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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)

2014 FIRST QUARTERLY REPORT

This announcement is published simultaneously in the Mainland in accordance with the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange (“Shenzhen Listing Rules”) 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 (the “Company”) confirm that there are no false information and misleading statements in this quarterly report nor any material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved at the Seventeenth Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Xie Weiliang, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Dong Lianbo, Director, to vote on his behalf. Mr. He Shiyong, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Hou Weigui, Chairman, 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, slow growth was sustained in equipment investment by the global telecommunications industry, as wireless, broadband and their complementary transmission equipment remained heavily favoured by the industry. The penetrating development of the Mobile Internet was driving sales of smart terminals, while strategic new sectors such as Cloud Computing, the Internet of Things and the Smart City continued to advance. In the domestic market, the large-scale construction of 4G networks and their ancillary facilities in the country has ushered in a new cycle of investment in the telecommunications industry. The Group worked in close tandem with the equipment investment plans of carriers and maintained its leading position in the industry by offering competitive product solutions. Internationally, the Group focused on meeting customer demands and delivering added value in the markets of major populous nations and mainstream global carriers, while consolidating its market position through enhanced project management and business control.

For the three months ended 31 March 2014, the Group reported operating revenue of RMB19.053 billion, representing a 5.51% increase compared to the same period last year. Net profit attributable to shareholders of the listed company amounted to RMB622 million, representing a 203.51% increase over the same period last year. Basic earnings per share amounted to RMB0.18.

Looking ahead to the next reporting period, the broadband conversion of networks will continue to be the major factor driving investments in the telecommunications industry, and the focus will be on wireless broadband dominated by 3G/4G, as well as the upgrade and capacity expansion of ancillary transmission network. The Group will endeavour to integrate its resources in a scientific manner, based on the stated core principle of “Innovation and Intensification.” In particular, the combination of technological integrations with business model innovations will be sought to realise breakthroughs in its profit model, while achieving cost savings and optimisation in efficiency through innovation.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Retrospective adjustments to financial data for previous periods have been made during the reporting period. For detailed reasons please refer to the section headed “Highlights of Accounting and Financial Indicators” in the 2013 Annual Report of the Company.

Item	As at the end of the reporting period (31 March 2014)	As at the end of last year (31 December 2013)	Change as at the end of the reporting period compared with the end of last year
Total assets (<i>RMB in thousands</i>)	102,581,774	100,079,497	2.50%
Owners' equity attributable to shareholders of the listed company (<i>RMB in thousands</i>)	23,330,066	22,532,648	3.54%
Total share capital (<i>thousand shares</i>)	3,437,541	3,437,541	—
Net assets per share attributable to shareholders of the listed company (<i>RMB/share</i>) ^{Note 1}	6.79	6.55	3.66%

Item	The reporting period (Three months ended 31 March 2014)	Same period last year (Three months ended 31 March 2013) (Restated)		Change compared with the same period last year (After adjustment)
		Prior to adjustment	After adjustment	
Operating revenue (RMB in thousands)	19,052,749	18,093,388	18,057,904	5.51%
Net profit attributable to shareholders of the listed company (RMB in thousands)	622,182	204,996	204,996	203.51%
Net profit after extraordinary items attributable to shareholders of the listed company (RMB in thousands)	762,694	(615,485)	(615,485)	223.92%
Net cash flow from operating activities (RMB in thousands)	(2,190,102)	(3,173,773)	(3,173,773)	30.99%
Net cash flow from operating activities per share (RMB/share) ^{Note 2}	(0.64)	(0.92)	(0.92)	30.43%
Basic earnings per share (RMB/share) ^{Note 3}	0.18	0.06	0.06	200.00%
Diluted earnings per share (RMB/share) ^{Note 4}	0.18	0.06	0.06	200.00%
Weighted average return on net assets (%)	2.71%	0.95%	0.95%	Increased by 1.76 percentage points
Weighted average return on net assets after extraordinary items (%)	3.32%	(2.84%)	(2.85%)	Increased by 6.17 percentage points

Note 1: Net assets per share attributable to shareholders of the listed company as at the end of the first quarter of 2014 and the end of 2013 were calculated on the basis of the total share capital at the end of the period;

Note 2: Net cash flow from operating activities per share for the first quarter of 2014 was calculated on the basis of the total share capital at the end of the period. The corresponding indicator for the first quarter of 2013 was 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 of the Company;

Note 3: Basic earnings per share for the reporting period was calculated on the basis of total share capital at the end of the period. The corresponding indicator for the first quarter of 2013 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company;

Note 4: As there were no subject share quotas remaining lock-up under the Phase I Share Incentive Scheme of the Company in the first quarter of 2014 and the first quarter of 2013, diluted earnings per share was equivalent to basic earnings per share.

*Extraordinary items**Unit: RMB in thousands***Amount from the beginning
of the year to the end of
the reporting period****Extraordinary item**

Non-operating income	149,756
Gains/(losses) from changes in fair values	(309,328)
Investment income	12,828
Less: Gains/losses on disposal of non-current assets	3,832
Less: Other non-operating expenses	14,732
Less: Effect of income tax	(24,796)
Total	<u>(140,512)</u>

2.2.2 *The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2014 and as at 31 March 2014 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.*

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

Total number of shareholders

As at 31 March 2014 There were 179,073 shareholders in total (comprising 178,718 holders of A shares and 355 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 Telecommunication Equipment Company Limited ("Zhongxingxin")	State-owned corporation	30.78%	1,058,191,944	0	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.28%	628,325,902	0	Unknown
3. CITIC Trust Co., Ltd. — Wealth Management 06	Others	1.69%	58,194,000	0	Unknown
4. China Life Insurance (Group) Company — Traditional — General Insurance Products	Others	1.18%	40,705,303	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 Stock Fund (LOF)	Others	0.93%	32,030,216	0	Unknown
7. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	0.90%	30,844,665	0	Unknown
8. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	Others	0.66%	22,786,819	0	Unknown
9. China Minsheng Bank — Yinhua SZSE 100 Classified Stock Fund	Others	0.60%	20,632,599	0	Unknown
10. NSSF Portfolio #113	Others	0.52%	17,711,100	0	Unknown

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A shares
2. HKSCC Nominees Limited	628,325,902	H shares
3. CITIC Trust Co., Ltd. — Wealth Management 06	58,194,000	A shares
4. China Life Insurance (Group) Company — Traditional — General Insurance Products	40,705,303	A shares
5. Hunan Nantian (Group) Co., Ltd.	37,450,609	A shares
6. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Stock Fund (LOF)	32,030,216	A shares
7. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	30,844,665	A shares
8. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	22,786,819	A shares
9. China Minsheng Bank — Yinhua SZSE 100 Classified Stock Fund	20,632,599	A shares
10. NSSF Portfolio #113	17,711,100	A shares
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. Among the top 10 shareholders, the 7th and 8th ranking shareholders were managed by the same fund manager — China Life Insurance Company Limited, while China Life Insurance (Group) Company, the fund manager of the 4th ranking shareholder, is the controlling shareholder of China Life Insurance Company Limited. 3. The Company is not aware of any connected party relationships or concerted party relationships among other top ten shareholders and other top ten holders of shares not subject to lock-up. 	
Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)	N/A	

Whether any shareholders of the Company conducted any transactions on agreed repurchases during the reporting period

Yes No

Note: None 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.

§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	31 March 2014	31 December 2013	Change	Analysis of Reasons for Changes
Other receivables	2,250,041	1,729,163	30.12%	Mainly attributable to the increase in export tax rebates receivable by the Company for the period.
Financial liabilities dealt with at fair value through current profit and loss	316,598	67,779	367.10%	Mainly attributable to loss arising from revaluation of fair value of certain derivative investments for the period.
Taxes payable	(780,524)	(1,251,859)	37.65%	Mainly attributable to the increase in VAT payable for the period

Income Statement (Three months ended 31 March)

Item	Three months ended 31 March 2014	Three months ended 31 March 2013 (Restated)	Change	Analysis of Reasons for Changes
Taxes and surcharges	273,362	184,461	48.20%	Mainly attributable to the write-off and reclassification as VAT for the same period last year of business tax provision in respect of contracts for which invoices had not been issued but for which revenue had been recognised in prior years, in line with the implementation of the policy of changing business tax to VAT in 2012, and the absence of such matter for the period.
Finance expenses	207,524	542,189	(61.72%)	Mainly attributable to exchange gains resulting from exchange rate volatility for the period versus exchange losses resulting from exchange rate volatility for the same period last year.
Gains/(losses) from changes in fair values	(309,328)	77,826	(497.46%)	Mainly attributable to loss arising from revaluation of fair value of certain derivative investments for the period versus revaluation gains for the same period last year.
Investment income	22,172	803,056	(97.24%)	Mainly reflecting investment income from the disposal of Shenzhen ZNV Technology Co., Ltd. for the same period last year and the absence of such matter for the period.
Non-operating income	724,493	500,902	44.64%	Mainly attributable to the increase in income from software VAT rebates for the period.
Non-operating expenses	18,564	7,718	140.53%	Mainly attributable to the increase in compensation expenses for the period.
Income tax	144,252	66,228	117.81%	Mainly attributable to the increase in taxable profit of certain subsidiaries for the period.
Non-controlling interests	5,143	(4,464)	215.21%	Mainly attributable to the increase in profit of certain subsidiaries with a higher level of non-controlling interests for the period.
Comprehensive income attributable to non-controlling interests	(618)	3,029	(120.40%)	Mainly attributable to the decrease in fair value of available-for-sale financial assets held by certain subsidiaries with a higher level of non-controlling interests for the period.

Cash Flow Statement (Three months ended 31 March)

Item	Three months ended 31 March 2014	Three months ended 31 March 2013	Change	Analysis of Reasons for Changes
Net cash flows from operating activities	(2,190,102)	(3,173,773)	30.99%	Mainly attributable to the decrease in cash paid for the purchase of goods and labour services for the period.
Net cash flows from investing activities	(8,121)	(386,012)	97.90%	Mainly attributable to the decrease in cash paid for the acquisition of fixed assets, intangible assets and other long-term assets and cash paid for investments for the period.
Net cash flows from financing activities	99,199	(4,476,435)	102.22%	Mainly attributable to the increase in cash received from borrowings for the period.
Effect of changes in foreign exchange rate on cash	85,969	(163,956)	152.43%	Mainly attributable to exchange gains resulting from exchange rate volatility for the period versus exchange losses resulting from 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 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	Subject to Long-term supply contracts signed between the two parties and	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	specific purchase orders	No	Under normal progress

3.2.4 Others

3.2.4.1 Changes in the senior management of the Company during the reporting period

At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, the “Resolution on the appointment and removal of senior management personnel” was considered and passed, whereby the appointment of each of Mr. Zeng Xuezhong and Mr. Zhao Xianming as Executive Vice President of the Company and the removal of each of them from the office of Senior Vice President of the Company; the appointment of each of Mr. Xiong Hui and Mr. Zhang Zhenhui as Senior Vice President of the Company; and the discontinuation of the employment of Mr. He Shiyong as Executive Vice President of the Company were approved. The term of the senior management appointed as aforesaid commenced on the date on which the resolution was considered and passed at the said Board meeting and shall end upon the conclusion of the Sixth Session of the Board of Directors (namely 29 March 2016).

3.2.4.2 Guarantee provided for joint tender partnership

To facilitate the participation in the tender for the Digital Migration Project Phase I of Zambian Ministry of Information and Broadcasting Services, the Company proposed to provide a Letter of Guarantee for Tender with an amount of ZMW1 million (equivalent to approximately USD160,000 based on the Company's foreign currency statement book exchange rate as at 31 March 2014) for the joint tender partnership, namely the Company and Arelis Broadcast SAS of France, in respect of the bidding and evaluation process. For details, please refer to the "Announcement on Third-party Guarantee" published by the Company on 10 February 2014.

The aforesaid matter was considered and approved at the Fifteenth Meeting of the Sixth Session of the Board of Directors of the Company. For details, please refer to the "Announcement of Resolutions of the Fifteenth Meeting of the Sixth Session of the Board of Directors" published by the Company on 10 February 2014.

3.2.4.3 Provision of guarantee for ZTE HK and the conduct of interest rate swap transactions by ZTE HK

In order to further optimise the long-term and short-term debt structure of the Company and the subsidiaries included in its consolidated financial statements, reduce exposure to assets and liabilities denominated in foreign currencies, and meet additional working capital requirements for the Company's medium/long-term development at appropriate finance costs, the Company proposed to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong in 2014, with ZTE (H.K.) Limited ("ZTE HK"), its wholly-owned subsidiary, as the principal. In view of the current financial conditions and credit rating of ZTE HK, the Company would provide guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK, in order to secure debt financing at favourable costs. To avoid interest rate risks associated with the aforesaid debt financing, ZTE HK proposed to conduct interest rate swap transactions with a nominal principal amount of not more than USD600 million at selected timing.

The aforesaid matter was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors of the Company. It is further subject to consideration and approval at the 2013 Annual General Meeting of the Company to be held on 29 May 2014. For details, please refer to the "Announcement of Resolutions of the Sixteenth Meeting of the Sixth Session of the Board of Directors," "Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary" and "Announcement on The Proposed Interest Rate Swap Transactions by A Wholly-owned Subsidiary" published by the Company on 26 March 2014.

3.2.4.4 Information on the share option incentive scheme of the Company

The share option incentive scheme implemented by the Company is aimed at further improving the corporate governance structure of the Company, bolstering its incentive mechanism, strengthening the loyalty and sense of responsibility on the part of the management team and key employees of the Company, retaining talents to facilitate the sustainable development of the Company and ensure the achievement of the Company's development objectives. The share option incentive scheme implemented by the Company has been approved by regulatory authorities including SASAC of the State Council, China Securities Regulatory Commission ("CSRC") and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. Pursuant to the "Resolution on Matters pertaining to the

Grant of Share Options under the Share Option Incentive Scheme of the Company” considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant has been set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 Scheme Participants. For details of the share option incentive scheme implemented by the Company, please refer to the section headed “Material Matters — (VI) Implementation and Impact of the Company’s Share Option Incentive Scheme” in the 2013 Annual Report of the Company.

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

3.2.4.5 Information on the corporate bonds of the Company

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

The corporate bond interest payment for 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 31 March 2014, there were 239 holders of the corporate bonds, 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%
2	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Fund	5,450,000	9.08%
5	China Merchants Bank — BOC Stable Profit and Dividend Bond Fund	1,800,000	3.00%
6	Sha Dinan	1,556,211	2.59%
7	NSSF Portfolio #409	1,000,000	1.67%
8	Industrial and Commercial Bank of China — BOC Stable Profit Increment Bond Fund	985,140	1.64%
9	Bank of China Fund Management Co., Ltd — BOC — Bank of China Limited	843,982	1.41%
10	GF International Asset Management Limited — Clients' Funds	778,620	1.30%

3.2.4.6 Material litigation and arbitration during the reporting period

There was no material litigation or arbitration of the Group occurring during the reporting period. For details of the progress in the reporting period of immaterial litigation and arbitration proceedings occurring prior to the reporting period, please refer to the section headed “Material Matters” in the 2013 Annual Report of the Company.

3.2.4.7 Conduct of continuing connected transactions during the reporting period

The connected transactions disclosed in the following table represent connected transactions reaching the benchmark for public disclosure as defined under the Rules Governing 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		Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
							(%) Settlement				
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. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB30,000 per unit; and cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB5,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB11,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	10,660.00	1.08%	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.	21,191.83	2.15%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which the Chairman of the Company 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 RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	827.57	0.08%	Tele-transfer	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Software Technology (Nanchang) Company Limited ("Nanchang Software")	A company of which the majority of board members can be controlled by another company for which the Chairman of the Company 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 RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	—	—	Tele-transfer	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") 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	1,148.77	0.12%	Tele-transfer	N/A	27 April 2013	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. and lease of 25 ground level parking lots and 138 underground parking lots by the Company from the connected party		Monthly rent of RMB130/sq.m.; monthly rent of ground level parking lot of RMB150/lot; monthly rent of underground parking lot of RMB500/lot (property management undertaken by ZTE and no management fees are payable).	1,143.33	6.83%	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"

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	As a percentage of		Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index	
						Amount (RMB in ten thousands)	transactions in the same classification (%) Settlement				
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.	200.77	1.20%	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.	1,052.88	41.66%	Tele-transfer	N/A	27 April 2013	Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
深圳市航天歐華科技發展有限責任公司 ("航天歐華")	Subsidiary of a company for which a Director of the Company acted as director	Sale of products	The sale of digital communications products and communications products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	5,457.50	0.29%	Tele-transfer or bank acceptance bill	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				—	—	41,682.65	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 and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to its operations.							
Effect of the connected transaction on the independence of the listed company				All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.							
The Company's dependence on the connected party and relevant solutions (if any)				The Company was not dependent on the connected parties.							
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)				<p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2014 be capped at RMB1,000 million (before VAT);</p> <p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2014 be capped at RMB800 million (before VAT);</p> <p>At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Company in 2014 be capped at RMB82 million and RMB18 million, respectively (before VAT);</p> <p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB50.80 million for a term commencing on 18 April 2013 and ending on 17 April 2015;</p> <p>At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 13 December 2011, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB11.40 million for a term commencing on 1 January 2012 and ending on 31 December 2014;</p> <p>At the Second Meeting of the Sixth Session of the Board of Directors of the Company held on 26 April 2013, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, 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 end on 30 June 2014;</p> <p>At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was considered and approved that the sales of digital communications products and communications products to 航天歐華 by the Company in 2014 be capped at RMB600 million (before VAT); and</p> <p>Please refer to the above table for details of the execution of the aforesaid connected transactions.</p>							
Reason for the substantial difference between transaction prices and referential market prices (if applicable)				N/A							

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

Zhongxingxin, controlling shareholder of the Company, entered into “Non-Competition Agreement” with the Company on 19 November 2004, pursuant to which Zhongxingxin has undertaken to the Company that: Zhongxingxin will not, and shall prevent and preclude any of its other subsidiaries from carrying on or participating in any activities in any businesses deemed to be competing with existing and future businesses of the Company in any form (including but not limited to sole ownership, equity joint venture or co-operative joint venture and direct or indirect ownership of equity or other interests in other companies or enterprises, except through ZTE); Zhongxingxin will immediately terminate and/or procure any of its subsidiaries to terminate any participation in, management or operation of any competing businesses or activities that Zhongxingxin and/or such subsidiaries are participating in or carrying on in any manner at any time.

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 and to sell down shareholdings by a volume equivalent to 5% or more within six months after the first sell-down, by way of an indicative announcement to be published by the Company within two trading days before the first sell-down.

3.4 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

√ Applicable □ N/A

Preliminary results announcement	Significant growth		
	From the beginning of the year to the end of the next reporting period (Six months ended 30 June 2014)	Same period last year (Six months ended 30 June 2013)	Increase/decrease (%)
Estimated accumulated net profit (RMB in ten thousands)	Profit: 80,000 – 100,000	Profit: 31,001	Increase 158.06% – 222.57%
Basic earnings per share (RMB/share)	Profit: 0.23 – 0.29	Profit: 0.09	Increase 155.56% – 222.22%
Explanatory remarks on the preliminary results announcement	The Group anticipates substantial improvements in overall gross profit margin and total gross profit for the first half of 2014, which are attributable to the Group’s on-going strengthening of management over contract profitability, improvement in gross profit margin for international projects as well as an increase in the operating revenue from domestic 4G systems projects as a percentage of total operating revenue.		

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

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities and holding of equity interests in other listed companies

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	Shares held at the beginning of the period (10 thousand shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousand shares)	Shareholding percentage at the end of the period	Nominal value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Convertible bond ^{Note}	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	15,369.16	648.00	Other non-current assets	Initial investment
Other investment in securities held at the end of the period			—	—	—	—	—	—	—	—	—
Total			16,309.61	N/A	—	N/A	—	15,369.16	648.00	—	—

Note: China All Access (Holdings) Limited (“China All Access”) is a company listed on Hong Kong Stock Exchange. The initial investment for acquisition of China All Access convertible bonds by ZTE HK, a wholly-owned subsidiary of the Company, amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company’s foreign currency statement book exchange rate of Hong Kong Dollar versus RMB (HKD1: RMB0.80941) on 31 January 2013. The nominal value of the investment as at the end of the reporting period was approximately HKD191.8 million, equivalent to approximately RMB153.7 million based on the Company’s foreign currency statement book exchange rate of Hong Kong Dollar versus RMB (HKD1: RMB0.80115) on 31 March 2014.

(2) Details in investment in securities

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

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

2. Holding of equity interests in other listed companies

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

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Shares held			Nominal value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares	
			Initial investment	at the beginning of the period (10 thousand shares)	Shareholding percentage at the beginning of the period					at the end of the period (10 thousand shares)
Stock	300322	Speed ^{Note 1}	762.79	240	2.14%	240	2.14%	5,894.40	— 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%	30,687.25	— Available-for-sale financial assets	Initial investment
Total			17,072.40	11,440	—	11,440	—	36,581.65	—	—

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 Company’s foreign currency statement book exchange rate of Hong Kong Dollar versus RMB on 31 January 2013 (HKD1: RMB0.80941). The nominal value of the investment as at the end of the reporting period was approximately HKD383.0 million, equivalent to approximately RMB306.9 million based on the Company’s foreign currency statement book exchange rate of Hong Kong Dollar versus RMB on 31 March 2014 (HKD1: RMB0.80115).

(2) Details of holding 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, ZTE HK 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. The shares have been released from the lock-up as from 16 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	January 2014	Shanghai	UBS investors' meeting	UBS customers	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	January 2014	Hong Kong	CICC investors' meeting	CICC customers	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	February 2014	Shenzhen	Shenyin Wanguo investors' meeting	Customers of Shenyin Wanguo	Day-to-day operations of the Company	Published announcements and regular reports
Presentation of the Company	March 2014	Hong Kong	Results presentation	Analysts and investors	2013 Annual Report	Published announcements and regular reports
Company visits by investors	January to March 2014	Company	Verbal	Overseas investors Teng Yue Partners, BOCI, Genesis Capital, China Orient Asset Management, 石壁投資, Mirae Asset Global Investment, Pine River, 睿柏資本, Ji-Asia, Mizuho Securities Asia Limited, JK Capital	Day-to-day operations of the Company	Published announcements and regular reports
	January to March 2014	Company	Verbal	Domestic investors Hua Tai United 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 ^{note 1}	Initial investment amount in the derivative investment		Opening balance of investment amount	Impairment provision (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets ^{note 2} of the Company at the end of the period (%)	Actual profit or loss for the reporting period	
				Start date	End date						
HSBC	N/A	No	Interest rate swap	—	2011-12-19	2016-7-8	30,484.50	—	31,075.00	1%	—
Standard Chartered Bank	N/A	No	Interest rate swap	—	2011-12-22	2016-7-8	30,484.50	—	31,075.00	1%	—
BOC	N/A	No	Foreign exchange forwards	—	2013-5-16	2015-3-5	500,142.76	—	543,254.66	23%	(10,975.61)
BNP Paribas	N/A	No	Foreign exchange forwards	—	2013-1-29	2015-3-12	333,810.82	—	375,658.84	16%	(8,178.74)
CITIC Bank	N/A	No	Foreign exchange forwards	—	2013-8-6	2015-3-12	158,747.41	—	129,148.06	6%	(4,127.47)
Other Banks	N/A	No	Foreign exchange forwards	—	2013-5-14	2015-3-10	282,019.80	—	434,229.95	19%	(6,255.06)
Total				—	—	—	1,335,689.79	—	1,544,441.51	66%	(29,536.88)
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>Derivative investments conducted by the Company during the first quarter of 2014 included value-protection derivatives. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection 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; 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 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, 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 Company has recognised gains from investments in derivatives during the reporting period. Total loss recognised for the reporting period amounted to RMB295.37 million, comprising loss from fair-value change of RMB307.25 million and recognised investment gains of RMB11.88 million. Corresponding gains upon revaluation of foreign currency assets amounted to RMB263.05 million, and net loss of RMB32.32 million was recorded after hedging. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.							
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period.				There was no significant change in the Company’s accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.							
Specific opinion of Independent Non-executive Directors on the Company’s derivative investments and risk control				<p>Independent Non-executive Directors’ Opinion:</p> <p>The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.</p>							

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

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

3.7 Development and implementation of internal control in the first quarter of 2014

During the reporting period, the work of the Company's internal control and audit department was mainly focused on drawing conclusions from the internal control operations of 2013 and formulating internal control work plans for 2014 to facilitate audit and rectification of the Company's significant internal control operations. Specifically:

1. The Company's internal control and audit department completed the report of "Conclusions of operations in 2013 and 2014 work plans of the Company relating to internal control and audit" based on the Company's implementation of internal control in 2013 and the internal control work plans for 2014, and reported the same to the Company's Audit Committee and Board of Directors.
2. The Company's internal control and audit department conducted an assessment on the effectiveness of the Company's internal control in 2013 in accordance with provisions of the "Basic Rules for Corporate Internal Control" and its supplementary guidelines and other internal control requirements, completed the "Self-assessment Report on 2013 Internal Control of the Company" and submitted the same to the Company's Audit Committee and Board of Directors for consideration and approval.
3. The Company convened the start-up meeting for internal control and risk management operations in 2014 and made plans for internal control and risk management in 2014.
4. The Company's internal control and audit department completed internal control audit for handsets and 2013 derivative investments and issued an audit report.
5. The Company worked actively to support the external auditor in the latter's work on internal control audit and organized the implementation of management recommendations made by the external auditor.

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	2014.3.31		2013.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current Assets:				
Cash	18,506,981	10,184,688	20,903,035	12,163,330
Financial assets dealt with at fair value through current profit and loss	158,490	32,782	217,454	69,300
Bills receivable	3,287,656	2,669,689	3,500,671	2,851,182
Trade receivables	26,476,524	36,193,384	21,393,257	34,030,487
Factored trade receivables	3,390,926	2,136,258	3,338,801	2,084,134
Prepayments	794,528	21,200	751,405	29,328
Dividend receivable	—	1,970,264	—	1,970,264
Other receivables	2,250,041	14,163,728	1,729,163	10,454,633
Inventories	14,453,663	7,547,282	12,434,352	7,056,518
Amount due from customers for contract works	9,430,887	3,904,565	12,137,144	7,029,635
Total current assets	78,749,696	78,823,840	76,405,282	77,738,811
Non-current assets:				
Available-for-sale financial assets	1,616,158	373,555	1,630,271	373,555
Long-term trade receivables	368,303	4,602,986	366,762	4,517,856
Factored long-term trade receivables	2,402,552	2,059,079	2,311,525	1,968,052
Long-term equity investments	478,228	6,409,226	478,037	6,430,526
Investment properties	1,855,246	1,496,338	1,855,246	1,496,338
Fixed assets	7,348,232	4,670,396	7,449,476	4,751,559
Construction in progress	221,693	32,797	177,423	14,393
Intangible assets	1,249,582	454,764	1,236,755	451,947
Deferred development costs	3,079,085	725,092	2,932,148	665,650
Deferred tax assets	1,377,827	769,425	1,353,033	762,009
Long-term deferred assets	68,307	50,933	70,942	50,778
Other non-current assets	3,766,865	3,546,646	3,812,597	3,596,641
Total non-current assets	23,832,078	25,191,237	23,674,215	25,079,304
Total assets	102,581,774	104,015,077	100,079,497	102,818,115

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

RMB in thousands

Liabilities and shareholders' equity	2014.3.31		2013.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	12,867,848	6,933,360	12,589,032	8,375,865
Financial liabilities dealt with at fair value through current profit and loss	316,598	82,954	67,779	12,575
Bank advances on factored trade receivables	3,429,499	2,174,831	3,377,374	2,122,707
Bills payable	9,522,227	10,692,175	8,498,021	10,250,993
Trade payables	16,970,454	34,836,232	16,492,534	34,200,975
Amount due to customers for contract works	3,387,269	2,229,161	3,682,564	2,496,029
Advances from customers	3,184,671	4,329,226	2,776,366	2,896,512
Salary and welfare payables	2,743,308	817,085	2,462,006	688,982
Taxes payable	(780,524)	(1,004,952)	(1,251,859)	(1,286,296)
Dividends payable	34,963	152	34,963	152
Other payables	7,896,785	17,693,409	8,478,144	17,178,123
Deferred income	361,285	60,466	408,845	80,401
Provisions	464,461	233,524	601,111	349,291
Long-term loans due within one year	2,809,417	—	2,753,925	—
Total current liabilities	63,208,261	79,077,623	60,970,805	77,366,309
Non-current liabilities:				
Long-term loans	4,723,657	1,780,000	5,385,673	1,780,000
Bank advances on factored long-term trade receivables	2,402,552	2,059,079	2,311,525	1,968,052
Bonds payable	6,185,489	6,185,489	6,119,590	6,119,590
Provision for retirement benefits	95,472	95,472	95,806	95,806
Deferred tax liabilities	139,900	138,400	139,900	138,400
Other non-current liabilities	1,403,954	1,403,954	1,430,509	1,430,509
Total non-current liabilities	14,951,024	11,662,394	15,483,003	11,532,357
Total liabilities	78,159,285	90,740,017	76,453,808	88,898,666
Shareholders' equity:				
Share capital	3,437,541	3,437,541	3,437,541	3,437,541
Capital reserves	9,541,264	9,361,228	9,491,663	9,316,668
Surplus reserve	1,613,195	951,439	1,613,195	951,439
Retained profits	9,555,970	(561,425)	8,933,788	128,756
Proposed final dividends	103,126	103,126	103,126	103,126
Foreign currency translation differences	(921,030)	(16,849)	(1,046,665)	(18,081)
Total equity attributable to equity holders of the parent	23,330,066	13,275,060	22,532,648	13,919,449
Non-controlling interests	1,092,423	—	1,093,041	—
Total shareholders' equity	24,422,489	13,275,060	23,625,689	13,919,449
Total liabilities and shareholders' equity	102,581,774	104,015,077	100,079,497	102,818,115

INCOME STATEMENT

RMB in thousands

Item	Three months ended 31 March 2014		Three months ended 31 March 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
1. Operating revenue	19,052,749	16,643,608	18,057,904	15,131,211
Less: Operating costs	12,661,695	14,230,514	13,325,295	14,094,487
Taxes and surcharges	273,362	141,833	184,461	76,658
Selling and distribution costs	2,438,910	1,658,385	2,226,647	1,409,566
Administrative expenses	554,737	331,646	565,909	383,344
Research and development costs	1,978,762	551,225	1,811,615	445,515
Finance expenses	207,524	50,054	542,189	423,320
Impairment losses	584,955	423,232	509,094	378,876
Add: Gains/(Losses) from changes in fair values	(309,328)	(106,897)	77,826	58,477
Investment income	22,172	30,533	803,056	756,234
Including: Share of profits and losses of associates and joint ventures	—	—	—	—
2. Operating profit	65,648	(819,645)	(226,424)	(1,265,844)
Add: Non-operating income	724,493	133,292	500,902	59,390
Less: Non-operating expenses	18,564	2,666	7,718	3,448
Including: Gains/losses on disposal of non- current assets	3,832	262	4,990	2,218
3. Total profit	771,577	(689,019)	266,760	(1,209,902)
Less: Income tax	144,252	1,162	66,228	(12,012)
4. Net profit	627,325	(690,181)	200,532	(1,197,890)
Net profit attributable to owners of the parent	622,182	(690,181)	204,996	(1,197,890)
Non-controlling interests	5,143	—	(4,464)	—

RMB in thousands

Item	Three months ended 31 March 2014		Three months ended 31 March 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
5. Earnings per share				
(1) Basic earnings per share	RMB0.18		RMB0.06	
(2) Diluted earnings per share	RMB0.18		RMB0.06	
6. Other comprehensive income				
Other comprehensive income that cannot be reclassified to profit and loss in subsequent accounting periods				
Change in net liabilities or net profit arising from the re-measurement of defined benefit plans	—	—	—	—
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods subject to certain conditions				
Gains or losses arising from changes in the fair value of available-for-sale financial assets	(4,256)	—	45,334	—
Effective portion gain or loss arising from cash flow hedging instruments	999	—	16,929	—
Exchange differences on translation of foreign operations	128,172	1,232	91,057	(116)
	124,915	1,232	153,320	(116)
Other comprehensive income, net of income tax effect on respective items	124,915	1,232	153,320	(116)
7. Total comprehensive income	752,240	(688,949)	353,852	(1,198,006)
Comprehensive income attributable to owners of the parent	752,858	(688,949)	350,823	(1,198,006)
Comprehensive income attributable to non-controlling interests	(618)	—	3,029	—

CASH FLOW STATEMENT

RMB in thousands

Item	Three months ended 31 March 2014		Three months ended 31 March 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
I. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	19,209,522	18,044,629	19,465,634	18,618,218
Refunds of taxes	1,473,588	957,429	1,881,325	1,515,758
Cash received relating to other operating activities	308,405	218,938	217,661	151,867
Sub-total of cash inflows	20,991,515	19,220,996	21,564,620	20,285,843
Cash paid for goods and services	16,962,623	17,541,429	18,580,748	20,152,762
Cash paid to and on behalf of employees	2,746,733	1,003,241	2,873,353	1,221,723
Cash paid for all types of taxes	1,351,980	184,792	1,428,469	400,564
Cash paid relating to other operating activities	2,120,281	1,537,963	1,855,823	1,264,363
Sub-total of cash outflows	23,181,617	20,267,425	24,738,393	23,039,412
Net cash flows from operating activities	(2,190,102)	(1,046,429)	(3,173,773)	(2,753,569)
2. Cash flows from investing activities				
Cash received from sale of investments	531,926	21,300	234,098	—
Cash received from return on investment	45,175	30,533	9,837	—
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	6,464	6,189	3,436	3,106
Net cash received from the disposal of subsidiaries and other business units	—	—	1,006,367	1,037,401
Sub-total of cash inflows	583,565	58,022	1,253,738	1,040,507
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	171,686	138,518	694,805	333,191
Cash paid for acquisition of investments	420,000	—	944,945	84,090
Sub-total of cash outflows	591,686	138,518	1,639,750	417,281
Net cash flows from investing activities	(8,121)	(80,496)	(386,012)	623,226

RMB in thousands

Item	Three months ended 31 March 2014		Three months ended 31 March 2013	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from capital injection	—	—	15,000	—
Including: Capital injection into subsidiaries by minority shareholders	—	—	15,000	—
Cash received from borrowings	<u>9,009,961</u>	<u>4,095,813</u>	<u>4,996,093</u>	<u>3,613,843</u>
Sub-total of cash inflows	<u>9,009,961</u>	<u>4,095,813</u>	<u>5,011,093</u>	<u>3,613,843</u>
Cash repayment of borrowings	<u>8,515,351</u>	<u>4,716,001</u>	<u>8,984,845</u>	<u>6,766,002</u>
Cash payments for distribution of dividends or for interest expenses	<u>395,411</u>	<u>313,916</u>	<u>502,683</u>	<u>416,729</u>
Including: Distribution of dividends, profits by subsidiaries to minority shareholders	—	—	—	—
Sub-total of cash outflows	<u>8,910,762</u>	<u>5,029,917</u>	<u>9,487,528</u>	<u>7,182,731</u>
Net cash flows from financing activities	<u>99,199</u>	<u>(934,104)</u>	<u>(4,476,435)</u>	<u>(3,568,888)</u>
4. Effect of changes in foreign exchange rate on cash	<u>85,969</u>	<u>82,387</u>	<u>(163,956)</u>	<u>(73,336)</u>
5. Net increase in cash and cash equivalents	<u>(2,013,055)</u>	<u>(1,978,642)</u>	<u>(8,200,176)</u>	<u>(5,772,567)</u>
Add: cash and cash equivalents at the beginning of the period	<u>20,118,274</u>	<u>11,756,439</u>	<u>22,659,635</u>	<u>15,276,437</u>
6. Net balance of cash and cash equivalents at the end of the period	<u>18,105,219</u>	<u>9,777,797</u>	<u>14,459,459</u>	<u>9,503,870</u>

By Order of the Board
Hou Weigui
Chairman

Shenzhen, the PRC
17 April 2014

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