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ZTE CORPORATION

中興通訊股份有限公司

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

(Stock Code: 763)

2019 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 was considered and approved at the Tenth Meeting of the Eighth Session of the Board of Directors of the Company.

- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).
- 1.5 Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial statements contained in this quarterly report.
- 1.6 China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company’s information disclosure. Investors are advised to be aware of the investment risks involved.

§ 2 CORPORATE INFORMATION

2.1 Major accounting data and financial indicators

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

Item	As at the end of the reporting period (30 September 2019)	As at the end of last year (31 December 2018)	Change as at the end of the reporting period compared with the end of last year
Total assets (RMB in thousands)	147,159,353	129,350,749	13.77%
Owners’ equity attributable to holders of ordinary shares of the listed company (RMB in thousands)	27,766,072	22,897,576	21.26%
Total share capital (thousand shares) ^{Note 1}	4,225,959	4,192,672	0.79%
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	6.57	5.46	20.33%

Item	Three months ended 30 September 2019	Change compared with the same period last year	Nine months ended 30 September 2019	Change compared with the same period last year
Operating revenue (RMB in thousands)	19,631,479	1.55%	64,240,698	9.32%
Net profit attributable to holders of ordinary shares of the listed company (RMB in thousands)	2,657,151	370.74%	4,127,850	156.86%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company (RMB in thousands)	98,032	(18.61%)	710,170	131.44%
Net cash flows from operating activities (RMB in thousands)	1,638,608	131.65%	2,905,228	128.42%
Net cash flows from operating activities per share (RMB/share)	0.39	131.71%	0.69	128.28%
Basic earnings per share (RMB/share) ^{Note 2}	0.63	350.00%	0.98	156.65%
Diluted earnings per share (RMB/share) ^{Note 3}	0.63	350.00%	0.98	156.65%
Weighted average return on net assets (%)	10.10%	Increased by 7.61 percentage points	16.30%	Increased by 43.52 percentage points
Weighted average return on net assets after extraordinary items (%)	0.22%	Decreased by 0.34 percentage point	2.80%	Increased by 11.27 percentage points

Note 1: The total share capital of the Company had increased from 4,192,671,843 shares to 4,225,958,707 shares following the exercise of 33,286,864 A share options by participants under the 2017 Share Option Incentive Scheme during the reporting period;

Note 2: Basic earnings per share for the nine months ended 30 September 2019, three months ended 30 September 2019, nine months ended 30 September 2018 and three months ended 30 September 2018 have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

Note 3: As the 2017 share options granted by the Company have given rise to 19,140,000 and 0 potentially dilutive ordinary shares for the nine months ended 30 September 2019 and nine months ended 30 September 2018, respectively, dilutive earnings per share for the nine months and three months ended 30 September 2019 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 2019	Nine months ended 30 September 2019
Non-operating income, other income and others	659,241	1,750,400
Gains/(Losses) from fair value change	(363,558)	(392,130)
Investment income	58,525	198,679
Add: Gains on disposal of non-current assets	2,679,902	2,662,927
Less: Other non-operating expenses	22,930	185,995
Less: Effect of income tax	451,677	605,082
Less: Effect of non-controlling interests (after tax)	384	11,119
Total	<u>2,559,119</u>	<u>3,417,680</u>

2.1.2 The amounts of net profit and shareholders' equity of the Group for the nine months ended 30 September 2019 and as at 30 September 2019 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.

2.2 Total number of shareholders and shareholdings of top 10 shareholders and top 10 holders of shares 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 2019 There were 356,796 shareholders in total (comprising 356,477 holders of A shares and 319 holders of H shares).

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

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. Zhongxingxin Telecom Company Limited (“Zhongxingxin”)	Domestic general corporation	27.19%	1,148,849,600	—	98,667,983
2. HKSCC Nominees Limited ^{Note 1}	Foreign shareholder	17.85%	754,365,584	—	Unknown
3. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.24%	52,519,600	—	Nil
4. Hong Kong Securities Clearing Company Limited ^{Note 2}	Overseas corporation	0.99%	41,713,722	—	Nil
5. Hunan Nantian (Group) Co., Ltd	State-owned corporation	0.98%	41,516,065	—	Nil
6. China Life Insurance Company Limited — Dividend — Personal Dividend — 005L-FH002 Shen	Other	0.72%	30,473,232	—	Nil
7. Shanghai Gaoyi Asset Management Partnership (Limited Partnership) — Gaoyi Linshan No. 1 Yuanwang Fund	Other	0.71%	30,000,000	—	Nil
8. NSSF Portfolio #108	Other	0.70%	29,600,056	—	Nil
9. NSSF Portfolio #112	Other	0.57%	24,288,515	—	Nil
10. NSSF Portfolio #101	Other	0.54%	22,630,054	—	Nil

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,146,811,600	A share
	2,038,000	H share
2. HKSCC Nominees Limited	754,365,584	H share
3. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
4. Hong Kong Securities Clearing Company Limited	41,713,722	A share
5. Hunan Nantian (Group) Co., Ltd	41,516,065	A share
6. China Life Insurance Company Limited — Dividend — Personal Dividend — 005L-FH002 Shen	30,473,232	A share
7. Shanghai Gaoyi Asset Management Partnership (Limited Partnership) — Gaoyi Linshan No. 1 Yuanwang Fund	30,000,000	A share
8. NSSF Portfolio #108	29,600,056	A share
9. NSSF Portfolio #112	24,288,515	A share
10. NSSF Portfolio #101	22,630,054	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<ol style="list-style-type: none"> Zhongxingxin was neither a connected party nor a concerted party of any of the top 10 shareholders and top 10 holders of shares that were not subject to lock-up set out in the table above. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top 10 shareholders and the top 10 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	

Note 1: Shares held by HKSCC Nominees Limited represented the sum of shares held in the accounts of the H shareholders of the Company traded on the trading platform of HKSCC Nominees Limited.

Note 2: Shares held by Hong Kong Securities Clearing Company Limited represented the sum of A shares in the Company purchased through Shenzhen Hong Kong Stock Connect (Northbound).

Whether top 10 shareholders and top 10 holders of shares 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 2019	31 December 2018	Change	Analysis of reasons for changes
Cash	32,746,991	24,289,798	34.82%	Reflecting mainly the increase in the size of financing and improvements to operating cashflow for the period.
Trading financial assets	728,303	1,476,823	(50.68%)	Reflecting mainly the redemption of investment products by subsidiary partnership funds of Shenzhen ZTE Capital Management Company Limited (“ZTE Capital”) for the period.
Derivative financial assets	84,541	228,117	(62.94%)	Reflecting mainly the decrease in gain on end-of-period fair-value re-measurement of certain derivative investments for the period.
Other receivables	1,397,696	2,004,870	(30.28%)	Reflecting mainly to amounts received for the disposal of equity interests in Whale Cloud Technology Co., Ltd. (“Whale Cloud”) for the period.
Contract assets	11,132,779	8,462,226	31.56%	Reflecting mainly the non-fulfillment of conditions for collection of contract amounts for certain construction contracts for the period.
Other current assets	8,034,783	5,848,369	37.39%	Reflecting mainly the increase in deductible input tax for the period.
Long-term receivables	1,965,048	843,429	132.98%	Reflecting mainly the recognition by the Company of the consideration for the operating rights for entrusted operating properties as described in the “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published on 11 July 2019.
Construction in progress	1,939,434	1,296,044	49.64%	Reflecting mainly the increase in investment in phase one of the intelligent manufacturing base in Nanjing for the period.

Item	30 September 2019	31 December 2018	Change	Analysis of reasons for changes
Other non-current assets	6,228,264	4,238,881	46.93%	Reflecting mainly the recognition by the Company of the future delivery of properties as described in the “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published on 11 July 2019.
Derivative financial liabilities	337,917	101,332	233.48%	Reflecting mainly the increase in loss on end-of-period fair-value re-measurement of certain derivative investments for the period.
Other payables	5,377,326	11,135,030	(51.71%)	Reflecting mainly the refund of joint venture amounts to Shenzhen Investment Holdings Co., Ltd. (“SIHC”) for the period and write-off of certain transaction amounts with Vanke as described in the “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published on 11 July 2019.
Non-current liabilities due within one year	751,685	1,243,709	(39.56%)	Reflecting mainly the decrease in long-term borrowing due within one year for the period.
Long-term loans	8,507,003	2,366,568	259.47%	Reflecting mainly the increase in working capital for the period.
Deferred income	3,530,558	1,953,057	80.77%	Reflecting mainly the increase in deferred income received for the period.

Income Statement (Nine months ended 30 September)

Item	Nine months ended 30 September 2019	Nine months ended 30 September 2018	Change	Analysis of reasons for changes
Taxes and surcharges	728,483	486,762	49.66%	Reflecting mainly the increase in city construction tax and education surcharge for the period.
Administrative expenses	3,520,527	1,903,312	84.97%	Reflecting mainly the increase in legal expenses for the period.
Finance costs	540,134	(308,966)	274.82%	Reflecting mainly the increase in interest expenses and the decrease in exchange gains for the period.
Investment income	618,839	(417,854)	248.10%	Reflecting mainly the increase in gain from the disposal of listed equity by subsidiary partnership funds of ZTE Capital for the period.
Gains/(Losses) from changes in fair values	(423,856)	(759,435)	44.19%	Reflecting mainly the combined effect of gain on market price movements of listed equity held by subsidiary partnership funds of ZTE Capital for the period versus loss for the same period last year and the transfer to investment income of cumulative fair-value change for previous periods upon disposal of certain listed equity for the period.
Gain from asset disposal	2,687,413	—	N/A	Reflecting mainly the recognition by the Company of relevant income as described in the “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published on 11 July 2019.
Non-operating income	143,581	98,800	45.32%	Reflecting mainly the increase in income from suppliers’ default indemnity, income from insurance claims and other certain non-operating income for the period.
Non-operating expenses	210,480	6,964,719	(96.98%)	Reflecting mainly the provision for the same period last year of the USD1 billion penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018.
Income tax	998,172	(236,391)	522.25%	Reflecting mainly profit for the period versus loss for the same period last year.
Non-controlling interests	429,361	(372,447)	215.28%	Reflecting mainly the profit recorded by certain subsidiaries for the period versus loss for the same period last year.

Item	Nine months ended 30 September 2019	Nine months ended 30 September 2018	Change	Analysis of reasons for changes
Exchange differences on translation of foreign operations	46,582	(791,926)	105.88%	Reflecting mainly gain on translation of foreign operations due to exchange rate volatility for the period versus loss on translation for the same period last year registered by the Group.
Other comprehensive income attributable to non-controlling interests, net of tax	18,221	(21,111)	186.31%	Reflecting mainly gain on translation of foreign operations due to exchange rate volatility for the period versus loss on translation for the same period last year registered by subsidiaries.

Income Statement (Three months ended 30 September)

Item	Three months ended 30 September 2019	Three months ended 30 September 2018	Change	Analysis of reasons for changes
Administrative expenses	982,019	543,965	80.53%	Reflecting mainly the increase in legal expenses for the period.
Finance costs	(122,675)	(392,979)	68.78%	Reflecting mainly the decrease in exchange gains on exchange rate volatility for the period.
Investment income	303,442	(299,814)	201.21%	Reflecting mainly the increase in gain from the disposal of listed equity by subsidiary partnership funds of ZTE Capital for the period.
Credit impairment losses	(699,022)	(270,129)	158.77%	Reflecting mainly the increase in bad debt provision for trade receivables for the period.
Impairment losses	(711,253)	(109,839)	547.54%	Reflecting mainly the increase in provision for inventory impairment for the period.
Gain from asset disposal	2,687,413	—	N/A	Reflecting mainly the recognition by the Company of relevant income as described in the “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published on 11 July 2019.
Non-operating income	69,273	25,737	169.16%	Reflecting mainly the increase in income from insurance claims and other certain non-operating income for the period.
Non-operating expenses	30,440	211,290	(85.59%)	Reflecting mainly the decrease in patent litigation expenses for the period.

Item	Three months ended 30 September 2019	Three months ended 30 September 2018	Change	Analysis of reasons for changes
Income tax	585,258	328,642	78.08%	Reflecting mainly the increase in profit for the period.
Non-controlling interests	248,364	(120,909)	305.41%	Reflecting mainly the profit recorded by certain subsidiaries for the period versus loss for the same period last year.
Exchange differences on translation of foreign operations	(5,247)	2,465	(312.86%)	Reflecting mainly loss on translation of foreign operations due to exchange rate volatility for the period versus gain on translation for the same period last year registered by the Group.
Other comprehensive income attributable to non-controlling interests, net of tax	18,973	—	N/A	Reflecting mainly gain on translation of foreign operations due to exchange rate volatility registered by subsidiaries for the period.

Cash Flow Statement

Item	Nine months ended 30 September 2019	Nine months ended 30 September 2018	Change	Analysis of reasons for changes
Net cash flows from operating activities	2,905,228	(10,222,894)	128.42%	Reflecting mainly payment of the USD1 billion penalty and the suspended additional USD400 million penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018 for the same period last year.
Net cash flows from investing activities	(3,345,409)	(2,370,357)	(41.14%)	Reflecting mainly the refund of joint venture amounts to SIHC during the period.
Net cash flows from financing activities	8,697,661	(5,046,449)	272.35%	Reflecting mainly the increase in cash received from borrowings for the period.
Effect of changes in foreign exchange rate on cash and cash equivalents	373,420	(151,794)	346.00%	Reflecting mainly exchange gain due to exchange rate volatility for the period versus exchange loss due to exchange rate volatility for the same period last year.

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

3.2.1 Appropriation of non-operating capital of the listed company by the controlling shareholder and its connected parties of the company and provision of third-party guarantees by the Company in violation of stipulated procedures

Applicable N/A

3.2.2 Others

3.2.2.1 Matters pertaining to the Shenzhen Bay Super Headquarters Base

The Company won a bid for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen on 27 June 2017. For details, please refer to the “DISCLOSEABLE TRANSACTION ACQUISITION OF LAND USE RIGHTS IN SHENZHEN” published by the Company on 27 June 2017.

In connection with matters pertaining to the development, construction, sales and operational services in respect of land site No. T208-0049 (the “Project”), the Company and Shenzhen Vanke Real Estate Co., Ltd. (深圳市萬科房地產有限公司) (now renamed Shenzhen Vanke Development Co., Ltd. (深圳市萬科發展有限公司) (“Vanke”) entered into a Letter of Intent on 25 December 2017 and the “Framework Agreement for Entrustment of Development, Construction, Sale and Operation”, “Contract for Entrustment of Development, Construction and Sale” and “Contract for Entrustment of Operation” on 9 February 2018.

For details of the above, please refer to the “Overseas Regulatory Announcement Announcement on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd.”, “Overseas Regulatory Announcement Announcement Updates on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd.” and “DISCLOSEABLE TRANSACTION FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published by the Company on 26 December 2017, 25 January 2018 and 9 February 2018, respectively.

On 11 July 2019, the Company and Vanke entered into the “Supplemental Agreement to the ‘Framework Agreement for Entrustment of Development, Construction, Sale and Operation’” to amend and further define the two parties’ rights and obligations and risks under the project. The aforesaid matter was considered and approved at the Sixth Meeting of the Eighth Session of the Board of Directors and the Second Extraordinary General Meeting of 2019 of the Company. For details, please refer to the “Announcement Resolutions of the Sixth Meeting of the Eighth Session of the Board of Directors” and “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION” published on 11 July 2019 and the “Announcement on Resolutions of the Second Extraordinary General Meeting of 2019” published by the Company on 29 July 2019.

On 16 July 2019, Vanke completed the payment to the Company of RMB72.64 million as described in “UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION”.

3.2.2.2 Non-public Issuance of A Shares by the Company

The Company proposed to issue not more than 686,836,019 A shares to not more than 10 specific investors compliant with the provisions of the China Securities Regulatory Commission (“CSRC”). Gross proceeds from the non-public issuance of A Shares will not exceed RMB13 billion. Net proceeds after deduction of issue expenses will be applied towards the “technology research and product development relating to 5G network evolution” and as “replenishment of working capital”. The aforesaid matter has been considered and passed at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2018. For details, please refer to the “Overseas Regulatory Announcement Resolutions of the Twenty-sixth Meeting of the Seventh Session of the Board of Directors”, “(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE AND (2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION” published on 31 January 2018 and the “Announcement on Resolutions of the First Extraordinary General Meeting of 2018” published on 28 March 2018 by the Company.

Pursuant to the “UPDATE ON THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE” issued by the Company on 1 February 2018, the issue price of the non-public issuance of A shares shall be no less than RMB30/share.

On 10 April 2018, the Company received a “Form of Admission of Application for CSRC Administrative Approval” issued by the CSRC, stating that CSRC had made a decision to admit the application for administrative approval of the non-public issuance of new shares by a listed company submitted by the Company. For details, please refer to the “Overseas Regulatory Announcement Announcement on Admission by CSRC of the Application for Non-public Issuance of A Shares” published by the Company on 10 April 2018.

The Company published the “Overseas Regulatory Announcement Announcement on the Receipt of ‘Notice Regarding the China Securities Regulatory Commission’s First Feedback on the Review of Administrative Permission Items’” and the “Overseas Regulatory Announcement Announcement on Extension of Deadline for Reply to the ‘Notice Regarding the China Securities Regulatory Commission’s First Feedback on the Review of Administrative Permission Items’” on 29 October 2018 and 19 November 2018, respectively. The Company worked with relevant intermediaries to study and deliberate on issues raised in the notice and furnished an item-by-item response. Please refer to the “Overseas Regulatory Announcement Announcement on Reply to the ‘Notice Regarding the China Securities Regulatory Commission’s First Feedback on the Review of Administrative Permission Items’” published by the Company on 23 January 2019 and “Overseas Regulatory Announcement Announcement on Reply (Revised Draft) to the Feedback on Application Materials for the Approval of Non-public Issuance of A Shares” published by the Company on 25 February 2019.

The “Resolution on the Extension of the Validity Period for the Shareholders’ Resolutions in relation to the Non-public Issuance of A Shares of 2018”, “Resolution on the Authorisation in relation to the Non-public Issuance of A Shares of 2018” and “Resolution on the Arrangement of the Floor Price of the Non-public Issuance of A Shares of 2018” were considered and approved at the Forty-fourth Meeting of the Seventh Session of the Board of Directors held on 17 January 2019 and the Company’s First Extraordinary General Meeting of 2019 held on 20 March 2019. For details, please refer to the “Announcement Resolutions of the Forty-fourth Meeting of the Seventh Session of the Board of Directors” and “(1) REVISED TERMS OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER THE GENERAL MANDATE (2) EXTENSION OF VALIDITY PERIOD OF THE SHAREHOLDERS’ RESOLUTIONS IN RELATION TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND (3) NEW AUTHORIZATION TO THE BOARD IN RELATION TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES” published on 17 January 2019 and the “Announcement on Resolutions of the First Extraordinary General Meeting of 2019” published by the Company on 20 March 2019.

As stated in the “Overseas Regulatory Announcement Announcement in relation to Reply to Notification Letter on Preparation Works for Stock Issuance Examination and Verification Committee Meeting on Non-public Issuance of A Shares” published by the Company on 5 August 2019, the Company had conducted studies and deliberations in respect of issues raised in the Notification Letter in consultation with relevant intermediaries, and had furnished replies to the relevant questions. For such replies, please refer to the “Overseas Regulatory Announcement Reply to the ‘Letter on Careful Preparation for the Application for the Stock Issuance Examination and Verification Committee Meeting on Non-public Issuance of Shares of ZTE Corporation’” published by the Company on 5 August 2019.

The Company has given an undertaking in accordance with pertinent requirements of the “Answers to Certain Questions on Refinancing Business” published by the CSRC. For details, please refer to the “Overseas Regulatory Announcement Announcement on Undertaking in respect of not Committing New Funds into the Quasi-financial Business” published by the Company on 7 August 2019.

On 22 August 2019, the CSRC Stock Issuance Examination and Verification Committee conducted verification in respect of the Company’s application for non-public issuance of A shares. According to the outcome of verification, the Company’s application for non-public issuance of A shares has been verified and approved. The Company has received the “Approval in Relation to the Non-public Issuance of Shares by ZTE Corporation” issued by the CSRC. For details, please refer to the “ANNOUNCEMENT IN RELATION TO APPROVAL BY THE ISSUANCE EXAMINATION AND VERIFICATION COMMITTEE OF THE CSRC ON APPLICATION FOR NON-PUBLIC ISSUANCE OF A SHARES” and “ANNOUNCEMENT IN RELATION TO THE RECEIPT OF APPROVAL FROM THE CHINA SECURITIES REGULATORY COMMISSION FOR THE NON-PUBLIC ISSUANCE OF A SHARES” published by the Company on 22 August 2019 and 21 October 2019, respectively.

3.2.2.3 Change in the Directors, Supervisors and senior management of the Company

At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, it was approved that Ms. Li Ying, Executive Vice President and Chief Financial Officer of the Company, would undertake the duties of the Secretary to the Board of Directors on an acting basis. Following the conclusion of a period of three months since Ms. Li Ying undertook the duties of the Secretary to the Board of Directors on an acting basis, Mr. Li Zixue, Chairman of the Company, has undertaken the duties of the Secretary to the Board of Directors on an acting basis with effect from 1 July 2019 until the formal appointment of a Secretary to the Board of Directors by the Company. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Chairman undertaking the duties of the Secretary to the Board of Directors on an acting basis” published by the Company on 1 July 2019.

At the Seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 29 July 2019, it was approved that Mr. Ding Jianzhong be appointed Secretary to the Board of Directors for a term commencing on the date on which the resolution was considered and approved at the meeting of the Board of Directors of the Company and ending on the date on which the term of the Eighth Session of the Board of Directors concludes (namely, 29 March 2022). For details, please refer to the “Announcement Resolutions of the Seventh Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement on the Appointment of the Secretary to the Board of Directors of the Company” published by the Company on 29 July 2019.

At the Ninth Meeting of the Eighth Session of the Board of Directors of the Company held on 19 September 2019, it was approved that Mr. Xie Junshi be appointed Executive Vice President of the Company for a term commencing on the date on which the resolution was considered and approved at the meeting of the Board of Directors of the Company and ending on the date on which the term of the Eighth Session of the Board of Directors concludes (namely, 29 March 2022). For details, please refer to the “Announcement Resolutions of the Ninth Meeting of the Eighth Session of the Board of Directors” published by the Company on 19 September 2019.

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

The 2017 Share Option Incentive Scheme¹ implemented by the Company has been approved by the Remuneration and Evaluation Committee, the Seventeenth Meeting of the Seventh Session of the Board of Directors, the Fourteenth Meeting of the Seventh Session of the Supervisory Committee and the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017 of the Company. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company’s overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company’s shares or the de facto controller, or their respective spouses and immediate or close family members). Pursuant to the “Resolution on Matters pertaining to the grant of share options under the 2017 Share Option Incentive Scheme” and “Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme” considered and passed at the Twentieth

¹ The “2017 Share Option Incentive Scheme” means the share option incentive scheme considered and approved at the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017 of the Company.

Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday). The Company granted 149,601,200 share options to 1,996 scheme participants. The exercise price of the share options granted shall be RMB17.06 per A share.

On 1 July 2019, the “Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme”, “Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme”, “Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme” and “Resolution on the cancellation of certain share options”, among others, were considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company, pursuant to which the adjustments to participants and number of share options granted under the 2017 Share Option Incentive Scheme, confirmation of the fulfillment of exercise conditions for the first exercise period and non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of share options previously granted to original participants who no longer fulfilled the conditions to be a participant or share options that did not meet the exercise conditions were approved. The number of participants under the 2017 Share Option Incentive Scheme was adjusted from 1,996 to 1,687. A total of 70,210,561 share options, comprising share options previously granted to original participants who no longer qualified as participants and share options for which exercise conditions had not been fulfilled. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Adjustment of Participants and Number of Share Options under the 2017 Share Option Incentive Scheme”, “Overseas Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the First Exercise Period under the 2017 Share Option Incentive Scheme”, “Overseas Regulatory Announcement Announcement Non-fulfillment of Exercise Conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme” and “Overseas Regulatory Announcement Announcement on the Cancellation of Certain Share Options” published by the Company on 1 July 2019.

On 5 July 2019, the Company completed the cancellation of the 70,210,561 granted share options, as verified and confirmed by China Central Depository & Clearing Corporation Limited, Shenzhen Branch. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Completion of Cancellation of Certain Share Options” published by the Company on 5 July 2019.

The first exercise period under the 2017 Share Option Incentive Scheme of the Company officially commenced on 16 July 2019, with 1,684 participants entitled to exercise a total of 39,664,153 share options exercisable. For details, please refer to the “Overseas Regulatory Announcement on the Commencement of the First Exercise Period under the 2017 Share Option Incentive Scheme” published by the Company on 14 July 2019. Details of the exercise of share options by participants during the first exercise period under the 2017 Share Option Incentive Scheme of the Company as at the date of this report are set out as follows:

Name of participant	Position of participant	Number of options exercisable for the first exercise period	Number of options exercised during the first exercise period	Number of outstanding options for the first exercise period
Xu Ziyang	Director and President	84,000	0	84,000
Wang Xiyu	Executive Vice President	87,466	0	87,466
Li Ying	Executive Vice President and Chief Financial Officer	52,800	0	52,800
Xie Junshi	Executive Vice President	112,466	112,466	0
Ding Jianzhong	Secretary to the Board of Directors	33,160	33,160	0
Other participants	—	39,294,261	33,141,238	6,153,023
Total	—	39,664,153	33,286,864	6,377,289

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

3.2.2.5 Material litigation and arbitration during the reporting period

During the reporting period, the Group did not incur any material litigation or arbitration. Progress during the reporting period of immaterial litigation and arbitration proceedings incurred prior to the reporting period are set out as follows:

1. On 11 June 2010, a lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. (“ZTE USA”) by Universal Telephone Exchange, Inc. (“UTE”) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE’s suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company’s application to subject the case to the arbitration clause and executed with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration award. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the court of appeal of Dallas, Texas in respect of the aforesaid ruling. On 19 November 2018, the court of appeal of Dallas, Texas ruled to overturn the ruling of the district court of Dallas, Texas of annulling the arbitration award and reinstated the arbitration award. On 4 December 2018, UTE made an application to the court of appeal of Dallas, Texas for review. On 4 January 2019, UTE made an application to the court of appeal of Dallas,

Texas for the case to be heard by the full court. On 14 February 2019, the court of appeal of Dallas, Texas ruled to reject the aforesaid application of UTE. On 1 April 2019, UTE made an application to the Supreme Court of Texas for Civil Matters for review. On 4 October 2019, the Supreme Court of Texas for Civil Matters ruled to reject UTE's application for review.

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.

2. In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with United States International Trade Committee ("ITC") and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its preliminary judgment of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California re-opened the litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The said company filed an appeal with the United States Court of Appeals for the Federal Circuit against the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again against the said verdict of the Federal District Court of California. In February 2019, the United States Court of Appeals for the Federal Circuit ruled to uphold the judgement of the Federal District Court of California that the Company and ZTE USA had not infringed upon the patents under litigation. On 26 April 2019, the United States Court of Appeals

for the Federal Circuit ruled to reject the said company's application for the case to be heard by the full court of the United States Court of Appeals for the Federal Circuit. On 6 September 2019, the said company filed an appeal for the case with the Supreme Court of the United States. As of now, the Supreme Court of the United States has yet to grant admission to the appeal.

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.

3.2.2.6 Approval for registration of the Company's Medium Term Notes and SCPs

The "Resolution on the Proposed Registration and Issue of Perpetual Medium Term Notes" and the "Resolution on the Proposed Registration and Issue of Super and Short-term Commercial Paper ("SCP")" was considered and approved at the First Extraordinary General Meeting of 2017 of the Company held on 14 December 2017. The Company's 2019 Tranche I Medium Term Notes with a registered amount of RMB2,000 million and SCP with a registered amount of RMB8,000 million have been registered and approved by the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會). For details, please refer to the "Overseas Regulatory Announcement Announcement on the Approval of Registration for the Medium Term Notes and Super and Short-term Commercial Paper" published by the Company on 10 October 2019.

3.2.2.7 Conduct of material connected transactions in accordance with domestic laws and regulations

(1) Connected transactions in the ordinary course of business

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

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	As a	Whether	Market price	Domestic announcement date	Domestic announcement index		
						Amount (RMB in ten thousands)	percentage of transactions in the same classification (%)	approved cap has been exceeded			for similar transactions available (RMB)	
Zhongxingxin and its subsidiaries and companies in which it held equity interests of 30% or above	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials by the Company and its subsidiaries from connected parties were conducted at prices determined through arm's length negotiations and on the basis of normal commercial terms. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms.	Cabinets and related accessories: RMB1-RMB300,000 per unit, cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	36,727.73	1.09%	No	Commercial acceptance bill	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	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.	Special-grade engineer at a price ranging from RMB970-1350 per head/day; Supervisory engineer at a price ranging from RMB830-1040 per head/day; Senior engineer at a price ranging from RMB320-935 per head/day; Common engineer at a price ranging from RMB440-570 per head/day; Assistant engineer at a price ranging from RMB230-450 per head/day; Technician at a price ranging from RMB280-400 per head/day.	3,354.00	0.10%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount	As a	Whether	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index	
						(RMB in ten thousands)	percentage of transactions in the same classification (%)	approved cap has been exceeded				Settlement
ZTE Software Technology (Nanchang) Company Limited ("Nanchang Software")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Special-grade engineer at a price ranging from RMB970-1350 per head/day; Supervisory engineer at a price ranging from RMB830-1040 per head/day; Senior engineer at a price ranging from RMB520-935 per head/day; Common engineer at a price ranging from RMB440-570 per head/day; Assistant engineer at a price ranging from RMB230-450 per head/day; Technician at a price ranging from RMB280-400 per head/day.	1,267.59	0.04%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of engineering services	The purchase of personnel hiring services by the Company from the connected party		Work delivery personnel ranging from RMB398-1322 per head/day; Ancillary product personnel ranging from RMB401-805 per head/day; Core network personnel ranging from RMB485-651 per head/day; Service product personnel ranging from RMB451-793 per head/day; Wireless product personnel ranging from RMB418-774 per head/day; Fixed-line product personnel ranging from RMB418-735 per head/day; Bearer product personnel ranging from RMB418-735 per head/day; Government and energy product personnel ranging from RMB433-1197 per head/day; Network optimisation personnel ranging from RMB491-958 per head/day.	—	0.00%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		Purchase price not higher than prices at which Zhongxing Hetai sells products (or services) to other customers purchasing similar products (or services) in similar amounts, subject to the actual agreement signed by the two parties.	2,560.06	0.08%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities by the Company to the connected party		RMB78/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB61/sq.m./month for hotel properties in Nanjing; RMB82/sq.m./month for hotel properties in Shanghai; RMB52/sq.m./month for hotel properties in Xi'an. The rental fee for related equipment and facilities required by the hotel operations in Shenzhen, Shanghai, Nanjing and Xi'an was 1,590,000/year.	5,402.15	18.22%	No	Tele-transfer	N/A	2019-01-01	Announcement No. 201903 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
深圳市航天威華科技發展有限公司 ("航天威華")	Subsidiary of a company for which a connected natural person of the Company acted as senior management	Sale of products	The sale of a full range of government and enterprise products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	40,168.48	0.63%	No	Tele-transfer or bank acceptance bill	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				—	—	89,480.01	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)	At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries and companies in which it held equity interests of 30% or above by the Group in 2019 be capped at RMB700 million (before VAT); At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, in 2019 be capped at RMB70 million and RMB30 million (before VAT), respectively; At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of engineering services from Nanchang Software, both a connected party during the periods from 25 December 2018 to 31 October 2019 and from 1 November 2019 to 31 October 2020 be capped at RMB1 million and RMB1 million (before VAT), respectively; At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of hotel services from Zhongxing Hetai, a connected party, or its subsidiaries by the Group in 2019 be capped at RMB36 million (before VAT); At the Forty-third Meeting of the Seventh Session of the Board of Directors of the Company held on 29 December 2018, it was considered and approved that the estimated lease of properties and equipment and facilities to Zhongxing Hetai or its subsidiaries by the Group in 2019 be capped at RMB72.06 million (before VAT); At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated sales of products to 航天威華, a connected party, by the Group in 2019 be capped at RMB800 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

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

(2) Other material connected transactions

The following connected transactions were considered and approved at the Forty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 31 October 2018. For details, please refer to the “CONNECTED TRANSACTION PROVISION OF FINANCIAL ASSISTANCE BY CONTROLLING SHAREHOLDER” and “Announcement of Resolutions of the Forty-first Meeting of the Seventh Session of the Board of Directors” published by the Company on 31 October 2018:

On 31 October 2018, the Company entered into the Loan Agreement and Pledge Agreement with Zhongxingxin, controlling shareholder of the Company, pursuant to which the Company shall seek loans amounting to not more than RMB1,000 million (with tranche 1 and tranche 2 each capped at RMB500 million) from Zhongxingxin according to the Company's funding requirements, and shall pledge the equity interests in ZTE Microelectronics as security. The loan interest rate shall be determined through negotiation between the two parties subject pertinent laws and regulations based on market-oriented principles and by reference to the interest rates for loans of similar nature extended by other commercial banks and financial institutions, taking also into consideration factors such as the finance cost of Zhongxingxin for obtaining financing from relevant third party institutions. On 2 September 2019, the Company made a repayment of the RMB500 million tranche 1 loan. As at the end of the reporting period, the RMB500 million tranche 2 loan has not yet expired, the loan agreement is under normal progress.

3.3 Undertakings

1. ***Undertakings by relevant undertaking parties, including the de facto controller, shareholders, connected parties, acquirers of the Company and the Company overdue and outstanding during the reporting period***

- (1) *Undertaking given upon the initial public offering or any refinancing exercise*
- a. Zhongxingxin, the controlling shareholder of the Company, entered into “Non-Competition Agreement” with the Company on 19 November 2004, pursuant to which Zhongxingxin has undertaken to the Company that: Zhongxingxin will not, and will prevent and preclude any of its other subsidiaries from carrying on or participating in any activities in any businesses deemed to be competing with existing and future businesses of the Company in any form (including but not limited to sole ownership, equity joint venture or co-operative joint venture and direct or indirect ownership of equity or other interests in other companies or enterprises, other than through ZTE); Zhongxingxin will immediately terminate and/or procure any of its subsidiaries to terminate any participation in, management or operation of any competing businesses or activities that Zhongxingxin and/or such subsidiaries are participating in or carrying on in any manner at any time.
 - b. Zhongxingxin, the controlling shareholder of the Company, provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares in 2018: (1) that it will not, for so long as it remains the controlling shareholder of the Company, act beyond its powers to interfere with the Company’s operating and management activities or infringe upon the Company’s interests; (2) that it will willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.
 - c. On 7 August 2019, the Company gave an undertaking in respect of the Company’s proposed non-public issue of A Shares in accordance with the pertinent requirements of set out in the “Answers to Certain Questions on Refinancing Business” published by the CSRC: If the non-public issuance of A shares is approved by the competent authorities, including the CSRC and is implemented, prior to the utilisation in full of proceeds from the non-public issuance of A shares or within 36 months from the date of receipt of the issue proceeds, the Company shall not commit new funds into the quasi-financial business (類金融業務) (including fund commitments in various forms such as capital increase, loans and guarantees, among others).

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

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

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

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

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

√ Applicable □ N/A

Preliminary results	Turnaround from loss to profit		
	From the beginning of year to end of next reporting period (January to December 2019)	Same period last year (January to December 2018)	Percentage of change (increase/decrease)
Net profit attributable to holders of ordinary shares of the listed company (RMB'000)	Profit: 4,300,000–5,300,000	Loss: 6,983,662	Increased by: 161.57% – 175.89%
Basic earnings per share (RMB/share)	Profit: 1.02–1.25	Loss: 1.67	Increased by: 161.08% – 174.85%
Explanatory statement regarding the preliminary results	The significant growth in the Group's results for the 12 months ended 31 December 2019 compared to the same period last year was attributable mainly to (1) loss reported for the same period last year mainly attributable to the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 and operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018; and (2) income relevant to matters described in the "UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION" published on 11 July 2019 recognised by the Company for the third quarter of 2019.		

Note 1: Basic earnings per share has been calculated on the basis of the Company's total share capital of 4,225,959,000 shares as at the date of publication of this report.

Note 2: The aforesaid preliminary results announcement has not been pre-audited by a certified public accountant. For details, please refer to the "Preliminary Announcement of 2019 Annual Results" published by the Company on 28 October 2019.

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	Gain/(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}	121.41	Fair-value measurement	570.46	35.66	—	—	—	37.79	606.12	Trading financial assets	Issue fund
Stock	300502	Eoptolink ^{Note 1}	833.03	Fair-value measurement	9,259.67	(8,426.64)	—	—	11,272.00	1,297.73	—	Trading financial assets	Issue fund
Stock	603986	Giga Device ^{Note 1}	704.18	Fair-value measurement	21,515.36	(20,811.18)	—	—	36,675.51	13,264.15	—	Trading financial assets	Issue fund
Stock	603633	Laimu ^{Note 1}	1,616.00	Fair-value measurement	3,508.34	(1,892.34)	—	—	3,960.11	321.40	—	Trading financial assets	Issue fund
Stock	603920	Olympic Circuit Technology ^{Note 1}	2,562.00	Fair-value measurement	14,757.50	(12,021.96)	—	—	16,971.27	2,694.89	198.61	Trading financial assets	Issue fund
Stock	002902	Mentech Optical ^{Note 1}	1,548.03	Fair-value measurement	11,382.83	1,268.82	—	—	5,535.17	5,947.68	11,933.40	Trading financial assets	Issue fund
Stock	002036	Lianchuang Electronic ^{Note 2}	2,921.74	Fair-value measurement	5,298.94	2,346.47	—	—	3,177.18	4,144.61	6,357.73	Trading financial assets	Issue fund
Stock	300691	Union Optech ^{Note 2}	3,498.71	Fair-value measurement	9,842.80	1,307.45	—	—	3,933.06	4,230.44	10,030.68	Trading financial assets	Issue fund
Stock	002796	Shijia Science & Technology ^{Note 2}	1,575.00	Fair-value measurement	3,552.42	60.43	—	—	2,258.35	1,482.58	2,827.53	Trading financial assets	Issue fund
Stock	603068	Beken ^{Note 3}	2,175.99	Fair-value measurement	2,175.99	8,429.06	—	—	—	8,429.06	10,605.05	Trading financial assets	Issue fund
Stock	688019	Anji Technology ^{Note 3}	4,350.00	Fair-value measurement	3,317.99	24,051.20	—	—	—	24,051.20	27,369.19	Trading financial assets	Issue fund
Stock	ENA: TSV	Enablence Technologies ^{Note 4}	3,583.26	Fair-value measurement	1,707.99	(1,196.74)	—	—	—	(1,196.74)	511.25	Other non-current financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
Total			25,489.35	—	86,890.29	(6,849.77)	—	—	83,782.65	64,704.79	70,439.56	—	—

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 Optical”) are provided with Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership) (“Zhonghe Chunsheng Fund I”) as the accounting subject.

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

Note 3: Figures corresponding to Beken Corporation (“Beken”) and Anji Microelectronics Technology (Shanghai) Co., Ltd. (“Anji Technology”) are provided with Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership) (“Zhonghe Chunsheng Fund III”) as the accounting subject.

Note 4: The initial investment for the acquisition of Enablence Technologies Inc. (“Enablence Technologies”) shares by ZTE 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 HKD5,623,700, equivalent to approximately RMB5,112,500 based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.90910) on 30 September 2019.

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 I, a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund held 353,000 shares in Great Power (a company listed on the GEM Board of the Shenzhen Stock Exchange), accounting for 0.13% of the total share capital of Great Power.

B. Shareholdings in Eoptolink

During the first three quarters of 2019, Zhonghe Chunsheng Fund I transferred 4,712,300 shares in Eoptolink (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I did not hold any shares in Eoptolink.

C. Shareholdings in Giga Device

During the first three quarters of 2019, Zhonghe Chunsheng Fund I transferred 3,452,400 shares in Giga Device (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I did not hold any shares in Giga Device.

D. Shareholdings in Laimu

During the first three quarters of 2019, Zhonghe Chunsheng Fund I transferred 3,695,200 shares (following the implementation of its 2018 equity distribution plan) in Laimu (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I did not hold any shares in Laimu.

E. Shareholdings in Olympic Circuit Technology

During the first three quarters of 2019, Zhonghe Chunsheng Fund I transferred 12,269,600 shares in Olympic Circuit Technology (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I held 121,300 shares in Olympic Circuit Technology, accounting for 0.03% of the total share capital of Olympic Circuit Technology.

F. Shareholdings in Mentech Optical

During the first three quarters of 2019, Zhonghe Chunsheng Fund I transferred 2,232,200 shares in Mentech Optical (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund I held 3,868,200 shares in Mentech Optical (following the implementation of its 2018 equity distribution plan), accounting for 1.84% of the total share capital of Mentech Optical.

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 Jiaying Fund, which was a partnership reported in the consolidated financial statements of the Company. During the first three quarters of 2019, Jiaying Fund transferred 2,717,500 shares in Lianchuang Electronic (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Jiaying Fund held 4,477,300 shares in Lianchuang Electronic (following the implementation of its 2018 equity distribution plan), accounting for 0.63% of the total share capital of Lianchuang Electronic.

H. Shareholdings in Union Optech

During the first three quarters of 2019, Jiaying Fund transferred 2,215,900 shares in Union Optech (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Jiaying Fund held 4,810,900 shares in Union Optech, accounting for 2.13% of the total share capital of Union Optech.

I. Shareholdings in Shijia Science & Technology

During the first three quarters of 2019, Jiaying Fund transferred 568,000 shares in Shijia Science & Technology (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Jiaying Fund held 771,300 shares in Shijia Science & Technology (following the implementation of its 2018 equity distribution plan), accounting for 0.46% of the total share capital of Shijia Science & Technology.

J. Shareholdings in Beken

As at the end of the reporting period, the Company and Changshu Changxing Capital Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 25.83% equity interests in Zhonghe Chunsheng Fund III, a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund III held 1,122,200 shares in Beken (a company listed on the Shanghai Stock Exchange), accounting for 0.81% of the total share capital of Beken.

K. Shareholdings in Anji Technology

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

L. Shareholdings in Enablence Technologies

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

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

3.5.2 Entrusted fund management

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

Unit: RMB in ten thousand

Specific type	Source of funds under entrusted management	Amount of funds under entrusted management incurred ^{Note}	Outstanding balance	Amount overdue and yet to be recouped
Bank investment product	Internal funds	3,295	2,902	—
Total		3,295	2,902	—

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

2. Details of high-risk entrusted fund management with individually material amounts or a lower level of security or liquidity without guaranteed repayment of principal

Applicable N/A

3. Expected inability to recoup the principal amount under entrusted fund management or other situations that might result in impairment

Applicable N/A

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

Applicable N/A

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
External meeting	September 2019	Shenzhen	HSBC Qianhai investors' meeting	Customers of HSBC Qianhai	Day-to-day operations of the Company	Published announcements and regular reports

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	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	Closing balance of investment amount as a percentage of net assets of the Company at the end of the period (%)	Actual profit or loss for the reporting period	
				Start date	End date								
Financial institution	N/A	No	Foreign exchange forwards	—	2018/10/8	2020/8/11	410,016.63	225,671.10	325,500.53	—	310,187.20	11.17%	(5,877.94)
Financial institution	N/A	No	Foreign exchange forwards	—	2018/12/10	2020/8/19	347,533.61	217,141.29	350,316.36	—	214,358.54	7.72%	(4,062.02)
Financial institution	N/A	No	Foreign exchange forwards	—	2018/10/22	2020/9/28	377,313.95	210,876.15	389,402.05	—	198,788.05	7.16%	(3,766.97)
Other financial institution	N/A	No	Foreign exchange forwards/ interest rate swap	—	2018/10/24	2022/12/26	672,541.81	812,320.62	717,652.27	—	767,210.16	27.63%	(14,538.37)
Total				—	—	—	1,807,406.00	1,466,009.16	1,782,871.21	—	1,490,543.95	53.68%	(28,245.30)
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)				“Overseas Regulatory Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement Resolutions of the Application for Derivative Investment Limits for 2018,” both dated 15 March 2018, and “Announcement Resolutions of the Forty-sixth Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement Resolutions of the Application for Derivative Investment Limits for 2019,” both dated 27 March 2019.									
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)				“Announcement on Resolutions of the 2017 Annual General Meeting” dated 29 June 2018 and “Announcement on Resolutions of the 2018 Annual General Meeting” dated 30 May 2019.									
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period				Value-protection derivative investments were conducted by the Company during the first three quarters of 2019. The major risks and control measures are discussed as follows: <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 RMB282 million, comprising losses from fair-value change of RMB394 million and recognised investment gains of RMB112 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				Independent Non-executive Directors' Opinion: The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedure performed have been in compliance with relevant laws and regulations and the Articles of Association.									

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

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

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

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

§ 4 APPENDICES

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

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

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

BALANCE SHEET

RMB in thousands

Assets	2019.9.30		2018.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited) (Restated)	Company (Audited) (Restated)
Current assets:				
Cash	32,746,991	14,270,665	24,289,798	11,523,002
Trading financial assets	728,303	—	1,476,823	—
Derivative financial assets	84,541	49,385	228,117	72,450
Trade receivables	19,795,060	25,283,561	21,592,325	29,045,827
Receiving financing	3,028,806	2,319,226	2,730,351	2,030,426
Factored trade receivables	539,256	327,174	587,869	356,134
Prepayments	700,196	3,409	615,489	37,194
Other receivables	1,397,696	5,259,958	2,004,870	15,935,675
Inventories	29,757,759	20,002,633	25,011,416	15,343,153
Contract assets	11,132,779	4,684,036	8,462,226	3,911,263
Other current assets	8,034,783	4,429,082	5,848,369	3,218,932
Total current assets	107,946,170	76,629,129	92,847,653	81,474,056
Non-current assets:				
Long-term trade receivables	1,965,048	6,938,919	843,429	5,542,886
Factored long-term trade receivables	427,180	401,911	432,041	270,063
Long-term equity investments	2,697,184	12,775,306	3,015,295	13,168,721
Other non-current financial assets	1,530,527	674,723	1,502,499	658,078
Investment properties	2,016,979	1,560,628	2,011,999	1,556,775
Fixed assets	9,143,831	5,424,399	8,898,068	5,319,213
Construction in progress	1,939,434	321,540	1,296,044	250,417
Right-of-use assets	1,043,732	586,449	—	—
Intangible assets	7,328,872	2,972,750	8,558,488	5,210,847
Deferred development costs	2,115,764	323,755	2,732,356	379,318
Goodwill	186,206	—	186,206	—
Deferred tax assets	2,590,162	1,167,778	2,787,790	1,383,311
Other non-current assets	6,228,264	5,200,407	4,238,881	3,094,949
Total non-current assets	39,213,183	38,348,565	36,503,096	36,834,578
Total assets	147,159,353	114,977,694	129,350,749	118,308,634

Legal Representative:
Li Zixue

Chief Financial Officer:
Li Ying

Head of Finance Division:
Xu Jianrui

RMB in thousands

Liabilities	2019.9.30		2018.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited) (Restated)	Company (Audited) (Restated)
Current liabilities:				
Short-term loans	30,146,767	12,130,200	23,739,614	13,072,700
Bank advances on factored trade receivables	541,451	329,366	591,931	360,196
Derivative financial liabilities	337,917	246,212	101,332	14,041
Bills payables	8,906,316	20,906,090	7,915,700	12,019,698
Trade payables	18,492,105	6,300,308	19,527,404	34,535,131
Contract liabilities	17,723,027	10,485,999	14,479,355	9,204,928
Salary and welfare payables	7,790,998	4,438,057	6,259,639	3,229,594
Taxes payable	779,171	104,571	954,021	219,325
Other payables	5,377,326	22,797,345	11,135,030	18,280,463
Provisions	1,944,633	1,344,407	2,167,614	1,757,603
Non-current liabilities due within one year	751,685	357,055	1,243,709	370,000
Total current liabilities	92,791,396	79,439,610	88,115,349	93,063,679
Non-current liabilities:				
Long-term loans	8,507,003	6,578,900	2,366,568	2,115,290
Bank advances on factored long-term trade receivables	427,372	403,809	434,137	272,159
Lease liabilities	628,743	400,582	—	—
Provision for retirement benefits	133,589	133,589	136,245	136,245
Deferred income	3,530,558	1,150,260	1,953,057	1,067,445
Deferred tax liabilities	180,873	—	155,041	—
Other non-current liabilities	3,732,502	2,376,766	3,229,677	2,697,982
Total non-current liabilities	17,140,640	11,043,906	8,274,725	6,289,121
Total liabilities	109,932,036	90,483,516	96,390,074	99,352,800

RMB in thousands

Shareholders' equity	2019.9.30		2018.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited) (Restated)	Company (Audited) (Restated)
Shareholders' equity:				
Share capital	4,225,959	4,225,959	4,192,672	4,192,672
Capital reserves	12,105,233	9,955,893	11,444,456	9,244,984
Other comprehensive income	(2,000,979)	704,152	(2,047,561)	704,686
Surplus reserve	2,324,748	1,662,992	2,324,748	1,662,992
Retained profits	11,111,111	1,780,684	6,983,261	(3,101,864)
Total equity attributable to ordinary shareholders of the parent	27,766,072	18,329,680	22,897,576	12,703,470
Other equity instruments — perpetual capital instruments	6,164,498	6,164,498	6,252,364	6,252,364
Non-controlling interests	3,296,747	—	3,810,735	—
Total shareholders' equity	<u>37,227,317</u>	<u>24,494,178</u>	<u>32,960,675</u>	<u>18,955,834</u>
Total liabilities and shareholders' equity	<u>147,159,353</u>	<u>114,977,694</u>	<u>129,350,749</u>	<u>118,308,634</u>

INCOME STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2019		Nine months ended 30 September 2018	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
1. Operating revenue	64,240,698	55,773,839	58,766,186	54,698,659
Less: Operating costs	39,593,333	46,923,086	39,782,746	45,679,241
Taxes and surcharges	728,483	369,875	486,762	133,358
Selling and distribution costs	5,690,699	3,577,118	6,641,162	3,610,108
Administrative expenses	3,520,527	2,901,655	1,903,312	1,132,657
Research and development costs	9,359,500	2,473,303	8,525,829	2,141,020
Finance costs	540,134	(14,391)	(308,966)	(714,073)
Including: Interest expenses	1,226,681	678,146	651,115	325,423
Interest income	513,535	277,495	600,118	100,659
Add: Other income	1,488,962	336,503	2,025,730	230,711
Investment income	618,839	6,062,925	(417,854)	(236,938)
Including: Share of losses of associates and joint ventures	(239,582)	(147,364)	(478,214)	(400,495)
Loss on derecognition of financial assets at amortised cost	(102,562)	(27,737)	(148,085)	(72,132)
Gains/(Losses) from changes in fair values	(423,856)	(239,705)	(759,435)	59,005
Credit impairment losses	(2,115,113)	(1,783,384)	(1,926,974)	(1,868,253)
Asset impairment losses	(1,181,251)	(1,070,215)	(1,339,690)	(902,620)
Gain from asset disposal	2,687,413	2,687,413	—	—
2. Operating profit	<u>5,883,016</u>	<u>5,536,730</u>	<u>(682,882)</u>	<u>(1,747)</u>
Add: Non-operating income	143,581	79,334	98,800	56,284
Less: Non-operating expenses	<u>210,480</u>	<u>107,846</u>	<u>6,964,719</u>	<u>6,855,289</u>
3. Total profit	<u>5,816,117</u>	<u>5,508,218</u>	<u>(7,548,801)</u>	<u>(6,800,752)</u>
Less: Income tax	<u>998,172</u>	<u>364,936</u>	<u>(236,391)</u>	<u>(700,931)</u>
4. Net profit	<u><u>4,817,945</u></u>	<u><u>5,143,282</u></u>	<u><u>(7,312,410)</u></u>	<u><u>(6,099,821)</u></u>
Analysed by continuity of operations				
Net profit from continuing operations	4,817,945	5,143,282	(7,312,410)	(6,099,821)
Attributable to holders of ordinary shares of the parent	4,127,850	4,882,548	(7,259,723)	(6,419,581)
Attributable to holders of perpetual capital instruments	260,734	260,734	319,760	319,760
Non-controlling interests	429,361	—	(372,447)	—

RMB in thousands

Item	Nine months ended 30 September 2019		Nine months ended 30 September 2018	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
5. Other comprehensive income, net of tax	64,803	(534)	(813,037)	(524)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	46,582	(534)	(791,926)	(524)
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods				
Exchange differences on translation of foreign operations	46,582	(534)	(791,926)	(524)
	<u>46,582</u>	<u>(534)</u>	<u>(791,926)</u>	<u>(524)</u>
Items of other comprehensive income, net of tax	<u>46,582</u>	<u>(534)</u>	<u>(791,926)</u>	<u>(524)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>18,221</u>	<u>—</u>	<u>(21,111)</u>	<u>—</u>
6. Total comprehensive income	<u><u>4,882,748</u></u>	<u><u>5,142,748</u></u>	<u><u>(8,125,447)</u></u>	<u><u>(6,100,345)</u></u>
Attributable to holders of ordinary shares of the parent	4,174,432	4,882,014	(8,051,649)	(6,420,105)
Attributable to holders of perpetual capital instruments	260,734	260,734	319,760	319,760
Attributable to non-controlling interests	447,582	—	(393,558)	—
7. Earnings per share				
(1) Basic earnings per share	RMB0.98		RMB(1.73)	
(2) Diluted earnings per share	RMB0.98		RMB(1.73)	

INCOME STATEMENT

RMB in thousands

Item	Three months ended 30 September 2019		Three months ended 30 September 2018	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
1. Operating revenue	19,631,479	16,298,563	19,332,409	15,119,171
Less: Operating costs	12,474,037	14,632,844	12,274,393	12,565,396
Taxes and surcharges	133,194	25,842	109,645	39,598
Selling and distribution costs	1,664,953	1,438,438	1,911,540	901,265
Administrative expenses	982,019	829,709	543,965	209,133
Research and development costs	2,887,634	538,289	3,465,205	516,243
Finance costs	(122,675)	(556,636)	(392,979)	(702,959)
Including: Interest expenses	403,628	202,275	260,904	130,740
Interest income	191,302	169,386	116,633	24,992
Add: Other income	628,162	309,250	703,733	111,998
Investment income	303,442	5,949,735	(299,814)	(197,708)
Including: Share of losses of associates and joint ventures	(81,436)	(48,707)	(264,680)	(220,267)
Loss on derecognition of financial assets at amortised cost	(18,499)	(6,670)	(48,747)	(26,848)
Gains/(Losses) from changes in fair values	(281,252)	(157,433)	(381,996)	(15,539)
Credit impairment losses	(699,022)	(452,483)	(270,129)	(166,495)
Asset impairment losses	(711,253)	(678,198)	(109,839)	50,210
Gain from asset disposal	2,687,413	2,687,413	—	—
2. Operating profit	<u>3,539,807</u>	<u>7,048,361</u>	<u>1,062,595</u>	<u>1,372,961</u>
Add: Non-operating income	69,273	41,108	25,737	12,636
Less: Non-operating expenses	<u>30,440</u>	<u>1,516</u>	<u>211,290</u>	<u>133,770</u>
3. Total profit	<u>3,578,640</u>	<u>7,087,953</u>	<u>877,042</u>	<u>1,251,827</u>
Less: Income tax	<u>585,258</u>	<u>423,522</u>	<u>328,642</u>	<u>8,584</u>
4. Net profit	<u><u>2,993,382</u></u>	<u><u>6,664,431</u></u>	<u><u>548,400</u></u>	<u><u>1,243,243</u></u>
Analysed by continuity of operations				
Net profit from continuing operations	2,993,382	6,664,431	548,400	1,243,243
Attributable to holders of ordinary shares of the parent	2,657,151	6,576,564	564,467	1,138,401
Attributable to holders of perpetual capital instruments	87,867	87,867	104,842	104,842
Non-controlling interests	248,364	—	(120,909)	—

RMB in thousands

Item	Three months ended 30 September 2019		Three months ended 30 September 2018	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
5. Other comprehensive income, net of tax	13,726	533	2,465	129
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	(5,247)	533	2,465	129
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods				
Exchange differences on translation of foreign operations	(5,247)	533	2,465	129
	<u>(5,247)</u>	<u>533</u>	<u>2,465</u>	<u>129</u>
Items of other comprehensive income, net of tax	<u>(5,247)</u>	<u>533</u>	<u>2,465</u>	<u>129</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>18,973</u>	<u>—</u>	<u>—</u>	<u>—</u>
6. Total comprehensive income	<u><u>3,007,108</u></u>	<u><u>6,664,964</u></u>	<u><u>550,865</u></u>	<u><u>1,243,372</u></u>
Attributable to holders of ordinary shares of the parent	2,651,904	6,577,097	566,932	1,138,530
Attributable to holders of perpetual capital instruments	87,867	87,867	104,842	104,842
Attributable to non-controlling interests	267,337	—	(120,909)	—
7. Earnings per share				
(1) Basic earnings per share	RMB0.63		RMB0.14	
(2) Diluted earnings per share	RMB0.63		RMB0.14	

CASH FLOW STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2019		Nine months ended 30 September 2018	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	67,508,954	62,538,417	66,923,382	61,357,177
Refunds of taxes	3,725,690	2,636,683	5,555,111	3,685,892
Cash received relating to other operating activities	4,202,373	1,507,676	5,486,476	3,981,528
Sub-total of cash inflows	75,437,017	66,682,776	77,964,969	69,024,597
Cash paid for goods and services	47,301,603	52,397,820	49,485,605	62,385,691
Cash paid to and on behalf of employees	11,894,111	3,680,377	17,654,647	7,267,823
Cash paid for various types of taxes	6,511,273	2,451,682	4,936,980	1,122,103
Cash paid relating to other operating activities	6,824,802	5,675,798	16,110,631	12,831,173
Sub-total of cash outflows	72,531,789	64,205,677	88,187,863	83,606,790
Net cash flows from operating activities	2,905,228	2,477,099	(10,222,894)	(14,582,193)
2. Cash flows from investing activities				
Cash received from sale of investments	1,633,031	651,851	2,269,428	—
Cash received from return on investment	207,673	401,698	443,663	394,537
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	1,871,183	1,865,284	25,515	24,757
Net cash received from the disposal of subsidiaries and other operating units	445,907	—	—	—
Sub-total of cash inflows	4,157,794	2,918,833	2,738,606	419,294
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	5,084,925	3,176,096	3,158,053	1,045,155
Cash paid for acquisition of investments	218,278	83,405	1,950,910	340,746
Cash paid relating to other investing activities	2,200,000	2,200,000	—	—
Sub-total of cash outflows	7,503,203	5,459,501	5,108,963	1,385,901
Net cash flows from investing activities	(3,345,409)	(2,540,668)	(2,370,357)	(966,607)

RMB in thousands

Item	Nine months ended 30 September 2019		Nine months ended 30 September 2018	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from investments	423,799	419,229	280,611	—
Including: Capital injection into subsidiaries by minority shareholders	4,570	—	280,611	—
Cash received from borrowings	36,208,907	20,152,831	19,376,927	12,399,556
Cash received relating to other financing activities	26,280	—	—	—
Sub-total of cash inflows	36,658,986	20,572,060	19,657,538	12,399,556
Cash repayment of borrowings	24,808,179	16,978,566	21,899,142	9,247,312
Cash paid for perpetual capital instruments	—	—	1,500,000	1,500,000
Cash payments for distribution of dividends or for interest expenses	2,284,614	1,097,996	1,304,845	818,859
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	480,581	—	195,782	—
Cash paid relating to other financing activities	868,532	92,067	—	—
Sub-total of cash outflows	27,961,325	18,168,629	24,703,987	11,566,171
Net cash flows from financing activities	8,697,661	2,403,431	(5,046,449)	833,385
4. Effect of changes in foreign exchange rate on cash and cash equivalents	373,420	333,796	(151,794)	170,212
5. Net increase in cash and cash equivalents	8,630,900	2,673,658	(17,791,494)	(14,545,203)
Add: cash and cash equivalents at the beginning of the period	21,134,111	10,147,946	30,109,268	17,006,734
6. Net balance of cash and cash equivalents at the end of the period	29,765,011	12,821,604	12,317,774	2,461,531

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
28 October 2019

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