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ZTE中兴

ZTE CORPORATION
中兴通讯股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 763)

2013 THIRD QUARTERLY REPORT

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

§1 IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the “Company”) confirm that this quarterly report does not contain any false information or misleading statements or have material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved by the Tenth Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman, was unable to attend the Meeting due to work reasons, and has authorized Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. Ms. Qu Xiaohui, Independent Non-executive Director, was unable to attend the Meeting due to work reasons, and has authorized Mr. Richard Xike Zhang, Independent Non-executive Director, to vote on her behalf. Mr. Wei Wei, Independent Non-executive Director, was unable to attend the Meeting due to work reasons, and has authorized Mr. Chen Naiwei, Independent Non-executive Director, to vote on his behalf. Mr. Tan Zhenhui, Independent Non-executive Director, was unable to attend the Meeting due to work reasons, and has authorized Mr. Chen Naiwei, Independent Non-executive Director, to vote on his behalf.
- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).
- 1.5 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial statements contained in this quarterly report.

- 1.6 China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company's information disclosure. Only information of the Company published in the aforesaid media should be relied upon.

§2 CORPORATE INFORMATION

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

During the reporting period, the growth of investments in equipment by the global telecommunications industry was slow, while large-scale deployment of 4G networks and the construction of broadband networks became the driving force of investments. The telecommunications industry was focused on wireless and broadband systems and their ancillary transmission networks, while new strategic industries such as Cloud Computing and the Internet of Things continued to remain in the limelight and report progress. In the domestic market, large-scale TD-LTE construction was set to usher in another wave of investment opportunities for the domestic telecommunications industry, while the ongoing implementation of the broadband China strategy would provide policy support for the development of the domestic broadband industry, such that investments in transmission facilities ancillary to the construction of TD-LTE and broadband networks were also brought into focus. Leveraging market opportunities, the Group worked in close tandem with the technological preferences and network construction plans of carriers and optimised its market profile. Internationally, the Group continued to focus its efforts on major populous nations and leading global carriers, driving development in key sectors such as government and enterprise networks, service markets and terminal markets while consolidating its share in the market of carriers' networks.

For the nine months ended 30 September 2013, the Group reported operating revenue of RMB54.659 billion, representing a 10% decrease compared to the same period last year. Net profit attributable to shareholders of the listed company amounted to RMB552 million, representing a 132.44% increase over the same period last year. Basic earnings per share amounted to RMB0.16.

Looking ahead to the next reporting period, equipment investment by the telecommunications industry will remain focused on wireless and broadband systems and their ancillary transmission networks. The Group will continue to drive product innovation and solution-based operations with a strong focus on mainstream products, while seeking to improve R&D efficiency. The strategy for populous nations and mainstream global carriers will be reinforced, as we look to concentrate on markets in which we claim strengths while vigorously expanding in the government and enterprise, service and terminal segments. The Group will continue to implement the settlement system to facilitate resource management and control, with a view to refining cost management and enhancing operating efficiency.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	As at the end of the reporting period (30 September 2013)	As at the end of last year (31 December 2012)	Change as at the end of the reporting period compared with the end of last year
Total assets (<i>RMB in thousands</i>)	100,969,229	107,446,306	(6.03%)
Owners' equity attributable to shareholders of the listed company (<i>RMB in thousands</i>)	21,620,725	21,502,474	0.55%
Total share capital (<i>thousand shares</i>)	3,437,541	3,440,078	(0.07%)
Net assets per share attributable to shareholders of the listed company (<i>RMB/share</i>) ^{Note 1}	6.29	6.26	0.48%

Item	Three months ended 30 September 2013	Change compared with the same period last year	Nine months ended 30 September 2013	Change compared with the same period last year
Operating revenue (<i>RMB in thousands</i>)	17,082,669	(5.58%)	54,658,881	(10.00%)
Net profit attributable to shareholders of the listed company (<i>RMB in thousands</i>)	241,587	112.42%	551,599	132.44%
Net profit after extraordinary items attributable to shareholders of the listed company (<i>RMB in thousands</i>)	86,486	103.82%	(665,886)	71.34%
Net cash flow from operating activities (<i>RMB in thousands</i>)	360,281	116.47%	(3,980,803)	31.68%
Net cash flow from operating activities per share (<i>RMB/share</i>) ^{Note 2}	0.10	115.63%	(1.16)	31.76%
Basic earnings per share (<i>RMB/share</i>) ^{Note 3}	0.07	112.28%	0.16	132.00%
Diluted earnings per share (<i>RMB/share</i>) ^{Note 4}	0.07	112.28%	0.16	132.65%
Weighted average return on net assets (%)	1.12%	Increased by 9.40 percentage points	2.56%	Increased by 9.84 percentage points
Weighted average return on net assets after extraordinary items (%)	0.40%	Increased by 10.03 percentage points	(3.09%)	Increased by 6.85 percentage points

- Note 1:* Net assets per share attributable to shareholders of the listed company as at the end of the third quarter of 2013 were calculated on the basis of the total share capital at the end of the period; net assets per share attributable to shareholders of the listed company as at the end of 2012 were calculated on the basis of the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme;
- Note 2:* Net cash flow from operating activities per share for the nine months and three months ended 30 September 2013 was calculated on the basis of the total share capital at the end of the period; net cash flow from operating activities per share for the nine months and three months ended 30 September 2012 was calculated on the basis of the total share capital at the end of the period less 9,125,893 restricted shares under the Phase I Share Incentive Scheme remaining in lock-up;
- Note 3:* Basic earnings per share for the nine months and three months ended 30 September 2013 was calculated on the basis of the total share capital at the end of the period; basic earnings per share for the nine months and three months ended 30 September 2012 was calculated on the basis of the weighted average number of the total share capital at the end of the period less 9,125,893 restricted shares under the Phase I Share Incentive Scheme remaining in lock-up;
- Note 4:* For 2013, diluted earnings per share was equivalent to basic earnings per share as there were no Subject Share quotas under the Phase I Share Incentive Scheme remaining in lock-up; for 2012, as certain Subject Share quotas under the Phase I Share Incentive Scheme remaining in lock-up gave rise to 6,874,194 potentially dilutive ordinary shares, diluted earnings per share was calculated on the basis of basic earnings per share taking into account the said factor.

Extraordinary items

Unit: RMB in thousands

	Amount	
	Three months ended 30 September 2013	Nine months ended 30 September 2013
Extraordinary item		
Non-operating income	291,445	589,344
Gains/(Losses) from changes in fair values	(62,584)	100,304
Investment income	16,521	847,795
Less: Gains/(Losses) arising on disposal of non-current assets	12,930	20,101
Less: Other non-operating expenses	49,980	85,007
Less: Effect of income tax	27,371	214,850
Total	<u>155,101</u>	<u>1,217,485</u>

2.2.2 The amounts of net profit and shareholders' equity of the Group for the nine months ended 30 September 2013 and as at 30 September 2013 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.

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

Total number of shareholders

As at 30 September 2013 There were 120,808 shareholders in total (comprising 120,448 holders of A shares and 360 holders of H shares).

Shareholdings of top 10 shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Number of shareholdings as at the end of the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of pledged or frozen shares
1. Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.78%	1,058,191,944	0	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.28%	628,305,688	0	Unknown
3. CITIC Trust Co., Ltd. — Wealth Management 06	Others	1.69%	58,194,000	0	Unknown
4. China Life Insurance Company Limited — Dividend-Individual Dividend — 005L-FH002 Shen	Others	1.10%	37,978,630	0	Unknown
5. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.09%	37,450,609	0	Unknown
6. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Fund (LOF)	Others	0.99%	34,030,216	0	Unknown
7. NSSF Portfolio #116	Others	0.93%	32,000,000	0	Unknown
8. China Merchants Bank Co., Ltd. — Everbright Pramerica Advantage Allocation Stock Fund	Others	0.79%	27,000,000	0	Unknown
9. China Life Insurance Company Limited — Traditional-General Insurance Products — 005L-CT001 Shen	Others	0.77%	26,416,102	0	Unknown
10. Bank of Communications — Bosera Emerging Growth Stock Fund	Others	0.75%	25,699,505	0	Unknown

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class
1. Zhongxingxin	1,058,191,944	A share
2. HKSCC Nominees Limited	628,305,688	H share
3. CITIC Trust Co., Ltd. — Wealth Management 06	58,194,000	A share
4. China Life Insurance Company Limited — Dividend-Individual Dividend — 005L-FH002 Shen	37,978,630	A share
5. Hunan Nantian (Group) Co., Ltd.	37,450,609	A share
6. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Fund (LOF)	34,030,216	A share
7. NSSF Portfolio #116	32,000,000	A share
8. China Merchants Bank Co., Ltd. — Everbright Pramerica Advantage Allocation Stock Fund	27,000,000	A share
9. China Life Insurance Company Limited — Traditional-General Insurance Products — 005L-CT001 Shen	26,416,102	A share
10. Bank of Communications — Bosera Emerging Growth Stock Fund	25,699,505	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<ol style="list-style-type: none"> 1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares not subject to lock-up listed above. 2. The 4th and 9th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited. 3. The Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares not subject to lock-up. 	
Description of shareholders involved in financing and securities lending businesses (if any)	N/A	

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

Yes No

§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 2013	31 December 2012	Change	Analysis of Reasons for Changes
Cash	15,721,676	24,126,423	(34.84%)	Mainly attributable to the redemption of Bonds cum Warrants by the Company
Prepayments	1,014,354	742,551	36.60%	Mainly attributable to the increase in purchase amounts prepaid to suppliers in accordance with contracts
Available-for-sale financial assets	1,547,771	1,092,335	41.69%	Mainly attributable to the Company's acquisition of restricted shares of China All Access (Holdings) Limited ("China All Access")
Held-to-maturity investments	159,763	—	N/A	Mainly attributable to the Company's acquisition of convertible bonds of China All Access
Long-term trade receivables	651,842	1,206,642	(45.98%)	Mainly attributable to the decrease during the period of trade receivables subject to customer payment terms with longer grace periods
Construction in progress	493,609	824,387	(40.12%)	Mainly attributable to the reclassification of certain construction in progress as fixed assets
Taxes payable	(784,127)	(1,161,974)	32.52%	Mainly attributable to the expedited export rebate application process and the increase of VAT payable during the period
Dividends payable	35,002	205,783	(82.99%)	Mainly attributable to the payment during the period of dividend declared in previous period by certain subsidiaries
Other payables	5,547,994	8,127,193	(31.74%)	Mainly attributable to the decrease in factored amounts received by the Company as agent during the period
Deferred income	398,965	267,082	49.38%	Mainly attributable to the increase in income-related government subsidies
Non-current liabilities due within one year	2,763,929	4,524,420	(38.91%)	Mainly attributable to the redemption of Bonds cum Warrants
Long-term loans	5,488,988	989,990	454.45%	Mainly attributable to the retransfer to long-term loans during the period, after obtaining an exemption letter, of syndicate loans which were transferred out as at the end of 2012 owing to non-compliant financial benchmarks
Other non-current liabilities	1,342,838	592,282	126.72%	Mainly attributable to the increase in staff housing payments charged to other non-current liabilities for the period
Foreign currency translation differences	(1,119,427)	(582,699)	(92.11%)	Mainly attributable to exchange rate volatility during the period

Income Statement (Nine months ended 30 September)

Item	Nine months ended 30 September 2013	Nine months ended 30 September 2012	Change	Analysis of Reasons for Changes
Finance expenses	1,849,792	946,271	95.48%	Mainly attributable to exchange losses due to exchange rate volatility for the period versus exchange gains due to exchange rate volatility for the same period last year
Impairment losses	1,768,560	364,651	385.00%	Mainly attributable to the increase in bad debt provision for trade receivables for the period
Gains/losses from changes in fair values	100,304	(84,682)	218.45%	Mainly attributable to gains arising from revaluation during the period of fair values for certain derivatives and investment properties at the end of the investment period
Investment income	838,850	465,683	80.13%	Mainly attributable to investment income arising from the disposal of equity interests in Shenzhen ZNV Technology Co., Ltd. (“ZNV”) during the period
Non-operating expenses	105,108	51,883	102.59%	Mainly attributable to the increase in penalty payment expenses for the period
Income tax	432,809	178,410	142.59%	Mainly attributable to the increase in taxable profit reported by certain subsidiaries
Minority interests	28,581	192,205	(85.13%)	Mainly attributable to the year-on-year decrease in the percentage of minority interests of certain subsidiaries and the deconsolidation of certain subsidiaries with a higher level of minority interests following disposal of equity interests in these subsidiaries in the second half of 2012, whereas these subsidiaries were included in the consolidated statements for the same period of 2012
Other comprehensive income	(430,517)	699,467	(161.55%)	Mainly attributable to the increase in other comprehensive income for the same period of 2012 reflecting the appreciation of owned properties reclassified to investment properties upon valuation and the absence of such appreciation for the period under review
Comprehensive income attributable to minority interests	28,875	209,417	(86.21%)	Mainly attributable to the year-on-year decrease in the percentage of minority interests of certain subsidiaries and the deconsolidation of certain subsidiaries with a higher level of minority interests following disposal of equity interests in these subsidiaries in the second half of 2012, whereas these subsidiaries were included in the consolidated statements for the same period of 2012

Income Statement (Three months ended 30 September)

Item	Three months ended 30 September 2013	Three months ended 30 September 2012	Change	Analysis of Reasons for Changes
Taxes and surcharges	339,348	245,407	38.28%	Mainly attributable to the increase in income subject to business tax, city maintenance and construction tax and education surcharge
Research and development costs	1,509,274	2,632,507	(42.67%)	Mainly attributable to enhanced cost controls and increased research and development efficiency during the period
Finance expenses	408,238	115,208	254.35%	Mainly attributable to exchange losses due to exchange rate volatility for the period versus exchange gains due to exchange rate volatility for the same period last year
Impairment losses	841,872	(95,839)	978.42%	Mainly attributable to the increase in bad debt provision for trade receivables for the period versus the write-back of bad debt provision for trade receivables for the same period last year
Investment income	29,719	374,805	(92.07%)	Mainly attributable to gains arising from the disposal of equity interests in Shenzhen ZTE Special Equipment Company Limited for the same period last year and the absence of such gains for the period under review
Non-operating income	1,071,038	658,330	62.69%	Mainly attributable to the increase in income from VAT refunds for software products for the period
Non-operating expenses	62,910	24,144	160.56%	Mainly attributable to the increase in penalty payment expenses for the period
Income tax	20,272	(85,214)	123.79%	Mainly attributable to the increase in taxable profit for the period
Minority interests	9,349	45,072	(79.26%)	Mainly attributable to the increase in profit reported by certain subsidiaries with a higher level of minority interests which were deconsolidated for the period following disposal of equity interests in these subsidiaries towards the end of last year, whereas these subsidiaries were included in the consolidated statements for the same period last year
Other comprehensive income	(330,679)	(25,132)	(1,215.77%)	Mainly attributable to the increase in losses arising from the translation of financial statements denominated in foreign currency
Comprehensive income attributable to minority interests	9,348	47,663	(80.39%)	Mainly attributable to the increase in profit reported by certain subsidiaries with a higher level of minority interests which were deconsolidated for the period following disposal of equity interests in these subsidiaries towards the end of last year, whereas these subsidiaries were included in the consolidated statements for the same period last year

Cash Flow Statement

Item	Nine months ended 30 September 2013	Nine months ended 30 September 2012	Change	Analysis of Reasons for Changes
Net cash flows from operating activities	(3,980,803)	(5,826,768)	31.68%	Mainly attributable to the decrease in expenses for the period
Net cash flows from investing activities	(716,322)	(1,442,928)	50.36%	Mainly attributable to payment received from the transfer of equity interests in ZNV during the period
Net cash flows from financing activities	(2,928,966)	865,994	(438.22%)	Mainly attributable to the decrease in cash received from loan drawdowns
Effect of changes in foreign exchange rate on cash	(718,186)	(304,984)	(135.48%)	Mainly attributable to increase in exchange losses due to exchange rate volatility for the period

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

3.2.1 Statement of qualified opinion

Applicable N/A

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

Applicable N/A

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

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

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012–2015 between the Company and Qualcomm	21 February 2012	By reference to market prices	Not less than USD4 billion	No	Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012–2014 between the Company and Broadcom	21 February 2012	By reference to market prices	Not less than USD1 billion	No	Under normal progress

3.2.4 Others

3.2.4.1 Election of Mr. Richard Xike Zhang as a new member of the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors

Pursuant to the “Resolution on the Nomination of Candidate for Independent Non-executive Director” considered and passed at the Third Meeting of the Nomination Committee of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Session of the Board of Directors of the Company on 13 June 2013, Mr. Richard Xike Zhang was nominated by the Sixth Session of the Board of Directors of the Company as a candidate for Independent Non-executive Director of the Company. The resolution was considered and passed at the Second Extraordinary General Meeting of 2013 of the Company held on 28 June 2013. The term of office of Mr. Richard Xike Zhang commenced on 30 June 2013 and will end upon the conclusion of the term of the Sixth Session of the Board of Directors (namely 29 March 2016). On 1 July 2013, the “Resolution on the Election of a New Member of the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors” was considered and passed at the Fifth Meeting of the Sixth Session of the Board of Directors of the Company, pursuant to which Mr. Richard Xike Zhang was elected as a new member of the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session

of the Board of Directors Board of Directors. For details, please refer to the “Announcement of Resolutions of the Fourth Meeting of the Sixth Session of the Board of Directors,” “Announcement of Resolutions of the Second Extraordinary General Meeting of 2013” and “Announcement of Resolutions of the Fifth Meeting of the Sixth Session of the Board of Directors” published by the Company on 13 June, 28 June and 1 July 2013, respectively.

3.2.4.2 Repurchase and cancellation of restricted shares not qualified for unlocking

In accordance with the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) of the Company (“Phase I Share Incentive Scheme”), the Company has granted a designated volume of restricted A share quotas (“Subject Shares”) to the Scheme Participants. As at 24 December 2012, all Subject Shares qualified for unlocking had been listed for trading, while 2,536,742 shares remained in lock-up due to non-fulfillment of unlocking conditions stipulated under the Phase I Share Incentive Scheme, such as resignations or non-fulfillment of benchmarks in performance appraisals by Scheme Participants. In accordance with the provisions of the Phase I Share Incentive Scheme, the Company has proposed to repurchase and cancel such shares at a price equivalent to the cost paid by the Scheme Participants for the subscription of Subject Shares. For details please refer to the “Announcement of Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking” published by the Company on 8 May 2013.

The aforesaid matter was considered and approved at the Third Meeting of the Sixth Session of the Board of Directors of the Company held on 8 May 2013 and the Second Extraordinary General Meeting of 2013 of the Company held on 28 June 2013. For details please refer to the “Announcement of Resolutions of the Third Meeting of the Sixth Session of the Board of Directors” and “Announcement of Resolutions of the Second Extraordinary General Meeting of 2013” published on 8 May 2013 and 28 June 2013, respectively. The aforesaid matter was also considered and passed at the first meeting of holders of 2012 corporate bonds (tranche 1) of the Company of 2013 held on 31 July 2013.

In accordance with the provisions of the Company Law of the People’s Republic of China (“Company Law”) and other pertinent laws and regulations, the Company has advised all creditors that the repurchase and cancellation of restricted shares will result in the reduction of the Company’s registered capital. For details please refer to the “Overseas Regulatory Announcement” published on 28 June 2013 and the “Announcement of Capital Reduction” published in Shenzhen Evening News on 29 June 2013.

The Company has completed formalities for the repurchase, transfer and cancellation of the aforesaid 2,536,742 restricted shares with China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. For details, please refer to the “Announcement Completion of Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking” published by the Company on 3 September 2013. The Company will process relevant procedures for the change in industrial and commercial registration in accordance with the law.

3.2.4.3 Information on the share option incentive scheme of the Company

In order to further improve the corporate governance structure of the Company, bolster its incentive mechanism, strengthen the sense of responsibility and mission on the part of the management team and key employees for the sustainable and healthy development of the Company, and ensure the achievement of the Company’s development objectives, the Company has formulated the “ZTE Corporation Share Option Incentive Scheme (Draft)” which was considered and passed at the Sixth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2013. On 20 August 2013, the Company was notified that the opinion of the State-owned shareholder of the

Company in respect of the Company's implementation of the share option incentive scheme had been approved by the SASAC by way of the "Reply to the Opinion on the Filing of the ZTE Corporation Share Option Incentive Scheme" (Guo Zi Ting Fen Pei [2013] No. 418) (《關於中興通訊股份有限公司股票期權激勵計劃備案有關意見的覆函》(國資廳分配[2013]418號)) and had been filed by the SASAC. On 23 August 2013, the Company was notified that Department No. 1 for the Regulation of Listed Companies under the CSRC had confirmed it had no objection to the holding of a general meeting by the Company to consider the share option incentive scheme in accordance with the Measures for the Administration of Share Incentives at Listed Companies (Trial) (《上市公司股權激勵管理辦法(試行)》) by virtue of the document "Opinion on ZTE Corporation Share Option Incentive Scheme" (Shang Shi Yi Bu Han [2013] No. 539) (《關於中興通訊股份有限公司股票期權激勵計劃的意見》(上市一部函[2013]539號)).

"ZTE Corporation Share Option Incentive Scheme (Revised Draft)" was considered and passed at the Eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 26 August 2013, and was further considered and passed at the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 held on 15 October 2013. For details, please refer to the "Announcement of Resolutions of the Eighth Meeting of the Sixth Session of the Board Meeting of Directors" and "Amendments to the terms of the proposed A-Share Option Incentive Scheme" published on 26 August 2013, the "Announcement of Resolutions of the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013" published on 15 October 2013 by the Company.

3.2.4.4 Performance of guarantee obligation in respect of Benin Telecoms S.A. ("Benin Telecoms")

The Company has provided a guarantee for ZTE (H.K.) Limited ("ZTE HK"), a wholly-owned subsidiary of the Company, in respect of a US\$3 million banking facility. To facilitate its business development, ZTE HK has applied to Societe Generale (Hong Kong Branch) for a standby letter of credit, under the aforesaid banking facility, in favour of the lending bank which has extended loans for a project of Benin Telecoms (undertaken by ZTE HK as contractor) as guarantee for a 30% partial repayment of the 15% upfront loan for the said project of Benin Telecoms. The amount of guarantee shall be no more than US\$3 million.

ZTE HK, the wholly-owned subsidiary of the Company, received an electronic message from Societe Generale (Hong Kong Branch), notifying that ZTE HK was required to make a payment of USD2,803,925.46 to Societe Generale (Hong Kong Branch) in compensation, as Societe Generale (Hong Kong Branch) was required to perform its guarantee obligations under the aforesaid standby letter of credit as a result of the failure of Benin Telecoms, the guaranteed party, to honour repayments as scheduled. ZTE HK has made the payment in compensation, after which the guarantee obligations of the Company and ZTE HK have been released. ZTE HK, the wholly-owned subsidiary of the Company, will demand retrospective compensation from Benin Telecoms and the Ministry of Finance of Benin to minimise its losses. In the judgement of the Company, the compensation will not have any material adverse impact on the financial conditions and operating results of the Company for the current period.

For details of the aforesaid matter, please refer to the "Announcement Performance of guarantee obligation in respect of Benin Telecoms S.A." published by the Company on 21 August 2013.

3.2.4.5 Waiver of rights by the Company

To meet the needs of its business development and to comply with relevant requirements of overseas laws, ZTE Corporation South Africa (Proprietary) Limited (“ZTE South Africa”), a wholly-owned subsidiary of ZTE HK which, in turn, is a wholly-owned subsidiary of the Company, has proposed to increase its share capital and introduce new shareholders. In connection with the proposed share capital increase of ZTE South Africa, ZTE HK will waive the first right of refusal to share subscription and capital contribution in respect of the share capital increase. For details, please refer to the “Announcement of Waiver of Rights” published by the Company on 12 September 2013.

The aforesaid matter was considered and passed at the Ninth Meeting of the Sixth Session of the Board of Directors of the Company. As ZTE South Africa had reported a compound annual growth rate of 169.72%, namely in excess of 20%, in its revenue from principal operations for the past three years, the matter was required to be and had been considered and passed at the Third Extraordinary General Meeting of 2013 of the Company in accordance with the “Information Disclosure Memorandum No. 35 — Waiver of Rights” (信息披露業務備忘錄第35號 — 放棄權利) issued by the Shenzhen Stock Exchange. For details, please refer to the “Announcement of Resolutions of the Ninth Meeting of the Sixth Session of the Board of Directors” and “Announcement of Resolutions of the Third Extraordinary General Meeting of 2013, the First A Shareholders’ Class Meeting of 2013 and the First H Shareholders’ Class Meeting of 2013” published by the Company on 12 September 2013 and 15 October 2013, respectively.

3.2.4.6 Provision of third-party guarantee for a wholly-owned subsidiary

ZTE has proposed to provide joint-liability guarantee (“Guarantee by Assurance”) in respect of the performance obligations of P.T. ZTE Indonesia (“ZTE Indonesia”), a wholly-owned subsidiary of ZTE under the Equipment Purchase Contract and the Technical Support Contract for an amount not exceeding US\$40 million, with a term commencing on the date on which the Guarantee by Assurance Agreement takes effect upon execution and ending on the date on which the performance of ZTE Indonesia’s material obligations under the Equipment Purchase Contract and the Technical Support Contract are completed. At the same time, ZTE has applied to the relevant bank for the issuance of a letter of bank guarantee (“Guarantee Letter”), under the composite credit facility considered and passed by the Board of Directors, with the intention to provide guarantee with a maximum accumulated amount of US\$15 million in respect of the performance obligations of ZTE Indonesia under the Equipment Purchase Contract and Technical Support Contract. The term of guarantee shall commence on the date on which the Guarantee Letter takes effect and ending on 5 March 2017 or the date on which the performance obligations of ZTE Indonesia under the Equipment Purchase Contract and Technical Support Contract are fully completed, whichever is later. For details, please refer to the “Announcement on Third-party Guarantee” published by the Company on 12 September 2013.

The aforesaid matter was considered and passed at the Ninth Meeting of the Sixth Session of the Board of Directors of the Company. As ZTE Indonesia had a gearing ratio of over 70%, the matter was required to be and had been considered and passed at the Third Extraordinary General Meeting of 2013 of the Company. For details, please refer to the “Announcement of Resolutions of the Ninth Meeting of the Sixth Session of the Board of Directors” and “Announcement of Resolutions of the Third Extraordinary General Meeting of 2013, the First A Shareholders’ Class Meeting of 2013 and the First H Shareholders’ Class Meeting of 2013” published by the Company on 12 September 2013 and 15 October 2013, respectively.

3.2.4.7 Information on the corporate bonds of the Company

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

The corporate bond interest payment for 2013 was completed on 13 June 2013 and the total amount of interest payment made was RMB252 million. For details please refer to the “Overseas Regulatory Announcement” published by the Company on 3 June 2013.

As at 30 September 2013, There were 253 holders of corporate bonds of the Company, the top ten of which were as follows:

No.	Name of bond holders	Number of bonds held	Bond holding ratio
1	China Merchants Bank Co., Ltd.	10,000,000	16.67%
2	Industrial and Commercial Bank of China Limited	9,300,000	15.50%
3	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Fund	5,450,000	9.08%
5	China Merchants Bank — BOC Stable Profit and Dividend Bond Fund	1,800,100	3.00%
6	China Construction Bank — Penghua Harvest Bond Fund	1,680,000	2.80%
7	Agricultural Bank of China Limited	1,407,650	2.35%
8	NSSF Portfolio #204	1,282,018	2.14%
9	Industrial and Commercial Bank of China — BOC Stable Profit Increment Bond Fund	1,078,560	1.80%
10	NSSF Portfolio #409	1,000,000	1.67%

3.2.4.8 *Material litigation and arbitration during the reporting period*

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

1. In May 2012, Flashpoint Technology, Inc., a U.S. company, filed a claim with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and its wholly owned subsidiary ZTE USA, Inc. (“ZTE USA”) of infringement upon its patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited 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 Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 2013, ITC issued its initial determination in respect 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. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States).

Based on the current progress of the case, the Directors of the Company are of the opinion that 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 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 initial determination in respect 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.

Based on the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

3.2.4.9 Conduct of continuing connected transactions during the reporting period

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

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of various products such as cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Prices at which the Group made purchases from the connected parties were not higher than prices at which similar products of comparable quantity are sold to other users by the connected parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms.	Cabinets and related accessories: RMB1-RMB30,000 per unit; and cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB5,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB11,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	36,065.59	1.23%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna")	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party		Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features	24,018.38	0.82%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Huatong Technology Company Limited ("Huatong")	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-450 per head/day; Junior engineer at a price ranging from RMB230-320 per head/day; Technician at a price ranging from RMB190-230 per head/day.	883.79	0.03%	Tele-transfer	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Software Technology (Nanchang) Company Limited ("Nanchang Software")	A company of which the majority of board members can be controlled by another company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-450 per head/day; Junior engineer at a price ranging from RMB230-320 per head/day; Technician at a price ranging from RMB190-230 per head/day.	537.03	0.02%	Tele-transfer	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		Single room: RMB240-380/night; Double room: RMB240-380/night; Suite: RMB500-600/night	2,348.80	0.08%	Tele-transfer	N/A	27 June 2012 27 April 2013	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Development Company Limited ("Zhongxing Development")	A company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m. by the Company from the connected party		Monthly rent of RMB115/sq.m. and changed to RMB130/sq.m. with effect from 18 April 2013 (property management undertaken by ZTE and no management fees are payable)	3,278.76	7.93%	Tele-transfer	N/A	28 April 2010 29 December 2012	Announcement No. 201051 "Announcement on Connected Transactions" Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development")	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. by the Company from the connected party		Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and cafeteria respectively and monthly management fee of RMB2.5/sq.m.	639.76	1.55%	Tele-transfer	N/A	14 December 2011	Announcement No. 201153 "Announcement on Connected Transactions"
Zhongxing Hetai or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		Rent: RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of amortization of assets.	2,907.46	48.05%	Tele-transfer	N/A	27 June 2012 27 April 2013	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total						70,679.57	N/A				
Detailed information of substantial sales return				None							
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)				<p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the estimated purchases from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2013 be capped at RMB900 million (before VAT);</p> <p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2013 be capped at RMB600 million (before VAT);</p> <p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Group in 2013 be capped at RMB78 million and RMB33 million, respectively (before VAT);</p> <p>At the Third Meeting of the Fifth Session of the Board of Directors held on 27 April 2010, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB44.16 million for a term commencing on 18 April 2010 and ending on 17 April 2013; At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB50.80 million for a term commencing on 18 April 2013 and ending on 17 April 2015;</p> <p>At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors held on 13 December 2011, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB11.40 million for a term commencing on 1 January 2012 and ending on 31 December 2014;</p> <p>At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, or its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2012 and ending on 30 June 2013; and the estimated amount payable by Zhongxing Hetai or its subsidiaries to the Company for the lease of properties and relevant equipment and facilities be capped at RMB46 million for the period commencing on 1 July 2012 and ending on 30 June 2013; At the Second Meeting of the Sixth Session of the Board of Directors held on 26 April 2013, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, or its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2013 and ending on 30 June 2014; and the estimated amount payable by Zhongxing Hetai or its subsidiaries to the Company for the lease of properties and relevant equipment and facilities be capped at RMB48 million for the period commencing on 1 July 2013 and ending on 30 June 2014; and</p> <p>Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.</p>							
Reason for the substantial difference between transaction prices and referential market prices (if applicable)				N/A							

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

Applicable N/A

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

The Group's net profit attributable to the shareholders of the listed company for 2012 was RMB -2.84 billion. The Group is expected to realize a turnaround to profit for the year ending 31 December 2013 mainly for the following reasons:

1. The Group has strengthened its management over contract profitability by strictly controlling the signing of low gross margin contracts, therefore the gross margin of the Group is expected to increase compared with the last year;
2. The Group has also strengthened its cost control by focusing on cost efficiency, therefore the expenses of the Group (including selling and distribution costs, administrative expenses and research and development costs) is expected to decrease significantly compared with the last year.

Since the timing of the issue of 4G licenses in the PRC market has not been confirmed to date and the procurement of 4G equipment from domestic carriers remains uncertain, the Group's sales revenue and profit for the year ending 31 December 2013 is subject to uncertainties.

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities and equity interests in other listed companies

1. Investment in securities

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

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300077	Nationz Technologies	172.38	312.58	1.15%	—	—	—	1,147.78	Trading financial assets	Initial investment
Convertible bond ^{Note}	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	15,976.33	1,065.09	Held-to-maturity investments	Initial investment
Other investment in securities held at the end of the period			—	—	—	—	—	—	—	—	—
Total			16,481.99	N/A	—	N/A	—	15,976.33	2,212.87	—	—
Announcement date of the Board approving investment in securities							N/A				
Announcement date of the general meeting approving investment in securities							N/A				

Note: China All Access is a company listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). The initial investment for ZTE HK’s acquisition of China All Access convertible bonds amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the median exchange rate for Hong Kong Dollar versus RMB (HKD1: RMB0.80941) quoted by the People’s Bank of China on 31 January 2013. The book value of the investment as at the end of the reporting period was approximately HKD201.5 million, equivalent to approximately RMB159.8 million based on the median exchange rate for Hong Kong Dollar versus RMB (HKD1: RMB0.79287) quoted by the People’s Bank of China on 30 September 2013.

(2) Details in investment in securities

A. Shareholdings in Nationz Technologies Inc. (“Nationz Technologies”)

Nationz Technologies, a company with equity investments by the Company, conducted its initial public offering (“IPO”) of shares for listing on the GEM Board of the Shenzhen Stock Exchange on 30 April 2010. On 28 April 2011, Nationz Technologies announced that a period of 12 months had lapsed since its IPO listing. The 54,400,000 shares in Nationz Technologies held by the Company (after the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of Nationz Technologies) would be available for circulation as from 3 May 2011. Pursuant to the “Resolution on the Proposed Disposal of Shares in Nationz Technologies, Inc.” passed at the Nineteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 May 2011, the disposal of shares in Nationz Technologies at an appropriate timing and a reasonable price range was approved.

During the reporting period, the Company disposed of its entire holdings of shares in Nationz Technologies. As the Company does not exercise significant influence over the operating activities of Nationz Technologies, shares held by the Company have been accounted for as trading financial assets for accounting purposes and investment income and profit/loss from fair value change have been measured at fair value.

B. Holdings of China All Access convertible bonds

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

As at the end of the reporting period, the Company held convertible bonds of China All Access in the amount of HKD201.5 million. The convertible bonds held by the Company have been classified as held-to-maturity investments for accounting purposes and interest income arising from the convertible bonds has been included in current profit and loss.

2. Equity interests in other listed companies

- (1) Equity interests in other listed companies held by the Company at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300322	Speed ^{Note 1}	762.79	200	2.14%	240	2.14%	5,779.2	—	Available-for-sale financial assets	Initial investment
Stock	00633	China All Access ^{Note 2}	16,309.61	11,200	8.43%	11,200	8.43%	25,752.42	—	Available-for-sale financial assets	Initial investment
Total			17,072.4	11,400	—	11,440	—	31,531.62	—	—	—

Note 1: Figures corresponding to Huizhou Speed Wireless Technology Co., Ltd. (“Speed”) are provided with Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (“Zhonghe Chunsheng Fund”) as the accounting subject.

Note 2: The initial investment for ZTE HK’s acquisition of China All Access shares amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People’s Bank of China on 31 January 2013 (HKD1: RMB0.80941). The book value of the investment as at the end of the reporting period was approximately HKD324.8 million, equivalent to approximately RMB257.5 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People’s Bank of China on 30 September 2013 (HKD1: RMB0.79287).

- (2) Details of equity interests in other listed companies

A. Shareholdings in Speed

As at the end of the reporting period, the Company and Shenzhen ZTE Capital Management Company Limited held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund held 2.40 million shares in or 2.14% of the total share capital of Speed (a company listed on the GEM Board of the Shenzhen Stock Exchange), following the implementation of the 2012 profit distribution and capitalisation of capital reserve plans of Speed.

B. Shareholdings in China All Access

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

As at the end of the reporting period, the Company held 112 million shares in China All Access, accounting for approximately 8.43% of the total share capital of China All Access. Such shares are subject to a lock-up period of one year (from 15 January 2013 to 15 January 2014).

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

3.5.2 Reception of analysts, communications and press interviews during the reporting period

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Materials furnished
External meetings	July 2013	Guilin	Sinolink Securities investors' meeting	Customers of Sinolink Securities	Day-to-day operations of the Company	Published announcements and regular reports
	August 2013	Shanghai	Qilu Securities investors' meeting	Customers of Qilu Securities	Day-to-day operations of the Company	Published announcements and regular reports
	August 2013	Shanghai	Minsheng Securities investors' meeting	Customers of Minsheng Securities	Day-to-day operations of the Company	Published announcements and regular reports
	August 2013	Shanghai	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2013	Hong Kong	CIMB investors' meeting	Customers of CIMB	Day-to-day operations of the Company	Published announcements and regular reports
	September 2013	Shenzhen	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2013	Hong Kong	CITIC Securities International investors' meeting	Customers of CITIC Securities International	Day-to-day operations of the Company	Published announcements and regular reports
Company visitors by investors	July to September 2013	Company	Verbal	Overseas investors Mizuho Securities, Morgan Stanley, SRS Investment Management, Light Street Capital, Global Situations Investment, Credit Suisse, Soros Fund Management LLC, Fidelity, Value Partner, Balyasny Asset Management, Putnam Investments, Schroders Investment Management, Samsung Asset Management, CLSA, PFM, Sands Capital, Cavalry Asset Management	Day-to-day operations of the Company	Published announcements and regular reports
	July to September 2013	Company	Verbal	Domestic investors Southwest Securities	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 derivative investment amount	Start date	End date	Opening balance of investment amount	Impairment provision (if any)	Closing balance of investment amount	Closing balance of net assets ^{note} of the Company at the end of the reporting period (%)	Actual profit or loss for the reporting period
HSBC	N/A	No	Interest rate swap	—	19 December 2011	8 July 2016	31,428	—	30,740	1.42%	—
Standard Chartered Bank	N/A	No	Interest rate swap	—	22 December 2011	8 July 2016	31,428	—	30,740	1.42%	—
BNP Paribas	N/A	No	Foreign exchange forward contract	—	25 January 2013	29 September 2014	—	—	299,871	13.87%	2,276
Bank of China	N/A	No	Foreign exchange forward contract	—	30 January 2013	25 September 2014	4,400	—	274,015	12.67%	256
China CITIC Bank	N/A	No	Foreign exchange forward contract	—	23 May 2013	24 September 2014	—	—	106,871	4.94%	942
Other banks	N/A	No	Foreign exchange forward contract	—	25 January 2013	26 September 2014	350,733	—	347,261	16.06%	8
Total				—	—	—	417,989	—	1,089,498	50.38%	3,482
Source of funds for derivative investment				Internal funds							
Litigation (if applicable)				Not involved in any litigation							
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)				Announcement of Resolutions of the Fortieth Meeting of the Fifth Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2013”, both dated 27 March 2013.							
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)				Announcement of Resolutions of the 2012 Annual General Meeting” dated 30 May 2013.							
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period				<p>The Company conducted investments in value-protection derivatives during the first three quarters of 2013. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivatives 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. 2. Liquidity risks: The value-protection derivatives investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposures, and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company’s current assets was relatively small. 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks. 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks. 5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled. 							
Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives				The gains from investments in derivatives during the reporting period were recognised by the Company. Total gains recognised for the reporting period amounted to RMB34.82 million, comprising gains from fair-value change of RMB61.16 million and recognised investment losses of RMB26.34 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 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 enter into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries are closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.							

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

3.7 Development and implementation of internal control in the third quarter of 2013

During the first quarter of 2013, the Company formulated the “Plan for Advancing the Company’s Internal Control in 2013,” specifying the contents and key areas of internal control for the full year, and advanced its work according to such plan. During the second quarter of 2013, the Company commenced work in the building of an internal control organisational structure and operating mechanism, inspection, testing and rectification of internal control items, and the optimisation and streamlining of the internal control manual according to the plan. For details of internal control development and implementation in the first six months of 2013, please refer to the section headed “Material Matters” in the 2013 interim report of the Company.

Progress of work in internal control during the third quarter of 2013 is set out below:

1. Internal control work meetings were convened to drive the implementation of internal control. Internal Control and Audit Department made reports on the progress of the Company’s internal control to the Audit Committee of the Company on 20 August 2013, and implemented measures in accordance with the requirements of the Audit Committee on internal control.

During the third quarter of 2013, the internal control work steering team of the Company held two corporate-level internal control work meetings to determine the overall substance of internal control operations and conduct specific discussions in respect of the development of internal control IT system tools and internal financial control.

2. The internal control manual was streamlined. The Internal Control and Audit Department coordinated 20 internal control work teams in the Company to commence streamlining work for the internal control manual. The first draft of the internal control manual was delivered as planned following internal review and examination. Further optimisation of the internal control manual will be carried out during the fourth quarter of 2013, while the optimisation of processes and systems will also be performed at the same time.
3. Internal control rectifications were performed. Rectification in respect of internal control issues relating to strategic organisation and management was completed. Internal control optimisation in key areas, such as internal financial control, risk management, significant investments (by subsidiaries) and personnel management, was progressing as planned. Rectifications in response to management recommendations by the independent audit firm continued to be carried out as planned.
4. Specific internal control audit tasks relating to connected transactions and derivative investments for the first six months of 2013 were completed.
5. Internal control and risk system tools were developed. The Internal Control and Audit Department reported the development plans at a special internal control meeting in which specific discussions were conducted. Following the meeting, system requirements were further improved and the system function testing plan was renovated. Preliminary preparations for system function testing were carried out.
6. To generally improve staff ability in internal control, the Company continued to promote the internal control work during the third quarter of 2013. Four dedicated programmes were organized, while arrangements were made for employees to participate in quiz contests on corporate internal control organised by the CSRC, Ministry of Finance, SASAC and the Chinese Institute of Certified Public Accountants.

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

§4 APPENDICES

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

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

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

BALANCE SHEET

RMB in thousands

Assets	2013.9.30		2012.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current Assets:				
Cash	15,721,676	8,956,778	24,126,423	16,010,506
Trading financial assets	113,795	20,682	106,297	54,308
Bills receivable	3,884,729	2,989,518	4,282,220	3,762,831
Trade receivables	24,186,865	32,272,798	22,068,176	34,970,056
Factored trade receivables	4,288,159	3,673,101	4,165,514	3,545,295
Prepayments	1,014,354	16,053	742,551	44,783
Dividends receivable	—	1,970,264	—	6,242,066
Other receivables	2,239,271	8,903,698	2,019,341	4,551,048
Inventories	12,138,437	5,484,708	11,442,389	5,668,033
Amount due from customers for contract works	12,555,121	7,591,866	13,666,100	8,440,613
Total current assets	76,142,407	71,879,466	82,619,011	83,289,539
Non-current assets:				
Available-for-sale financial assets	1,547,771	373,555	1,092,335	323,655
Held-to-maturity investments	159,763	—	—	—
Long-term trade receivables	651,842	5,391,206	1,206,642	3,684,501
Factored long-term trade receivables	3,724,357	3,683,595	4,018,484	3,582,669
Long-term equity investments	425,802	6,326,220	455,768	6,492,492
Investment properties	1,765,400	1,426,747	1,686,158	1,381,593
Fixed assets	7,553,942	4,858,789	7,096,624	5,083,046
Construction in progress	493,609	53,419	824,387	54,714
Intangible assets	1,130,536	572,322	1,087,038	529,864
Deferred development costs	2,938,192	686,872	2,446,934	595,205
Deferred tax assets	1,320,806	728,176	1,218,605	581,507
Long-term deferred assets	73,518	51,797	90,017	57,993
Other non-current assets	3,041,284	2,991,284	3,604,303	3,374,559
Total non-current assets	24,826,822	27,143,982	24,827,295	25,741,798
TOTAL ASSETS	100,969,229	99,023,448	107,446,306	109,031,337

Legal representative: Hou Weigui Chief Financial Officer: Wei Zaisheng Head of Finance Division: Shi Chunmao

RMB in thousands

Liabilities and shareholders' equity	2013.9.30		2012.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	14,097,614	10,404,908	17,923,607	8,803,325
Trading financial liabilities	101,878	18,811	105,739	42,325
Bank advances on factored trade receivables	4,294,244	3,679,186	4,168,932	3,548,713
Bills payable	9,446,828	10,858,021	11,478,102	13,775,960
Trade payables	16,364,521	31,331,989	18,115,877	33,885,695
Amount due to customers for contract works	3,177,403	2,124,607	3,459,545	2,600,053
Advances from customers	3,483,870	2,004,311	3,106,638	1,765,544
Salary and welfare payables	2,249,240	465,725	2,346,526	569,587
Taxes payable	(784,127)	(1,122,086)	(1,161,974)	(1,309,327)
Dividends payable	35,002	152	205,783	152
Other payables	5,547,994	14,220,103	8,127,193	16,553,959
Deferred income	398,965	111,086	267,082	133,179
Provisions	331,942	173,813	291,457	159,693
Non-current liabilities due within one year	2,763,929	—	4,524,420	4,518,134
Total current liabilities	61,509,303	74,270,626	72,958,927	85,046,992
Non-current liabilities:				
Long-term loans	5,488,988	1,800,000	989,990	—
Bank advances on factored long-term trade receivables	3,724,357	3,683,595	4,018,484	3,582,669
Bonds payable	6,053,691	6,053,691	6,107,993	6,107,993
Deferred tax liabilities	139,900	138,400	139,900	138,400
Other non-current liabilities	1,342,838	1,341,518	592,282	592,282
Total non-current liabilities	16,749,774	13,017,204	11,848,649	10,421,344
Total liabilities	78,259,077	87,287,830	84,807,576	95,468,336
Shareholders' equity:				
Share capital	3,437,541	3,437,541	3,440,078	3,440,078
Capital reserves	9,458,560	9,325,812	9,352,643	9,332,663
Surplus reserves	1,587,430	925,674	1,587,430	925,674
Retained profits	8,256,621	(1,935,400)	7,705,022	(118,276)
Foreign currency translation differences	(1,119,427)	(18,009)	(582,699)	(17,138)
Total equity attributable to equity holders of the parent	21,620,725	11,735,618	21,502,474	13,563,001
Minority interests	1,089,427	—	1,136,256	—
Total shareholders' equity	22,710,152	11,735,618	22,638,730	13,563,001
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	100,969,229	99,023,448	107,446,306	109,031,337

Legal representative: Hou Weigui Chief Financial Officer: Wei Zaisheng Head of Finance Division: Shi Chunmao

INCOME STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2013		Nine months ended 30 September 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	54,658,881	49,828,976	60,733,488	51,768,403
Less: Operating costs	38,966,324	44,567,328	46,083,675	50,269,075
Taxes and surcharges	701,984	394,904	853,526	348,621
Selling and distribution costs	7,143,889	4,380,381	8,047,342	5,244,001
Administrative expenses	1,540,250	893,302	1,644,099	1,039,596
Research and development costs	5,136,829	1,279,866	6,657,940	1,665,830
Finance expenses	1,849,792	1,338,369	946,271	622,544
Impairment losses	1,768,560	1,385,975	364,651	136,484
Add: Gains/(Losses) from changes in fair values	100,304	66,366	(84,682)	(66,617)
Investment income	838,850	1,753,840	465,683	2,860,331
Including: Share of profits and losses of associates and jointly-controlled entities	(29,511)	(25,908)	(6,921)	(20,693)
2. Operating profit	<u>(1,509,593)</u>	<u>(2,590,943)</u>	<u>(3,483,015)</u>	<u>(4,764,034)</u>
Add: Non-operating income	2,627,690	637,973	2,205,048	413,614
Less: Non-operating expenses	105,108	47,354	51,883	24,963
Including: Gains/losses on disposal of non-current assets	20,101	13,948	19,778	11,148
3. Total profit	<u>1,012,989</u>	<u>(2,000,324)</u>	<u>(1,329,850)</u>	<u>(4,375,383)</u>
Less: Income tax	<u>432,809</u>	<u>(183,200)</u>	<u>178,410</u>	<u>(219,067)</u>
4. Net profit	<u><u>580,180</u></u>	<u><u>(1,817,124)</u></u>	<u><u>(1,508,260)</u></u>	<u><u>(4,156,316)</u></u>
Net profit attributable to owners of the parent	551,599	(1,817,124)	(1,700,465)	(4,156,316)
Minority interests	28,581	—	192,205	—

RMB in thousands

Item	Nine months ended 30 September 2013		Nine months ended 30 September 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
5. Earnings per share				
(1) Basic earnings per share	RMB0.16		RMB-0.50	
(2) Diluted earnings per share*	RMB0.16		RMB-0.49	
6. Other comprehensive income	(430,517)	(871)	699,467	922,220
7. Comprehensive income	<u>149,663</u>	<u>(1,817,995)</u>	<u>(808,793)</u>	<u>(3,234,096)</u>
Comprehensive income attributable to owners of the parent	120,788	(1,817,995)	(1,018,210)	(3,234,096)
Comprehensive income attributable to minority interests	28,875	—	209,417	—

Legal representative: Hou Weigui Chief Financial Officer: Wei Zaisheng Head of Finance Division: Shi Chunmao

* *As certain Subject Share quotas remaining in lock-up under the Phase I Share Incentive Scheme of the Company have given rise to 0 and 6,874,194 potentially dilutive ordinary shares for the reporting period and the same period of 2012, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors.*

INCOME STATEMENT

RMB in thousands

Item	Three months ended 30 September 2013		Three months ended 30 September 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	17,082,669	16,565,150	18,091,590	15,197,910
Less: Operating costs	11,732,150	14,744,500	14,805,685	16,714,183
Taxes and surcharges	339,348	162,966	245,407	66,719
Selling and distribution costs	2,476,380	1,537,971	2,723,779	1,720,308
Administrative expenses	479,462	233,098	606,073	396,431
Research and development costs	1,509,274	368,058	2,632,507	650,994
Finance expenses	408,238	367,877	115,208	169,082
Impairment losses	841,872	713,531	(95,839)	(187,712)
Add: Gains/(Losses) from changes in fair values	(62,584)	(23,667)	(53,243)	(44,932)
Investment income	29,719	4,808	374,805	1,128,170
Including: Share of profits and losses of associates and jointly-controlled entities	133	—	1,001	—
2. Operating profit	(736,920)	(1,581,710)	(2,619,668)	(3,248,857)
Add: Non-operating income	1,071,038	305,619	658,330	85,265
Less: Non-operating expenses	62,910	12,212	24,144	12,482
Including: Gains/losses on disposal of non-current assets	12,930	10,524	7,710	2,737
3. Total profit	271,208	(1,288,303)	(1,985,482)	(3,176,074)
Less: Income tax	20,272	(190,843)	(85,214)	(188,646)
4. Net profit	250,936	(1,097,460)	(1,900,268)	(2,987,428)
Net profit attributable to owners of the parent	241,587	(1,097,460)	(1,945,340)	(2,987,428)
Minority interests	9,349	—	45,072	—

RMB in thousands

Item	Three months ended 30 September 2013		Three months ended 30 September 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
5. Earnings per share				
(1) Basic earnings per share	RMB0.07		RMB-0.57	
(2) Diluted earnings per share*	RMB0.07		RMB-0.57	
6. Other comprehensive income	(330,679)	(580)	(25,132)	4
7. Comprehensive income	(79,743)	(1,098,040)	(1,925,400)	(2,987,424)
Comprehensive income attributable to owners of the parent	(89,091)	(1,098,040)	(1,973,063)	(2,987,424)
Comprehensive income attributable to minority interests	9,348	—	47,663	—

Legal representative: Hou Weigui Chief Financial Officer: Wei Zaisheng Head of Finance Division: Shi Chunmao

* *As certain Subject Share quotas remaining in lock-up under the Phase I Share Incentive Scheme of the Company have given rise to 0 and 6,874,194 potentially dilutive ordinary shares for the reporting period and the same period of 2012, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors.*

CASH FLOW STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2013		Nine months ended 30 September 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	58,901,866	47,420,251	61,384,281	51,401,370
Refunds of taxes	5,617,725	3,845,217	5,620,474	4,169,837
Cash received relating to other operating activities	765,011	566,660	525,204	396,694
Sub-total of cash inflows	65,284,602	51,832,128	67,529,959	55,967,901
Cash paid for goods and services	51,593,711	49,368,600	50,442,010	51,641,287
Cash paid to and on behalf of employees	8,596,292	3,136,313	10,594,745	3,905,744
Cash paid for all types of taxes	4,506,817	605,675	6,540,546	488,523
Cash paid relating to other operating activities	4,568,585	3,787,075	5,779,426	3,640,276
Sub-total of cash outflows	69,265,405	56,897,663	73,356,727	59,675,830
Net cash flows from operating activities	(3,980,803)	(5,065,535)	(5,826,768)	(3,707,929)
2. Cash flows from investing activities				
Cash received from sale of investments	624,568	21,300	1,299,639	264,180
Cash received from return on investments	387,885	284,242	132,817	451,656
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	56,563	55,912	30,577	26,557
Net cash received from the disposal of subsidiaries and other business units	1,124,477	1,155,511	—	—
Sub-total of cash inflows	2,193,493	1,516,965	1,463,033	742,393
Cash paid to acquisition of fixed assets, intangible assets and other long-term assets	1,550,271	810,880	1,630,930	858,294
Cash paid for acquisition of investments	1,359,544	211,466	1,275,031	889,668
Sub-total of cash outflows	2,909,815	1,022,346	2,905,961	1,747,962
Net cash flows from investing activities	(716,322)	494,619	(1,442,928)	(1,005,569)

RMB in thousands

Item	Nine months ended 30 September 2013		Nine months ended 30 September 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from capital injection	15,000	—	8,100	—
Including: Capital injection into subsidiaries by minority shareholders	15,000	—	8,100	—
Cash received from borrowings	17,785,936	12,956,417	23,015,412	18,233,417
Sub-total of cash inflows	17,800,936	12,956,417	23,023,512	18,233,417
Cash repayments of borrowings	19,304,664	14,103,996	20,530,285	15,957,475
Cash payments for distribution of dividends or for interest expenses	1,425,238	1,004,472	1,627,233	1,232,990
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	—	—	54,592	—
Sub-total of cash outflows	20,729,902	15,108,468	22,157,518	17,190,465
Net cash flows from financing activities	(2,928,966)	(2,152,051)	865,994	1,042,952
4. Effect of changes in foreign exchange rate on cash	(718,186)	(231,477)	(304,984)	(589)
5. Net increase in cash and cash equivalents	(8,344,277)	(6,954,444)	(6,708,686)	(3,671,135)
Add: cash and cash equivalents at the beginning of the period	22,659,635	15,276,437	20,662,089	13,276,732
6. Net balance of cash and cash equivalents at the end of the period	14,315,358	8,321,993	13,953,403	9,605,597

Legal representative: Hou Weigui Chief Financial Officer: Wei Zaisheng Head of Finance Division: Shi Chunmao

* Amounts subject to restrictions have been excluded from the opening and closing balances of cash and cash equivalents

By Order of the Board
Hou Weigui
Chairman

22 October 2013

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