wenzhou under the “Wenzhou Public Security Communications Contract” for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate.

The aforesaid matter has been considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Overseas Regulatory Announcement Resolutions of the Twenty-third Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement on Third-party Guarantee” published by the Company on 29 September 2017.

3.2.4.4 Information on the “Share Option Incentive Scheme” of the Company

1. The 2013 Share Option Incentive Scheme

The Share Option Scheme of ZTE Corporation (Revised Draft) (the “2013 Share Option Incentive Scheme (Revised Draft)”) was considered and approved at the Third Extraordinary General Meeting in 2013, the First A Shareholders’ Class Meeting of 2013 and the First H Shareholders’ Class Meeting of 2013 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 approved 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 was set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 participants. The exercise price for the share options granted was RMB13.69 per A share.

Pursuant to the “Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period under the Share Option Incentive Scheme” considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors convened on 27 October 2016, the fulfillment of exercise conditions for the second exercise period under the 2013 Share Option Incentive Scheme was confirmed and the exercise period shall be from 1 November 2016 to 31 October 2017.

Share options under the 2013 Share Option Incentive Scheme of the Company have been exercised on a voluntary basis. During the third quarter of 2017, a total of 2,657,313 options were exercised at an exercise price of RMB10.97, and the number of A shares of the Company has increased by 2,657,313 shares as a result of the exercise. Proceeds received from the exercise of share options have been placed in a designated account of the Company.

A total of 33,065,640 share options were exercised during the second exercisable period of second exercise period under the 2013 Share Option Incentive Scheme of the Company. As 2 participants had 36,000 unexercised share options outstanding as at the end of the exercisable period of the second exercise period, and such participants waived the exercise of such share options, the cancellation of the aforesaid unexercised share options has been approved at the Twenty-fourth Meeting of the Seventh Session of the Board of Directors of the Company held on 26 October 2017. For details, please refer to the “Overseas Regulatory Announcement on the Cancellation of Certain Share Options” published by the Company on 26 October 2017. Pursuant to the “Resolution on the Non-fulfillment of Exercise Conditions for the Third Exercise Period under the Share Option Incentive Scheme” considered and approved at the Fifteenth Meeting of the Seventh Session of the Board of Directors convened on 23 March 2017, the exercise conditions for the third exercise period under the 2013 Share Option Incentive Scheme had not been fulfilled, share options that could not be exercised owing to the non-fulfillment of conditions pertaining to business results would lapse with immediate effect and withdrawn and cancelled by the Company without compensation in accordance with the 2013 Share Option Incentive Scheme (Revised Draft). A total of 44,356,320 share options had been granted in respect of the third exercise period.

Details of the exercise of such options by the participants during the second exercise period are set out as follows:

Name of participant	Position of participant	Number of share options exercisable during the second exercise period	Number of share options exercised during the second exercise period	Number of outstanding share options during the second exercise period
Zhang Jianheng	Non-executive Director	10,800	0	10,800
Zhao Xianming	Executive Director and President	180,000	180,000	0
Xu Huijun	Executive Vice President	126,000	126,000	0
Zhang Zhenhui	Executive Vice President	70,200	70,200	0
Pang Shengqing	Executive Vice President	162,000	162,000	0
Xiong Hui	Executive Vice President	144,000	144,000	0
Shao Weilin	Executive Vice President and Chief Financial Officer	43,200	43,200	0
Cao Wei	Secretary to the Board	25,200	25,200	0
Other participants	1,342 persons	32,340,240	32,315,040	25,200
Total	<u>1,350 persons</u>	<u>33,101,640</u>	<u>33,065,640</u>	<u>36,000</u>

For other details of the 2013 Share Option Incentive Scheme implemented by the Company, please refer to the section headed “Material Matters — (VII) IMPLEMENTATION AND IMPACT OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME” in the 2017 Interim Report of the Company.

2. The 2017 Share Option Incentive Scheme

In order to further refine the Company's structure of corporate governance, improve its incentive mechanism and enhance the sense of responsibility and mission on the part of the management team and key personnel in relation to its sustainable and healthy development so as to ensure the realisation of its development targets, the Company has formulated the "2017 Share Option Incentive Scheme (Draft) of ZTE Corporation" (the "2017 Share Option Incentive Scheme (Draft)") in accordance with relevant laws and regulations. The 2017 Share Option Incentive Scheme (Draft) was considered and approved by the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 convened on 20 June 2017. Pursuant to the "Resolution on Matters pertaining to the Grant of Share Options under the 2017 Share Option Incentive Scheme of the Company" and the "Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted 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 of the Company held on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday), on which 149,601,200 share options were granted to 1,996 scheme participants. The exercise price for the share options granted was RMB17.06 per A share. The number of options granted is set out in the following table:

Name of participant	Position of participant	Number of Options granted
Zhang Jianheng	Non-executive Director	50,000
Luan Jubao	Non-executive Director	50,000
Zhao Xianming	Executive Director and President	800,000
Wang Yawen	Non-executive Director	50,000
Tian Dongfang	Non-executive Director	50,000
Zhan Yichao	Non-executive Director	50,000
Xu Huijun	Executive Vice President	550,000
Zhang Zhenhui	Executive Vice President	550,000
Pang Shengqing	Executive Vice President	450,000
Xiong Hui	Executive Vice President	450,000
Shao Weilin	Executive Vice President and Chief Financial Officer	237,600
Cao Wei	Secretary to the Board	200,000
Other participants	1,984 persons	146,113,600
Total	1,996 persons	149,601,200

The 2017 Share Option Incentive Scheme is valid for 5 years. The vesting period is 2 years from the date of grant. Subject to the fulfilment of the performance conditions, the first, second and third exercise period has the exercisable rights of 1/3 Options during the subsequent three exercise period respectively.

Exercise period	Duration	Exercise Ratio
First exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant and ending on the last trading day of the 36-month period from the date of grant	1/3
Second exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of grant and ending on the last trading day of the 48-month period from the date of grant	1/3
Third exercise period	Commencing from the first trading day after expiry of the 48-month period from the date of grant and ending on the last trading day of the 60-month period from the date of grant	1/3

For details of the 2017 Share Option Incentive Scheme, please refer to the relevant announcements dated 24 April 2017, 6 July 2017 and 20 July 2017 published by the Company.

3.2.4.5 Material litigation and arbitration during the reporting period

There was no material litigation or arbitration of the Group occurring during the reporting period. Progress during the reporting period of immaterial litigation and arbitration proceedings occurring prior to the reporting period is set out as follows:

On 20 May 2013, ZTE DO BRAZIL LTDA (“ZTE Brazil”), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB203 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil’s entitlement to the ICMS output tax was provable by existing invoices and customers’ statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527. A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. On 20 July 2017, the level 2 administrative court under the tax bureau of Sao Paulo State ruled to revoke the administrative penalty imposed by the tax bureau

of Sao Paulo State. On 28 August 2017, the tax bureau of Sao Paulo State submitted a waiver of appeal rights in writing to the level 2 administrative court under the tax bureau of Sao Paulo State. As such, the litigation procedures of the case were fully closed.

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

Note: The exchange rates are based on the book exchange rates of the Company as at 30 September 2017 where BRL amounts are translated at the exchange rate of BRL1: RMB2.1042.

3.2.4.6 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 Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of same classification transactions in the cap has been exceeded (%)	Whether approved	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries and investee companies	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 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-RMB300,000 per unit depending on level of sophistication; 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.	28,372.16	0.70%	No	Commercial acceptance bill	N/A	2015-9-23 2017-1-20	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201703 "Announcement on Execution of Supplemental Agreement for the 2016 -2018 Purchase Framework Agreement with Zhongxingxin, a Connected Party"
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna")*	A company at which a former supervisor of Zhongxingxin, the controlling shareholder of the Company, 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	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.	31,879.14 ^{90%}	0.79%	No	Commercial acceptance bill	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"	
Huatong Technology Company Limited ("Huatong")**	Subsidiary of a company for which a natural person related to the Company had previously acted as director	Purchase of software outsourcing services	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.	2,924.99 ^{90%}	0.07%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "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 a natural person related to the Company had previously acted as director	Purchase of software outsourcing services	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.	1,790.79 ^{90%}	0.04%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "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	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party	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.	2,485.58	0.06%	No	Tele-transfer	N/A	2016-4-29	Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Zhongxing Development Company Limited ("Zhongxing Development")**	A company for which a natural person related to the Company had previously acted as director	Property leasing	(1) From 18 April 2015 to 17 April 2017: Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m.; Lease of parking spaces: 25 ground-level parking spaces and 127 underground parking spaces by the Company from the connected party (2) From 18 April 2017 to 17 December 2017: Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 30,000 sq.m.; lease of parking spaces: 25 ground-level parking spaces and 126 underground parking spaces by the Company from the connected party	(1) From 18 April 2015 to 17 April 2017: Monthly rent of RMB145/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by the Company and no management fees are payable.) (2) From 18 April 2017 to 17 December 2017: Monthly rent of RMB155/sq.m.; monthly rent of ground-level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by the Company and no management fees are payable.)	2,534.34 ^{90%}	4.21%	No	Tele-transfer	N/A	2015-3-26 2017-3-24	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201721 "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 same classification transactions in the approved cap has been exceeded (%)	Whether cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development")**	Subsidiary of a company for which a natural person related to the Company had previously acted as director	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. and 97 parking spaces by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, from the connected party		Monthly rent of RMB50/sq.m. for the office (for a maximum leased area of 18,532.08 sq.m.) and RMB45/sq.m. for the cafeteria (for a maximum leased area of 1,467.92 sq.m.) respectively; monthly management fee of RMB3/sq.m. based on actual area leased; monthly rent of parking space: RMB150 each.	490.07 ^{Note 2}	0.81%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.	5,778.15	23.67%	No	Tele-transfer	N/A	2016-4-29	Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Financial services	Provision of deposit services to the connected party by ZTE Group Finance Co., Ltd. ("ZTE Group Finance")		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.	4,274.54 ^{Note 3}	0.38%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna *	A company at which a former supervisor of Zhongxingxin, the controlling shareholder of the Company, acted as director	Financial services	The provision of bill discounting services by ZTE Group Finance to the connected party		Bill discounting services were conducted during the ordinary course of business of the two parties based on normal commercial terms. The interest rate for discounting was determined on the basis of the rediscount rate announced by the PBOC taking into account prevailing market levels and in compliance with relevant guidelines and requirements of the PBOC.	— ^{Note 4}	—	No	Tele-transfer	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
深圳市航天威華科技發展有限公司 ("航天威華")	A company for which a natural person related to 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 factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	9,338.50	0.12%	No	Tele-transfer or bank acceptance	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software **	A company of which more than half of the board members can be controlled by another company for which a natural person related to the Company had previously acted as director	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system and government/corporate IT systems		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.	— ^{Note 2}	—	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total						89,868.26	N/A	—	—	—	—	—
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)	<p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2017 be capped at RMB900 million (before VAT); pursuant to the Supplemental Agreement for the Zhongxingxin Purchase Framework Agreement between the Company and Zhongxingxin considered and approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the scope of the Zhongxingxin Purchase Framework Agreement was extended to cover Zhongxingxin, its subsidiaries and investee companies (companies in which Zhongxingxin directly or indirectly held equity interests of 30% or above);</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated purchases of raw materials from Mobi Antenna, a connected party, by the Group in 2017 be revised to RMB1,900 million (before VAT);</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, by the Company in 2017 be capped at RMB75 million and RMB79 million, respectively (before VAT);</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2017 be capped at RMB31 million (before VAT);</p> <p>At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, 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 RMB54 million for a term commencing on 18 April 2015 and ending on 17 April 2017; at the Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 23 March 2017, 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 RMB40 million for a term commencing on 18 April 2017 and ending on 17 December 2017;</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the annual rent payable by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB13 million for a term commencing on 1 January 2015 and ending on 31 December 2017;</p> <p>At the Third Meeting of the Seventh Session of the Board of Directors of the Company held on 28 April 2016, 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 2016 and ending on 30 June 2017; 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 RMB85 million for the period commencing on 1 July 2016 and ending on 30 June 2017; the Company estimated the procurement of hotel services from Zhongxing Hetai, a connected party, and its subsidiaries will be capped at RMB90 million for the period commencing on 1 July 2017 and ending on 30 June 2018; and Zhongxing Hetai and its subsidiaries estimated that the lease of properties and related equipment and facilities from the Company will be capped at RMB85 million for the period commencing on 1 July 2017 and ending on 30 June 2018;</p> <p>At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, 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 2017 shall be capped at RMB100 million;</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated daily balance of outstanding discounted bills (principal cum interest) of the bill discounting service provided by ZTE Group Finance to Mobi Antenna in 2017 shall be capped at RMB450 million;</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated sales of digital communications products and communications products to 航天威華 by the Company in 2017 be capped at RMB1,100 million (before VAT); and</p> <p>Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.</p>											
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A											

- * As the natural person related to the Company had ceased to be supervisor of Zhongxingxin, controlling shareholder of the Company, as from 23 June 2016, Mobi Antenna has ceased to be a connected party of the Company as from 23 June 2017.
- ** As the natural person related to the Company had ceased to be director of Zhongxing Development as from 19 July 2016, Zhongxing Development has ceased to be a connected person of the Company as from 19 July 2017, and Chongqing Zhongxing Development and Huatong, being subsidiaries of Zhongxing Development, as well as Nanchang Software, of which more than half of the board members can be controlled Zhongxing Development, have ceased to be connected parties of the Company as from 19 July 2017.
- *** In accordance with Rule 10.1.6 of the Shenzhen Listing Rules, corporations or natural persons falling within the scope of the following are deemed as connected persons of a listed company:

(II) Meeting any of the conditions set out in Rule 10.1.3 or Rule 10.1.5 within the past 12 months.

Note 1: The amount represented connected transactions between the connected party and the Company for the period from 1 January 2017 to 22 June 2017.

Note 2: The amount represented connected transactions between the connected party and the Company for the period from 1 January 2017 to 18 July 2017.

Note 3: The amount represented the estimated maximum daily deposit balance (principal cum interest) for the 9 months ended 30 September 2017.

Note 4: The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the period from 1 January 2017 to 22 June 2017.

Note 5: ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2017, 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.

Note 6: 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 by the de facto controller of the Company, shareholders, connected parties, acquirer and parties of the Company of which fulfillment was overdue and outstanding during the reporting period

1. Undertaking given upon the initial public offering or any refinancing exercise

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 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, 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.

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 by it 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.

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

√ Applicable □ N/A

Preliminary announcement of results	Turnaround from loss to profit		
	From the beginning of the year to the end of the next reporting period (January to December 2017)	Same period of last year (January to December 2016)	Increase/decrease (%)
Estimated cumulative net profit (RMB100 million)	Profit: 43-48	Loss: 23.57	Increased by 282.44%-303.65%
Basic earnings per share (RMB/share)	Profit: 1.03-1.15	Loss: 0.57	Increased by 280.70%-301.75%
Notes on preliminary announcement of results	<ol style="list-style-type: none"> The operating revenue and the gross profit of the Group is expected to be increased as benefited from the year-on-year growth in the revenues from carriers' network and consumers business; The loss was recorded resulting from the one time impact caused by paying the fines of USD 892 million to the relevant U.S. government authorities for the year of 2016. No substantial non-operating expenses for the Group is expected to be recorded for this year. 		

Note: The preliminary announcement of results set out above has not been pre-audited by a certified public accountant. Net profit refers to net profit attributable to holders of ordinary shares of the listed company.

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities

1. Investment in securities 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	300438	Great Power ^{Note 1}	1,547.62	Fair-value measurement	14,175.00	—	4,828.83	—	8,939.58	7,593.56	5,410.70	Available-for-sale financial assets	Issue proceeds
Stock	300502	Eoptolink ^{Note 1}	1,385.12	Fair-value measurement	30,761.78	—	22,154.76	—	3,222.55	3,068.91	23,362.71	Available-for-sale financial assets	Issue proceeds
Stock	603986	Giga Device ^{Note 1}	1,800.00	Fair-value measurement	56,511.70	—	77,216.13	—	3,767.75	3,657.61	78,933.65	Available-for-sale financial assets	Issue proceeds
Stock	603633	Laimu ^{Note 1}	2,000.00	Fair-value measurement	13,670.00	—	6,640.00	—	—	41.67	8,640.00	Available-for-sale financial assets	Issue proceeds
Stock	603920	Olympic Circuit Technology ^{Note 1}	2,562.00	Fair-value measurement	2,562.00	—	24,177.46	—	—	—	26,739.46	Available-for-sale financial assets	Issue proceeds
Stock	002902	Mentech ^{Note 1}	1,655.50	Fair-value measurement	1,655.50	—	8,814.58	—	—	51.45	10,470.08	Available-for-sale financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic ^{Note 2}	3,266.00	Fair-value measurement	13,196.56	—	11,018.79	—	—	25.15	14,284.79	Available-for-sale financial assets	Issue proceeds
Stock	300691	Union Optech ^{Note 2}	3,498.71	Fair-value measurement	3,498.71	—	17,112.22	—	—	—	20,610.93	Available-for-sale financial assets	Issue proceeds
Stock	ENA:TSV	Enablence Technologies ^{Note 3}	3,583.26	Fair-value measurement	3,193.45	—	(305.94)	—	—	—	3,277.32	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
Total			21,298.21	—	139,224.70	—	171,656.83	—	15,929.88	14,438.35	191,729.64	—	—

Note 1: Figures corresponding to Guangzhou Great Power Energy & Technology Co., Ltd. (“Great Power”), Eoptolink Technology Inc., Ltd. (“Eoptolink”), Giga Device Semiconductor (Beijing) Inc. (“Giga Device”), Shanghai Laimu Electronics Co., Ltd. (“Laimu”), Olympic Circuit Technology Co., Ltd. (“Olympic Circuit Technology”) and Dongguan Mentech Optical & Magnetic Co., Ltd. (“Mentech”) are provided with Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership) (“Zhonghe Chunsheng Fund”) as the accounting subject.

Note 2: Figures corresponding to Lianchuang Electronic Technology Co., Ltd. (“Lianchuang Electronic”) and Union Optech Co., Ltd (“Union Optech”) are provided with Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) (“Jiaxing Fund”) as the accounting subject.

Note 3: The initial investment for the acquisition of Enablence Technologies Inc. (“Enablence Technologies”) shares by ZTE H.K. Limited (“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 HKD38,333,900, equivalent to approximately RMB32,773,200 based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.85494) on 30 September 2017.

2. *Details of investment in securities during the reporting period*

A. Shareholdings in Great Power

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, which was a partnership reported in the consolidated financial statements of the Company. During the third quarter of 2017, Zhonghe Chunsheng Fund transferred 2,808,100 shares it held in Great Power, a company listed on the GEM Board of the Shenzhen Stock Exchange. As at the end of the reporting period, Zhonghe Chunsheng Fund held 1,691,900 shares in Great Power, accounting for 0.60% of the total share capital of Great Power.

B. Shareholdings in Eoptolink

During the third quarter of 2017, Zhonghe Chunsheng Fund transferred 1,002,200 shares it held in Eoptolink, a company listed on the GEM Board of the Shenzhen Stock Exchange. As at the end of the reporting period, Zhonghe Chunsheng Fund held 6,833,200 shares (following the implementation of the 2016 equity distribution plan) in Eoptolink, accounting for 2.94% of the total share capital of Eoptolink.

C. Shareholdings in Giga Device

During the third quarter of 2017, Zhonghe Chunsheng Fund transferred 291,000 shares it held in Giga Device, a company listed on the Shanghai Stock Exchange. As at the end of the reporting period, Zhonghe Chunsheng Fund held 6,059,700 shares (following the implementation of the 2016 equity distribution plan) in Giga Device, accounting for 2.99% of the total share capital of Giga Device.

D. Shareholdings in Laimu

As at the end of the reporting period, Zhonghe Chunsheng Fund held 3,333,300 shares in Laimu, a company listed on the Shanghai Stock Exchange, accounting for 2.77% of the total share capital of Laimu.

E. Shareholdings in Olympic Circuit Technology

As at the end of the reporting period, Zhonghe Chunsheng Fund held 12,390,900 shares in Olympic Circuit Technology, a company listed on the Shanghai Stock Exchange, accounting for 3.08% of the total share capital of Olympic Circuit Technology.

F. Shareholdings in Mentech

As at the end of the reporting period, Zhonghe Chunsheng Fund held 5,145,000 shares in Mentech, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 3.68% of the total share capital of Mentech.

G. Shareholdings in Lianchuang Electronic

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Jiaxing Fund held 6,887,600 shares in Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.23% of the total share capital of Lianchuang Electronic.

H. Shareholdings in Union Optech

As at the end of the reporting period, Jiaxing Fund held 2,763,600 shares in Union Optech, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.23% of the total share capital of Union Optech.

I. 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 15.28% of its total share capital.

J. 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 Records of Reception of Investors, Communications and Press Interviews during the Reporting Period

During the reporting period, the Company hosted 9 receptions of investors for research purposes, receiving 54 institutional investors but no individual investor or other researchers. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
External meetings	July 2017	Shenzhen	Guosen Securities investors' conference	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	July 2017	Suzhou	Zhongtai Securities investors' conference	Customers of Zhongtai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	July 2017	Shenzhen	Everbright Securities investors' conference	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	August 2017	Shenzhen	Huatai Securities investors' conference	Customers of Huatai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shanghai	Guosen Securities investors' conference	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shanghai	Nomura Securities investors' conference	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shenzhen	Lianxun Securities investors' conference	Customers of Lianxun Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Nanjing	Everbright Securities investors' conference	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Hong Kong	CLSA investors' conference	Customers of CLSA	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shenzhen	China Merchants Securities (HK) investors' conference	Customers of China Merchants Securities (HK)	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shanghai	China Securities investors' conference	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shenzhen	Tianfeng Securities investors' conference	Customers of Tianfeng Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shenzhen	Haitong Securities investors' conference	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
Company visits for research purposes	July to September 2017	Company	Verbal	Investors Capital Group, Dongxing Securities, Tokio Marine Asset Management, Shenzhen Fang Wu Innovation Capital Management Co., Ltd., Credit Suisse, Morgan Stanley, Khazanah Nasional, Allianz Global Investors, Lion Global Investors, APG Asset Management Asia, C Worldwide Asset Management, Samsung Asset Management (HK) Limited, TT International, Fullerton Fund Management, Beijing Gao Hua Securities, Goldman Sachs (Asia), Peak Investment Partners, FengHe Asia, Brilliance Capital Management, Yong Rong Assets, Yinhua Fund, Zeal Asset Management, Davidson Kempner, CCB International, UOB Asset Management, EverPoint Asset Management, CloudAlpha Capital Management, RWC, Beijing Starock Investment Management Co., Ltd., Shenzhen Qianhai Wongtee Capital Management Co., Ltd., CICC, Myriad Asset Management, Marshall Wace Asia Limited, Harvest Global Investments, Value Partners, Tairen Capital, China Life Asset Management, Millennium Capital, BosValen Asset Management, Fullgoal Asset Management, Trilogy Partners, Parantoux Capital, Balyasny Asset Management, China Alpha Fund Management, Blue Ocean Asset Management, GF International Investment Management, China Orient International Asset Management, China Southern Asset Management, Bank of America Merrill Lynch, CPP Investment Board, GLG Partners, Prime Capital Management.	Day-to-day operations of the Company	Published announcements and regular reports

Note: For details of the Company's receptions of investors for research purposes, please refer to the "Record of Investor Relations Activities" published by the Company on CNINFO.

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 ^{Note 1}	Initial investment amount in the derivative investment		Opening balance of investment amount	Amount purchased during the period	Amount disposed during the period	Impairment provision amount (if any)	Closing balance of investment amount as a percentage of net assets ^{Note 2} of the Company at the end of the period (%)		Actual profit or loss for the reporting period	
				Start date	End date					Closing balance of investment amount	Actual profit or loss for the reporting period		
Financial institution	N/A	No	Forward exchange contract	—	2017/4/20	2018/6/4	100,380.62	239,655.27	224,871.55	—	115,164.34	3.73%	(3,524.70)
Financial institution	N/A	No	Forward exchange contract	—	2017/4/25	2018/3/20	117,924.26	221,254.30	225,105.27	—	114,073.28	3.70%	(3,491.31)
Financial institution	N/A	No	Forward exchange contract	—	2017/4/13	2018/5/18	16,947.03	95,921.37	47,683.32	—	65,185.09	2.11%	(1,995.04)
Other financial institution	N/A	No	Forward exchange contract	—	2017/3/10	2018/12/19	165,687.10	636,279.27	522,838.55	—	279,127.82	9.04%	(8,542.93)
Total				—	—	—	400,939.01	1,193,110.21	1,020,498.69		573,550.53	18.58%	(17,553.98)
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 Second Meeting of the Seventh Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2016,” both dated 6 April 2016 and “Announcement Resolutions of the Fifteenth Meeting of the Seventh Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2017,” both dated 23 March 2017.									
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)				“Announcement on Resolutions of the 2015 Annual General Meeting” dated 2 June 2016 and “Announcement on Resolutions of the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017 dated 20 June 2017.									
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 three quarters of 2017. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> 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; 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; 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; 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; 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. 									
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 losses recognised for the reporting period amounted to RMB175.54 million, comprising losses from fair-value change of RMB54.05 million and recognised investment losses of RMB121.49 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 through 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.</p>									

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

Note 2: 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;

Note 3: 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.

3.7 Development and implementation of internal control in the third quarter of 2017

Details of the development and implementation of internal control at the Company during the third quarter of 2017 are as follows:

1. The Company carried on its work in the rotation of key positions, risk control in relation to outsourcing contracts of overseas projects, sunshine supply chain, risk control for the government and corporate service segment, credit management and self-assessment of internal control;
2. The Company enhanced the internal control management at its subsidiaries and optimised relevant regulatory mechanisms;
3. The Company continued to drive the building of a culture of risk management and internal control among staff at all levels and conducted relevant effectiveness tracking;
4. The Internal Control and Audit Department conducted a review of internal control and audit for the first half of 2017 and reported the results to the Audit Committee and Board of Directors of the Company.

3.8 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	2017.9.30		2016.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	26,182,073	11,175,514	32,349,914	15,894,744
Derivative financial assets	26,707	3,476	54,857	15,457
Bills receivable	3,707,552	3,467,231	1,984,493	1,200,607
Trade receivables	25,305,952	28,250,401	25,998,188	40,132,425
Factored trade receivables	5,087,575	3,493,248	2,261,280	498,052
Prepayments	1,717,816	767,829	1,739,691	50,697
Dividend receivable	—	468,419	—	3,700,188
Other receivables	3,696,528	23,212,209	4,430,072	13,157,923
Inventories	27,773,575	17,587,174	26,810,568	17,993,566
Amount due from customers for contract works	8,694,838	4,823,870	9,345,123	4,904,060
Other current assets	8,446,679	4,813,860	7,877,874	5,177,219
Total current assets	110,639,295	98,063,231	112,852,060	102,724,938
Non-current assets:				
Available-for-sale financial assets	3,383,229	461,091	2,659,667	458,091
Long-term trade receivables	1,467,082	5,961,241	1,376,563	6,154,837
Factored long-term trade receivables	1,511,692	895,299	1,391,746	1,249,292
Long-term equity investments	4,030,833	11,471,982	665,876	10,707,480
Investment properties	2,019,957	1,611,698	2,016,470	1,608,900
Fixed assets	8,484,191	4,516,865	7,516,241	4,508,652
Construction in progress	1,539,887	965,446	1,729,450	698,944
Intangible assets	4,870,455	1,350,603	4,354,096	1,153,375
Deferred development costs	1,700,475	258,177	1,365,890	191,977
Goodwill	462,830	—	186,206	—
Deferred tax assets	1,428,382	635,726	1,604,575	788,372
Long-term deferred assets	34,971	34,991	34,953	34,991
Other non-current assets	4,455,125	4,149,630	3,887,117	3,581,621
Total non-current assets	35,389,109	32,312,749	28,788,850	31,136,532
Total assets	146,028,404	130,375,980	141,640,910	133,861,470

Legal Representative:
Yin Yimin

Chief Financial Officer:
Shao Weilin

Head of Finance Division:
Xu Jianrui

RMB in thousands

Liabilities and shareholders' equity	2017.9.30		2016.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	17,908,009	12,456,324	15,132,120	9,733,700
Derivative financial liabilities	67,887	22,450	40,148	3,878
Bank advances on factored trade receivables	5,101,233	3,495,353	2,263,015	499,386
Bills payable	8,410,620	11,564,084	11,689,957	14,382,695
Trade payables	25,119,788	39,745,521	25,243,881	40,201,805
Amount due to customers for contract works	7,461,258	4,651,014	5,876,790	3,540,132
Advances from customers	7,828,889	4,797,322	8,092,164	5,498,427
Salary and welfare payables	6,152,874	3,420,277	5,169,051	2,274,908
Taxes payable	1,254,202	235,461	997,189	191,128
Dividends payable	1,924	225	50,317	225
Other payables	9,346,894	21,983,729	13,660,418	30,533,249
Deferred income	1,381,370	802,380	712,657	344,610
Provisions	593,167	254,952	887,366	554,485
Non-current liabilities due within one year	3,946,997	76,000	1,932,025	1,906,025
Total current liabilities	94,575,112	103,505,092	91,747,098	109,664,653
Non-current liabilities:				
Long-term loans	2,029,919	494,000	5,018,276	480,000
Bank advances on factored long-term trade receivables	1,511,692	895,299	1,391,746	1,249,292
Provision for retirement benefits	144,641	144,641	146,106	146,106
Deferred tax liabilities	145,981	—	98,380	—
Deferred income	885,687	18,586	790,223	36,674
Other non-current liabilities	1,728,760	1,066,749	1,563,991	1,055,711
Total non-current liabilities	6,446,680	2,619,275	9,008,722	2,967,783
Total liabilities	101,021,792	106,124,367	100,755,820	112,632,436
Shareholders' equity:				
Share capital	4,192,672	4,192,672	4,184,628	4,184,628
Capital reserves	10,952,893	8,942,538	10,734,300	8,723,945
Other comprehensive income	(489,374)	685,002	(822,724)	691,947
Surplus reserve	2,022,709	1,360,953	2,022,709	1,360,953
Retained profits	14,186,890	(191,874)	10,282,238	(3,053,766)
Total equity attributable to holders of ordinary shares of the parent	30,865,790	14,989,291	26,401,151	11,907,707
Other equity instruments — perpetual capital instruments	9,262,322	9,262,322	9,321,327	9,321,327
Non-controlling interests	4,878,500	—	5,162,612	—
Total shareholders' equity	45,006,612	24,251,613	40,885,090	21,229,034
Total liabilities and shareholders' equity	146,028,404	130,375,980	141,640,910	133,861,470

INCOME STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2017		Nine months ended 30 September 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	76,579,739	70,696,979	71,564,004	66,984,085
Less: Operating costs	52,352,996	59,943,443	48,937,259	56,394,369
Taxes and surcharges	687,974	246,082	507,398	46,400
Selling and distribution costs	8,734,330	5,219,422	8,858,192	5,211,210
Administrative expenses	2,192,603	1,329,212	1,923,457	1,196,512
Research and development costs	9,197,376	2,545,308	9,888,282	2,897,928
Finance expenses	594,389	807,982	140,760	117,872
Impairment losses	1,644,208	1,177,201	1,279,652	984,037
Add: Gains/(Losses) from changes in fair values	(50,561)	(25,592)	(14,083)	5,279
Investment income	2,314,659	3,946,738	937,437	279,413
Including: Share of profits of associates and joint ventures	(20,364)	(11,518)	(18,565)	(21,203)
Other income	1,846,714	50,000	—	—
2. Operating profit	<u>5,286,675</u>	<u>3,399,475</u>	<u>952,358</u>	<u>420,449</u>
Add: Non-operating income	97,922	62,777	3,324,369	702,536
Less: Non-operating expenses	94,053	84,695	90,525	17,983
Including: Gains/(Losses) on disposal of non-current assets	64,924	56,182	7,830	4,778
3. Total profit	<u>5,290,544</u>	<u>3,377,557</u>	<u>4,186,202</u>	<u>1,105,002</u>
Less: Income tax	<u>996,485</u>	<u>140,720</u>	<u>764,931</u>	<u>169,004</u>
4. Net profit	<u>4,294,059</u>	<u>3,236,837</u>	<u>3,421,271</u>	<u>935,998</u>
Attributable to holders of ordinary shares of the parent	3,904,652	2,861,892	2,858,887	561,053
Attributable to holders of perpetual capital instruments	374,945	374,945	374,945	374,945
Non-controlling interests	14,462	—	187,439	—
5. Other comprehensive income, net of tax	686,922	(6,945)	155,752	(940)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	333,350	(6,945)	22,382	(940)

RMB in thousands

Item	Nine months ended 30 September 2017		Nine months ended 30 September 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods				
Changes in the fair value of available-for-sale financial assets	190,107	—	97,345	—
Effective portion of hedging instruments	(3,951)	—	(65,991)	—
Exchange differences on translation of foreign operations	147,194	(6,945)	(8,972)	(940)
	<u>333,350</u>	<u>(6,945)</u>	<u>22,382</u>	<u>(940)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>353,572</u>	—	<u>133,370</u>	—
6. Total comprehensive income	<u><u>4,980,981</u></u>	<u><u>3,229,892</u></u>	<u><u>3,577,023</u></u>	<u><u>935,058</u></u>
Attributable to holders of ordinary shares of the parent	4,238,002	2,854,947	2,881,269	560,113
Attributable to holders of perpetual capital instruments	374,945	374,945	374,945	374,945
Attributable to non-controlling interests	368,034	—	320,809	—
7. Earnings per share				
(1) Basic earnings per share	RMB0.93		RMB0.69	
(2) Diluted earnings per share	RMB0.92		RMB0.68	

INCOME STATEMENT

RMB in thousands

Item	Three months ended 30 September 2017		Three months ended 30 September 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	22,569,143	19,620,491	23,806,702	21,379,768
Less: Operating costs	15,905,255	17,804,800	17,112,872	18,557,749
Taxes and surcharges	154,674	20,150	136,200	5,394
Selling and distribution costs	3,057,778	1,951,417	2,879,585	1,545,059
Administrative expenses	764,854	470,816	529,472	305,167
Research and development costs	2,520,697	881,907	2,829,118	665,337
Finance expenses	305,232	276,086	235,818	202,606
Impairment losses	618,452	466,739	228,434	115,898
Add: Gains/(Losses) from changes in fair values	7,494	18,026	22,267	10,293
Investment income	2,262,663	3,935,903	579,472	122,360
Including: Share of profits of associates and joint ventures	(16,857)	(6,355)	952	—
Other income	477,696	—	—	—
2. Operating profit	1,990,054	1,702,505	456,942	115,211
Add: Non-operating income	28,519	(277)	1,060,639	266,881
Less: Non-operating expenses	15,429	50,937	39,160	13,084
Including: Gains/(Losses) on disposal of non-current assets	38,568	36,127	3,171	2,765
3. Total profit	2,003,144	1,651,291	1,478,421	369,008
Less: Income tax	252,301	(113,631)	245,504	34,764
4. Net profit	1,750,843	1,764,922	1,232,917	334,244
Attributable to holders of ordinary shares of the parent	1,611,785	1,639,940	1,092,490	209,262
Attributable to holders of perpetual capital instruments	124,982	124,982	124,982	124,982
Non-controlling interests	14,076	—	15,445	—
5. Other comprehensive income, net of tax	465,808	(6,728)	829,498	(334)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	96,483	(6,728)	550,735	(334)

RMB in thousands

Item	Three months ended 30 September 2017		Three months ended 30 September 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods				
Changes in the fair value of available-for-sale financial assets	197,888	—	152,819	—
Effective portion of hedging instruments	6,704	—	(6,484)	—
Exchange differences on translation of foreign operations	(108,109)	(6,728)	404,400	(334)
	<u>96,483</u>	<u>(6,728)</u>	<u>550,735</u>	<u>(334)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>369,325</u>	<u>—</u>	<u>278,763</u>	<u>—</u>
6. Total comprehensive income	<u><u>2,216,651</u></u>	<u><u>1,758,194</u></u>	<u><u>2,062,415</u></u>	<u><u>333,910</u></u>
Attributable to holders of ordinary shares of the parent	1,708,268	1,633,212	1,643,225	208,928
Attributable to holders of perpetual capital instruments	124,982	124,982	124,982	124,982
Attributable to non-controlling interests	383,401	—	294,208	—
7. Earnings per share				
(1) Basic earnings per share	RMB0.38		RMB0.26	
(2) Diluted earnings per share	RMB0.37		RMB0.26	

CASH FLOW STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2017		Nine months ended 30 September 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	81,909,396	76,613,296	86,671,142	70,350,840
Refunds of taxes	5,512,529	3,711,100	5,943,793	3,911,875
Cash received relating to other operating activities	2,122,333	1,385,981	2,141,097	1,726,718
Sub-total of cash inflows	89,544,258	81,710,377	94,756,032	75,989,433
Cash paid for goods and services	60,606,470	75,801,458	68,515,148	66,534,466
Cash paid to and on behalf of employees	15,556,378	5,634,014	13,420,290	4,687,480
Cash paid for all types of taxes	5,177,862	339,729	6,281,686	984,820
Cash paid relating to other operating activities	11,374,031	9,961,659	5,319,606	4,176,707
Sub-total of cash outflows	92,714,741	91,736,860	93,536,730	76,383,473
Net cash flows from operating activities	(3,170,483)	(10,026,483)	1,219,302	(394,040)
2. Cash flows from investing activities				
Cash received from sale of investments	1,127,820	41,103	950,822	241,385
Cash received from return on investment	358,886	6,495,771	645,925	82,182
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	126,639	257,503	86,380	8,689
Net cash received from the disposal of subsidiaries and other operating units	—	978,025	—	70,850
Sub-total of cash inflows	1,613,345	7,772,402	1,683,127	403,106
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	4,212,182	2,717,920	2,475,670	886,011
Cash paid for acquisition of investments	1,140,513	1,098,934	1,797,360	1,945,850
Cash paid relating to other investing activities	647,838	—	—	—
Sub-total of cash outflows	6,000,533	3,816,854	4,273,030	2,831,861
Net cash flows from investing activities	(4,387,188)	3,955,548	(2,589,903)	(2,428,755)

RMB in thousands

Item	Nine months ended 30 September 2017		Nine months ended 30 September 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from investments	102,440	88,240	1,899,815	98,904
Including: Capital injection into subsidiaries by minority shareholders	14,200	—	1,800,911	—
Cash received from borrowings	24,991,302	13,367,576	18,829,492	11,200,130
Sub-total of cash inflows	25,093,742	13,455,816	20,729,307	11,299,034
Cash repayment of borrowings	21,372,091	10,960,460	18,913,403	12,326,841
Cash payments for distribution of dividends or for interest expenses	1,417,071	982,881	2,376,776	2,174,289
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	57,596	—	25,613	—
Sub-total of cash outflows	22,789,162	11,943,341	21,290,179	14,501,130
Net cash flows from financing activities	2,304,580	1,512,475	(560,872)	(3,202,096)
4. Effect of changes in foreign exchange rate on cash and cash equivalents	(276,602)	(134,153)	(220,873)	148,386
5. Net increase in cash and cash equivalents	(5,529,693)	(4,692,613)	(2,152,346)	(5,876,505)
Add: cash and cash equivalents at the beginning of the period	30,049,791	15,752,732	26,616,996	17,325,750
6. Net balance of cash and cash equivalents at the end of the period	24,520,098	11,060,119	24,464,650	11,449,245

By Order of the Board
Yin Yimin
Chairman

Shenzhen, the PRC
26 October 2017

As at the date of this announcement, the Board of Directors of the Company comprises two executive directors, Yin Yimin and Zhao Xianming; seven non-executive directors, Zhang Jianheng, Luan Jubao, Wang Yawen, Tian Dongfang, Zhan Yichao, Wei Zaisheng and Zhai Weidong; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.