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ZTE CORPORATION
中興通訊股份有限公司

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

2016 THIRD QUARTERLY REPORT

This announcement is published simultaneously in the Mainland in accordance with the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange and in Hong Kong in accordance with the disclosure obligations under Rule 13.09(2) and Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the inside information provisions set out in Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

§1 IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the “Company”) confirm that there are no false information and misleading statements in this quarterly report nor any material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report was considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Tian Dongfang, Director, to vote on his behalf. Mr. Luan Jubao, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Wang Yawen, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Tian Dongfang, Director, to vote on his behalf. Mr. Zhan Yichao, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Lü Hongbing, Independent Non-executive Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Chen Shaohua, Independent Non-executive Director, to vote on his behalf. Mr. Bingsheng Teng, Independent Non-executive Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Chen Shaohua, 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. Zhao Xianming, 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 and investors are advised to be aware of the investment risks involved.

§2 CORPORATE INFORMATION

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

The global ICT industry continues to develop at a fast pace with rapid changes and innovations underpinned by endless inventions of pivotal technologies. Advances such as artificial intelligence, virtual reality, big data and big video are subtly blending into and changing the lifestyle of the people as well as the mode of production. "Internet+" has brought upon a profound effect on the format and pattern of various industries, triggering upgrade cycles in traditional industries and services. Following the acknowledgment of dominant trends of evolution in the M-ICT industry in its M-ICT 1.0 document, the Group has proposed the M-ICT 2.0 strategy to further define and substantiate the five major strategic directions of the Group in the future: virtuality, openness, intelligence, cloudification and internet of everything.

During the reporting period in the domestic market, telecommunication carriers were implementing 4G and broadband strategies with full force to cater to surging demand for network capacity created by operations in mobile Internet, big video, VR/AR and data centre, while the Group maintained its market dominance by vigorously enhancing applications of various products and technologies. In connection with the international market, the Group persisted in the strategy of focusing on populous nations and mainstream and enhanced its competitiveness through the provision of innovative solutions in technologies and products.

For the nine months ended 30 September 2016, the Group reported operating revenue of RMB71,564 million, representing a year-on-year growth of 4.44% which reflected primarily year-on-year growth in operating revenue from 4G system products and optical transmission products in the domestic and international markets, as well as handset products and family terminal products in the domestic market. The Group's net profit attributable to holders of ordinary shares of the listed company amounted to RMB2,859 million, representing a year-on-year growth of 9.78%. Basic earnings per share amounted to RMB0.69.

Looking to the next reporting period, the market will continue to see rapid growth in spending on information and demand for flow volume. The Group, meanwhile, will stay focused on its three mainstream markets to establish the core competitiveness, namely "carriers, government and corporate business, consumers". In connection with the carriers' market, the Group will actively develop smart pipes in association with telecommunication operators and help them to evolve into information operators. In connection with the government and corporate market, the Group will assist government and corporate customers to facilitate faster deployment and application of new products and solutions in a vigorous drive of smart city construction and the transition of traditional industries to Internet-based operations. In connection with the consumers' market, the Group will continue to focus on high-worth users and offer ongoing innovations and enhancements in users' experience, on the back of continuous product development and

marketing underpinned by six core elements, namely, exquisite product, large nation, channel, service, brand and business ecosystem. We will continue to make advances in our strategic transition towards M-ICT 2.0 as we persist in research and development with stronger efforts in innovation, whilst seeking enhancements in aspects such as project management, customer relations, contingencies management and risk control to ensure the Group's sound operation and sustainable development in the future.

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 2016)	As at the end of last year (31 December 2015)	Change as at the end of the reporting period compared with the end of last year
Total assets (<i>RMB in thousands</i>)	132,668,231	120,893,897	9.74%
Owners' equity attributable to holders of ordinary shares of the listed company (<i>RMB in thousands</i>)	31,682,734	29,660,094	6.82%
Total share capital (<i>thousand shares</i>) ^{Note 1}	4,159,606	4,150,791	0.21%
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	7.62	7.15	6.57%

Item	Three months ended 30 September 2016	Change compared with the same period last year	Nine months ended 30 September 2016	Change compared with the same period last year
Operating revenue (RMB in thousands)	23,806,702	5.23%	71,564,004	4.44%
Net profit attributable to holders of ordinary shares of the listed company (RMB in thousands)	1,092,490	10.51%	2,858,887	9.78%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company (RMB in thousands)	479,066	(31.74%)	2,152,308	31.25%
Net cash flows from operating activities (RMB in thousands)	(1,135,629)	1.52%	1,219,302	243.77%
Net cash flows from operating activities per share (RMB/share)	(0.27)	3.57%	0.29	222.22%
Basic earnings per share (RMB/share) ^{Note 2}	0.26	8.33%	0.69	9.52%
Diluted earnings per share (RMB/share) ^{Note 3}	0.26	8.33%	0.68	9.68%
Weighted average return on net assets (%)	3.42%	Decreased by 0.37 percentage points	9.25%	Decreased by 0.80 percentage points
Weighted average return on net assets after extraordinary items (%)	1.44%	Decreased by 1.25 percentage points	6.96%	Increased by 0.63 percentage points

Note 1: The total share capital of the Company was increased from 4,150,791,215 shares to 4,159,606,203 shares following the exercising of a total of 8,814,988 A share options by scheme participants under the share option incentive scheme of the Company during the period from January to September 2016;

Note 2: Basic earnings per share for the periods from January to September and from July to September 2016 have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the period;

Note 3: As A share options granted by the Company have given rise to 21,095,000 and 51,632,000 potentially dilutive ordinary shares for the reporting period and the same period last year, respectively, diluted earnings per share for the periods from January to September and from July to September 2016 and for the same period last year have been calculated on the basis of basic earnings per share taking into account the said factor.

Extraordinary item

Unit: RMB in thousands

Extraordinary item	Amount	
	Three months ended 30 September 2016	Nine months ended 30 September 2016
Non-operating income	237,999	536,967
Gains/(Losses) from fair value change	22,267	(14,083)
Investment income	500,797	403,140
Less: Losses on disposal of non-current assets	3,171	7,830
Less: Other non-operating expenses	35,989	82,695
Less: Effect of income tax	107,652	124,691
Less: Effect of non-controlling interests (after tax)	827	4,229
Total	<u>613,424</u>	<u>706,579</u>

2.2.2 *The amounts of net profit and shareholders' equity of the Group for the nine months ended 30 September 2016 and as at 30 September 2016 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.*

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

Total number of shareholders

As at 30 September 2016

There were 190,038 shareholders in total
(comprising 189,672 holders of A shares and 366 holders of H shares)

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

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Number of shares as at the end of the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Shenzhen Zhongxingxin Telecommunication Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.53%	1,269,830,333	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.13%	753,999,320	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	2.55%	105,947,520	—	Unknown
4. Central Huijin Asset Management Ltd.	State-owned corporation	1.26%	52,519,600	—	Unknown
5. NSSF Portfolio #103	Others	1.08%	45,008,014	—	Unknown
6. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.03%	42,840,008	—	Unknown
7. Tibet Ziguang Chunhua Investment Limited	General domestic corporation	0.69%	28,567,034	—	Unknown
8. Beijing Unisplendour Communications Technology Group Limited	State-owned corporation	0.68%	28,332,005	—	Unknown
9. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L -FH002 Shen	Others	0.61%	25,170,442	—	Unknown
10. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	Others	0.53%	21,965,903	—	Unknown

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A share
2. HKSCC Nominees Limited	753,999,320	H share
3. China Securities Finance Corporation Limited	105,947,520	A share
4. Central Huijin Asset Management Ltd	52,519,600	A share
5. NSSF Portfolio #103	45,008,014	A share
6. Hunan Nantian (Group) Co., Ltd.	42,840,008	A share
7. Tibet Ziguang Chunhua Investment Limited	28,567,034	A share
8. Beijing Unisplendour Communications Technology Group Limited	28,332,005	A share
9. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L-FH002 Shen	25,170,442	A share
10. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	21,965,903	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<ol style="list-style-type: none"> 1. Zhongxingxin was neither a connected party nor a concerted party of any of the other top ten shareholders and other top ten holders of shares that were not subject to lock-up set out in the table above. 2. Among the top 10 holders of shares, the 7th ranking shareholder and the 8th ranking shareholder were both subsidiaries of Tsinghua Unigroup Limited. 3. Save as aforesaid, the Company is not aware of any connected party relationships or concerted party relationships among other top ten shareholders and other top ten holders of shares that were not subject to lock-up. 	
Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)	N/A	

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

Yes No

The Company had no preferential shares.

§3 MATERIAL MATTERS

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

Unit: RMB in thousands

Balance sheet

Item	30 September 2016	31 December 2015	Change	Analysis of reasons for changes
Derivative financial assets	116,115	10,110	1,048.52%	Attributable mainly to gains arising from the re-measurement of fair value at the end of the period on certain new derivative investments for the reporting period
Factored trade receivables	2,380,444	1,272,068	87.13%	Reflecting mainly the increase in factoring businesses for trade receivables with limited recourse undertaken for the reporting period
Prepayments	2,439,136	640,113	281.05%	Reflecting mainly the increase in prepayment of procurement amounts to suppliers in accordance with contracts for the reporting period
Other receivables	4,267,748	2,970,258	43.68%	Attributable mainly to new short-term investment products acquired by subsidiary fund partnerships of Shenzhen ZTE Capital Management Company Limited (“ZTE Capital”) during the reporting period
Inventories	29,105,969	19,731,741	47.51%	Reflecting mainly the increase in the dispatch of goods and raw materials during the reporting period
Amount due from customers for contract works	8,501,769	13,928,446	(38.96%)	Reflecting mainly the transfer to trade receivables of certain construction contracts which have fulfilled the conditions for payment collection for the reporting period
Long-term trade receivables	1,154,659	362,831	218.24%	Reflecting mainly the increase in receivables with longer financing periods for the reporting period
Construction in progress	1,275,356	643,789	98.10%	Reflecting the increase in investment in the Heyuan production base, Changsha base project and staff residence project during the reporting period
Deferred development costs	1,183,359	789,815	49.83%	Reflecting mainly the capitalisation of new R&D investments for the reporting period
Short-term loans	12,907,287	7,907,572	63.23%	Reflecting mainly the increase in borrowings by the Group under standby liquidity arrangements

Item	30 September 2016	31 December 2015	Change	Analysis of reasons for changes
Derivative financial liabilities	139,209	19,840	601.66%	Attributable mainly to losses arising from the re-measurement of fair value at the end of the period on certain new derivative investments for the reporting period
Bonds payable	—	4,000,000	(100.00%)	Reflecting mainly the repayment of 2015 Tranche I super and short-term commercial paper (“SCP”) during the reporting period
Bank advances on factored trade receivables	2,383,513	1,273,346	87.19%	Reflecting mainly the increase in factoring businesses for trade receivables with limited recourse undertaken for the reporting period
Amount due to customers for contract works	7,811,117	4,423,103	76.60%	Attributable mainly to the progress in actual receipt of payment ahead of work completion schedules for certain construction contracts during the reporting period
Advances from customers	6,775,189	4,035,638	67.88%	Reflecting mainly the increase in prepayments from customers for newly signed contracts for the reporting period
Salary and welfare payables	5,068,225	3,644,694	39.06%	Attributable mainly to the provision for bonuses for the reporting period
Taxes payable	(6,338,945)	(2,329,886)	(172.07%)	Reflecting mainly the decrease in VAT payable for the reporting period as a result of the increase in input VAT
Dividends payable	908	7,418	(87.76%)	Reflecting mainly payment during the period of dividends declared in the previous period by certain subsidiaries
Other payables	8,103,618	6,005,130	34.94%	Reflecting mainly the increase in amounts payable to third-party units
Long-term loans due within one year	1,893,264	4,617,604	(59.00%)	Reflecting mainly repayment during the reporting period of non-current liabilities due within one year as at the end of last year

Income Statement (Nine months ended 30 September)

Item	Nine months ended 30 September 2016	Nine months ended 30 September 2015	Change	Analysis of reasons for changes
Taxes and surcharges	507,398	1,086,399	(53.30%)	Reflecting mainly the decrease in taxable income subject to business tax as a result of the change of business tax to VAT for the reporting period
Finance expenses	140,760	1,167,580	(87.94%)	Reflecting mainly exchange gains due to exchange rate volatility for the reporting period versus exchange losses due to exchange rate volatility for the same period last year
Impairment losses	1,279,652	2,500,431	(48.82%)	Reflecting mainly the decrease in provision for trade receivables and bad debt and the decrease in impairment provision for goods dispatched
Gains/(Losses) from changes in fair values	(14,083)	(66,240)	78.74%	Reflecting mainly the decrease in losses arising from the re-measurement of fair value at the end of the period on derivative investments for the reporting period
Investment income	937,437	440,550	112.79%	Reflecting mainly gains on disposal of equity interests in 深圳市訊聯智付網絡有限公司 and 天津中興智聯科技有限公司 during the reporting period
Income tax	764,931	580,886	31.68%	Reflecting mainly the increase in profit for the reporting period and the application of profit for the same period last year to make up previous loss
Non-controlling interests	187,439	1,082	17,223.38%	Reflecting mainly gains on disposal of equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital for the reporting period
Changes in the fair value of available-for-sale financial assets	97,345	48,489	100.76%	Attributable mainly to the transfer of other comprehensive income to investment income following the disposal of shares in China All Access (Holdings) Limited during the same period last year
Effective portion of hedging instruments	(65,991)	2,061	(3,301.89%)	Reflecting mainly losses arising from the re-measurement of fair value at the end of the period of value-protection hedging instruments for sovereign currencies of emerging markets for the reporting period versus gains for the same period last year
Exchange differences on translation of foreign operations	(8,972)	(329,919)	97.28%	Reflecting mainly the decrease in losses on translation of foreign operations due to exchange rate volatility for the reporting period
Other comprehensive income attributable to non-controlling interests, net of tax	133,370	263,153	(49.32%)	Reflecting mainly the decrease in gains arising from volatility in the market prices of restricted equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital for the reporting period

Income Statement (Three months ended 30 September)

Item	Three months ended 30 September 2016	Three months ended 30 September 2015	Change	Analysis of reasons for changes
Taxes and surcharges	136,200	240,579	(43.39%)	Reflecting mainly the decrease in taxable income subject to business tax as a result of the change of business tax to VAT for the reporting period
Finance expenses	235,818	160,478	46.95%	Reflecting mainly exchange losses due to exchange rate volatility for the reporting period versus exchange gains for the same period last year
Impairment losses	228,434	618,325	(63.06%)	Reflecting mainly the decrease in provision for trade receivables and bad debt and the decrease in impairment provision for goods dispatched
Gains/(Losses) from changes in fair values	22,267	(76,196)	129.22%	Reflecting mainly gains arising from the re-measurement of fair value at the end of the period on derivative investments for the reporting period versus losses for the same period last year
Investment income	579,472	78,282	640.24%	Reflecting mainly gains on disposal of equity interests in 深圳市訊聯智付網絡有限公司 and 天津中興智聯科技有限公司 during the reporting period
Non-controlling interests	15,445	(34,766)	144.43%	Reflecting mainly gains on disposal of equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital for the reporting period
Changes in the fair value of available-for-sale financial assets	152,819	(77,655)	296.79%	Reflecting mainly gains arising from volatility in the market prices of restricted equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital for the reporting period versus losses for the same period last year
Effective portion of hedging instruments	(6,484)	1,144	(666.78%)	Reflecting mainly losses arising from the re-measurement of fair value at the end of the period of value-protection hedging instruments for sovereign currencies of emerging markets for the reporting period versus gains for the same period last year
Exchange differences on translation of foreign operations	404,400	(350,446)	215.40%	Reflecting mainly gains on translation of foreign operations due to exchange rate volatility for the reporting period versus losses for the same period last year
Other comprehensive income attributable to non-controlling interests, net of tax	278,763	(148,832)	287.30%	Reflecting mainly gains arising from volatility in the market prices of restricted equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital for the reporting period versus losses for the same period last year

Cash Flow Statement

Item	Nine months ended 30 September 2016	Nine months ended 30 September 2015	Change	Analysis of reasons for changes
Net cash flows from operating activities	1,219,302	354,687	243.77%	Reflecting mainly the increase in cash received in connection with the sales of goods and the rendering of services for the reporting period
Net cash flows from investing activities	(2,589,903)	(1,223,046)	(111.76%)	Reflecting mainly the increase in cash paid for investments for the reporting period
Net cash flows from financing activities	(560,872)	3,221,670	(117.41%)	Reflecting mainly the repayment of 2015 Tranche I SCP during the reporting period

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

3.2.1 Statement of qualified opinion

Applicable N/A

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

Applicable N/A

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

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

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	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

3.2.4 Others

3.2.4.1 Implementation of the 2015 Plan for Profit Distribution of the Company

The 2015 plan for profit distribution of the Company was considered and approved at the 2015 Annual General Meeting held on 2 June 2016 and was completed on 15 July 2016. A cash dividend of RMB2.5 (before tax) for every 10 shares held was paid on the basis of the total share capital of the Company of 4,154,262,354 shares as at the record date (comprising 3,398,759,820 A shares and 755,502,534 H shares). The record date for A shares was 14 July 2016 and the ex-dividend date for A shares was 15 July 2016. The record date for H shares was 13 June 2016 and the dividend payment date for H shares was 15 July 2016. For details of implementation, please refer to the announcement entitled “Information on Payment of Final Dividends” published by the Company on 8 July 2016.

3.2.4.2 External Investment and Connected Transaction of the Company

Jiaxing Xinghe Capital Management Company Limited (“Xinghe Capital”), a wholly-owned subsidiary of ZTE Capital, which is in turn a subsidiary of the Company, established Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) (“Suzhou Partnership”) by way of promotion as general partner. Suzhou Partnership is focused on the equity investment of unlisted companies within the TMT (technology, media and telecommunication) industry. Suzhou Partnership has raised a total of RMB1,200 million, comprising capital contribution in cash of RMB10 million by Xinghe Capital as general partner, capital contribution in cash of RMB300 million and RMB15 million by the Company and Mr. Yin Yimin, respectively, as limited partners and capital contribution in cash of RMB875 million in aggregate by other limited partners in accordance with the partnership agreement signed by them. Mr. Yin Yimin, Director of the Company and chairman of Zhongxingxin, the controlling shareholder of the Company, is a connected party of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (“Shenzhen Listing Rules”) and Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Hong Kong Listing Rules”). The capital contributions by Xinghe Capital, the Company and Mr. Yin Yimin, to subscribe for Suzhou Partnership constitute a connected transaction.

The aforesaid matter was considered and approved at the Fourth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Announcement Resolutions of the Fourth Meeting of the Seventh Session of the Board of Directors” and the “Overseas Regulatory Announcement” published by the Company on 31 May 2016. The Partnership Agreement in relation to the Suzhou Partnership was executed on 30 June 2016. For details, please refer to the announcement entitled “Connected transaction — Establishment of Partnership” published by the Company on 30 June 2016. Suzhou Partnership has been approved by the Suzhou Bureau for the Administration of Industry and Commerce and has completed registration as a partnership. For details, please refer to the “Announcement Progress of External Investments” published by the Company on 25 July 2016.

3.2.4.3 Application by ZTEsoft Technology Company Limited, a subsidiary of the Company, for quotation on National Equities Exchange and Quotations

ZTEsoft Technology Company Limited (“ZTEsoft”), a subsidiary of the Company, has proposed to apply for quotation on National Equities Exchange and Quotations (“NEEQ”) subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Second Meeting of the Seventh Session of the Board of Directors of the Company. ZTEsoft filed an application for quotation on NEEQ on 28 April 2016. In connection with the proposed quotation of ZTEsoft, the Company submitted an application for spin-off to The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) pursuant to Practice Note 15 of the Hong Kong Listing Rules on 6 April 2016. On 18 May 2016, the Company received a notice from the Hong Kong Stock Exchange confirming that, pursuant to Practice Note 15 of the Hong Kong Listing Rules, the Company may proceed to seek the quotation of ZTEsoft on NEEQ. On 27 July 2016, ZTEsoft received the “Letter regarding Approval of the Quotation of ZTEsoft Technology Co., Ltd on the National Equities Exchange and Quotations” (《關於同意中興軟創科技股份有限公司股票在全國中小企業股份轉讓系統掛牌的函》) issued by the NEEQ Co. Ltd, granting approval for the quotation of ZTEsoft shares on NEEQ. The shares of ZTEsoft was listed on the NEEQ on 19 August 2016.

For details of the aforesaid matters, please refer to the relevant announcements published by the Company on 6 April, 29 April, 19 May, 29 July and 18 August 2016, respectively.

3.2.4.4 Progress of Asset Transactions

1. Disposal of Equity Interests in 深圳市訊聯智付網絡有限公司

As considered and approved by the Fifth Meeting of the Seventh Session of the Board of Directors, Shenzhen Zhongxing Software Company Limited (“Zhongxing Software”), a wholly-owned subsidiary of the Company, and 上海沃芮歐信息科技有限公司 (“Shanghai Wo Rui Ou”) entered into an “Equity Transfer Agreement for the Transfer of 90% Equity Interests in 深圳市訊聯智付網絡有限公司” on 16 June 2016, pursuant to which Zhongxing Software agreed to dispose of 90% equity interests in 深圳市訊聯智付網絡有限公司 (“Xunlian Zhifu”), a wholly-owned subsidiary of Zhongxing Software, to Shanghai Wo Rui Ou for a consideration of RMB382.5 million (the “Transaction”). Upon completion of the Transaction, Zhongxing Software will hold 10% equity interests in Xunlian Zhifu. The Transaction is expected to increase investment income on the Company’s consolidated statement by approximately RMB300 million to RMB380 million, subject to the audited financial statements of the Company. Xunlian Zhifu has received the “Reply of Approval for the Change in the Shareholding Structure of 深圳市訊聯智付網絡有限公司” (《關於深圳市訊聯智付網絡有限公司變更股權結構的批復》) issued by the Shenzhen Centre Sub-Branch of the People’s Bank of China. For details of the aforesaid matter, please refer to relevant announcements published by the Company on 16 June and 10 August 2016, respectively. As at the end of the reporting period, the Transaction had been completed.

2. Disposal of Equity Interests in 天津中興智聯科技有限公司

The Company holds 90% equity interests in 天津中興智聯科技有限公司 (“Tianjin Zhilian”), its subsidiary. In order to pursue development in a more focused manner so as to enhance the competitiveness of its principal business, the Company entered into the “Equity Transfer Agreement for the Transfer of 84.86% equity interests in 天津中興智聯科技有限公司” with 高新興科技集團股份有限公司 (“Gaoxinxing”) on 24 June 2016 following consideration and approval at the Sixth Meeting of the Seventh Session of the Board of Directors, pursuant to which the Company proposed to dispose of the 84.86% equity interests in Tianjin Zhilian to Gaoxinxing for RMB148,406,897 (the “Transfer”). Following the completion of the Transfer, the Company will hold 5.14% equity interests in Tianjin Zhilian. As a result of the Transfer, the Company’s investment income on the consolidated statement is expected to increase by approximately RMB120 million to RMB160 million, subject to the audited financial statements of the Company. For details of the aforesaid matter, please refer to the “Announcement Resolutions of the Sixth Meeting of the Seventh Session of the Board of Directors” published by the Company on 24 June 2016. As at the end of the reporting period, the Transfer had been completed.

3.2.4.5 Export restrictions imposed on the Company by the U.S. Department of Commerce

The Bureau of Industry and Security of the Department of Commerce (“BIS”) of the United States of America (“U.S.”) has added the Company, Shenzhen ZTE Kangxun Telecom Company Limited (“ZTE Kangxun”), ZTE Parsian and Beijing 8-Star International Co. to the Entity List on 7 March 2016 (the “Decision”). Pursuant to the Decision, with effect from 8 March 2016, suppliers of items subject to the Export Administration Regulations shall be required to apply for a license for the supplies of such items to the Company and the other three companies, and a license review policy of presumption of denial shall apply. On 24 March 2016, BIS amended the aforesaid Decision by creating a temporary general license with the effect that the export restrictions on the Company and ZTE Kangxun under the Decision would not apply until 30

June 2016. On 28 June 2016, BIS extended the temporary general license to 30 August 2016 (U.S. time). On 19 August 2016, BIS further extended the temporary general license to 28 November 2016 (U.S. time). The Company will continue to maintain cooperation with relevant U.S. government authorities and actively liaise with them to reach a final solution, and will strictly comply with U.S. laws and regulations relating to export restrictions.

For details of the aforesaid matter, please refer to the respective relevant announcements published on 9 March, 23 March, 28 March, 6 April, 28 June and 19 August 2016 by the Company.

3.2.4.6 Provision of guarantee for ZTE (Heyuan) Company Limited by the Company

In view of the construction progress and funding requirements of the production, R&D and training base project of ZTE (Heyuan) Company Limited* (中興通訊(河源)有限公司) (“ZTE Heyuan”), a wholly-owned subsidiary of the Company, the Company has proposed to seek debt financing (including but not limited to banks facilities, fixed-asset loans and working capital loans) with an amount of not more than RMB500 million for a term of not more than 3 years with ZTE Heyuan as the principal. In view of the current operating conditions and bank credit rating of ZTE Heyuan, the Company has proposed to provide guarantee for ZTE Heyuan by way of joint liability assurance for an amount of not more than RMB500 million in relation to the aforesaid debt financing of ZTE Heyuan, in order to secure debt financing at favourable costs. The aforesaid matter was considered and approved at the Eighth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Announcement Resolutions of the Eighth Meeting of the Seventh Session of the Board of Directors” and the “Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary” published by the Company on 25 August 2016.

3.2.4.7 Investment by CDB Development Fund Co., Ltd. in Xi’an Zhongxing New Software Company Limited

To meet the requirements of business development, the Company and Xi’an Zhongxing New Software Company Limited*(西安中興新軟件有限責任公司) (“Xi’an New Software”), its wholly-owned subsidiary, has proposed to enter into the “CDB Development Fund Investment Agreement”(the “Investment Agreement”) with CDB Development Fund Co., Ltd.*(國開發展基金有限公司) (“CDB Development Fund”), pursuant to which CDB Development Fund has proposed to invest RMB675 million in Xi’an New Software by way of capital increase. The Company shall waive its preferential right of subscription and capital contribution in connection with the capital increase. In respect of the obligation for the payment of investment gains, obligation for the repayment of capital contributions and obligations for repurchase, the Company and Xi’an New Software shall assume joint liability to each other for a total guarantee amount of RMB754.22 million for a term commencing on the date on which the Investment Agreement becomes effective and ending on the date on which the fulfillment of the obligations of the Company and Xi’an New Software under the Investment Agreement is completed in full. The aforesaid matter was considered and approved at the Eighth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Announcement Resolutions of the Eighth Meeting of the Seventh Session of the Board of Directors” and the “Announcement on the Investment by CDB Development Fund Co., Ltd. in Xi’an Zhongxing New Software Company Limited, a wholly-owned subsidiary of the Company” published by the Company on 25 August 2016.

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

1. Approval procedures and grants performed

The share option incentive scheme (the “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 State-owned Assets Supervision and Administration Commission of the State Council, China Securities Regulatory Commission and the Hong Kong Stock Exchange and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. The source of shares under the Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. 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 102,989,000 share options were granted to 1,528 Scheme Participants. The exercise price for the share options granted was RMB13.69 per A share.

2. Adjustments to the number of participants, number of share options and exercise price

Pursuant to the “Resolution on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” considered and passed at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2015, it was approved that after the implementation of the 2013 profit distribution plan and the 2014 plan for profit distribution and conversion of capital reserve, the number of share options was adjusted to 123,586,800 and the exercise price was adjusted to RMB11.22.

Pursuant to the “Resolution on the Adjustment of Participants and Number of Share Options for the First Exercise Period of the Share Option Incentive Scheme” considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the adjustment of the number of participants under the Scheme from 1,528 to 1,429 and the number of share options granted under the Scheme from 123,586,800 to 116,613,000 was approved. The number of participants entitled to exercise share options for the first exercise period was adjusted from 1,528 to 1,424, and the number of exercisable share options for the first exercise period was adjusted from 37,076,040 to 34,884,360.

Pursuant to the “Resolution on the Adjustment of the Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” considered and approved at the Seventh Meeting of the Seventh Session of the Board of Directors of the Company held on 15 July 2016, it was approved that the exercise price would be adjusted to RMB10.97 after the implementation of the 2015 profit distribution plan.

At the Ninth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 October 2016, the “Resolution on the Adjustment of Participants and Number of Share Options for the Second Exercise Period of the Share Option Incentive Scheme”, “Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period under the Share Option Incentive Scheme” and “Resolution on the Cancellation of Certain Share Options” were considered and approved, pursuant to which the adjustment of the number of participants under

the Scheme from 1,429 to 1,357, the adjustment of the number of share options granted from 116,613,000 to 112,014,630; the adjustment, for the second exercise period, of the number of participants entitled to exercise share options from 1,429 to 1,350, and the number of exercisable share options from 35,026,560 to 33,101,640; the deemed fulfillment of the exercise conditions for the second exercise period under the Scheme which would be from 1 November 2016 to 31 October 2017 at the exercise price of RMB10.97; and the cancellation of a total of 4,598,370 previously granted share options which were either: unexercised and outstanding as at the close of the exercisable period of the first exercise period, held by grantees who no longer met the conditions for becoming a participant under the Scheme, or held by participants who did not fulfill the exercise conditions for the second exercise period under the Scheme, were approved. For details, please refer to the “Announcement on the Adjustment of Participants and Number of Share Options for the Second Exercise Period under the Share Option Incentive Scheme”, “Announcement on the Fulfillment of Exercise Conditions for the Second Exercise Period under the Share Option Incentive Scheme” and “Announcement on the Cancellation of Certain Share Options” published by the Company on 27 October 2016.

3. Exercise of share options

Share options under the Scheme of the Company were exercised on a voluntary basis. During the third quarter of 2016, a total of 5,364,109 share options were exercised. The number of A shares of the Company has increased by 5,364,109 shares as a result of the exercise. As at the end of the reporting period, 82,056,330 share options under the Scheme remained unexercised.

The first exercise period under the Scheme lasted from 2 November 2015 to 31 October 2016. As at the date of the publication of this quarterly report, the exercisable period of the first exercise period under the Scheme has ended. A total of 34,556,670 share options have been exercised, while a total of 327,690 share options have remained unexercised. At the Ninth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 October 2016, it was approved that the aforesaid unexercised share options would be cancelled. For details, please refer to the “Announcement on the Cancellation of Certain Share Options” published by the Company on 27 October 2016. Details of the exercise of share options by participants under the Scheme during the first exercise period are set out as follows:

Position	Name	Number of share options exercisable in the first exercise period (Unit: in ten thousands)	Number of share options exercised in the first exercise period (Unit: in ten thousands)	Number of share options unexercised in the first exercise period (Unit: in ten thousands)
Zhao Xianming	Director and President	18.0000	18.0000	0
Zhang Jianheng	Director	1.0800	0	1.0800
Fan Qingfeng	Executive Vice President	18.0000	18.0000	0
Zeng Xuezhong	Executive Vice President	16.2000	16.2000	0
Xu Huijun	Executive Vice President	12.6000	12.6000	0
Pang Shengqing	Executive Vice President	16.2000	16.2000	0
Zhang Zhenhui	Executive Vice President	7.0200	7.0200	0
Chen Jianzhou	Executive Vice President	16.2000	16.2000	0
Cao Wei	Secretary to the Board	2.5200	2.5200	0
Other participants	1,415 persons	3,380.6160	3,348.9270	31.6890
Total	1,424 persons	3,488.4360	3,455.6670	32.7690

For further details of the share option incentive scheme implemented by the Company, please refer to the section headed “Material Matters — (VII) Information on the Share Option Incentive Scheme of the Company” in the 2016 Interim Report of the Company.

3.2.4.9 Material litigation and arbitration during the reporting period

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

In November 2012, ZTE DO BRAZIL LTDA (“ZTE Brazil”), a wholly-owned subsidiary of the Company, filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB64,435,000). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that the said company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB64,169,100), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB64,169,100) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was informed that the Federal District and Regional Court had made a second trial judgment to reject the application for appeal of the said Brazilian company.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB171 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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

Note: The exchange rates are based on the book exchange rates of the Company as at 30 September 2016 where BRL amounts are translated at the exchange rate of BRL1: RMB2.0551.

3.2.4.10 Conduct of continuing connected transactions during the reporting period

The connected transactions disclosed in the following table represent connected transactions reaching the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of Whether transactions approved in the same cap has classification been exceeded		Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
							(%)					
Zhongxingxin and its subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB300,000 per unit depending on level of sophistication; cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	31,202.48	0.71%	No	Commercial acceptance bill	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna")	A company at which a natural person related to the Company acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party	Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features	65,179.90	1.49%	No	Commercial acceptance bill	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"	
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which a natural person related to the Company acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	3,983.12	0.09%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Zhongxing Software Technology (Nanchang) Company Limited ("Nanchang Software")	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	3,114.04	0.07%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Purchase of hotel services	The purchase of hotel services by the Company from the connected party	The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	2,746.43	0.06%	No	Tele-transfer	N/A	2015-4-24 2016-4-29	Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Zhongxing Development Company Limited ("Zhongxing Development")	A company for which a natural person related to the Company acted as director	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.; Lease of parking spaces: 25 ground level parking spaces and 127 underground parking spaces by the Company from the connected party	Monthly rent of RMB145/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by ZTE and no management fees were payable.)	3,371.16	5.88%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development")	Subsidiary of a company for which a natural person related to the Company acted as director	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. and 97 parking spaces by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, from the connected party	Monthly rent of RMB50/sq.m. for the office (for a maximum leased area of 18,532.08 sq.m.) and RMB45/sq.m. for the cafeteria (for a maximum leased area of 1,467.92 sq.m.) respectively; monthly management fee of RMB3/sq.m. based on actual area leased; monthly rent of parking space: RMB150 each.	668.28	1.17%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	As a percentage of Whether		Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index	
						Amount (RMB in ten thousands)	transactions approved in the same cap has classification been exceeded (%)					
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.	5,778.15	23.73%	No	Tele-transfer	N/A	2015-4-24 2016-4-29	Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Financial services	The provision of deposit services by ZTE Group Finance Co., Ltd ("ZTE Group Finance") to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; where the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	2,838.99 ^{Note 1}	0.29%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna	A company at which a natural person related to the Company acted as director	Financial services	The provision of bill discounting services by ZTE Group Finance to the connected party		Bill discounting services were conducted during the ordinary course of business of the two parties based on normal commercial terms. The interest rate for discounting was determined on the basis of the rediscount rate announced by the PBOC taking into account prevailing market levels and in compliance with relevant guidelines and requirements of the PBOC.	— ^{Note 2}	0.00%	No	Tele-transfer	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
深圳市航天威華科技發展有限公司 ("航天威華")	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 factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	42,922.46	0.60%	No	Tele-transfer or bank acceptance bill	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company acted as director	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system and government/corporate IT systems		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	—	0.00%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total						161,805.01	N/A	—	—	—	—	—
Detailed information of substantial sales return				None								
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)				The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products and services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.								
Effect of the connected transaction on the independence of the listed company				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-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries by the Company in 2016 be capped at RMB800 million (before VAT);</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the cap of estimated purchases of raw materials from Mobi Antenna, a connected party, by the Company in 2016 be RMB1,700 million (before VAT);</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, by the Company in 2016 be capped at RMB67 million and RMB63 million, respectively (before VAT);</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2016 be capped at RMB30 million (before VAT);</p> <p>At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB54 million for a term commencing on 18 April 2015 and ending on 17 April 2017;</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the annual rent payable by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB13 million for a term commencing on 1 January 2015 and ending on 31 December 2017;</p> <p>At the Twenty-sixth Meeting of the Sixth Session of the Board of Directors of the Company held on 23 April 2015, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2015 and ending on 30 June 2016; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB85 million for the period commencing on 1 July 2015 and ending on 30 June 2016; at the Third Meeting of the Seventh Session of the Board of Directors of the Company held on 28 April 2016, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2016 and ending on 30 June 2017; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB85 million for the period commencing on 1 July 2016 and ending on 30 June 2017;</p> <p>At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2016 shall be capped at RMB85 million;</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated daily balance of outstanding discounted bills (principal cum interest) of the bill discounting service provided by ZTE Group Finance to Mobi Antenna in 2016 shall be capped at RMB400 million;</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated sales of digital communications products and communications products to 航天威華 by the Company in 2016 be capped at RMB1,000 million (before VAT); and</p>								
Reason for substantial differences between transaction prices and referential market prices (if applicable)				N/A								

- Note 1:* The amount represented the estimated maximum daily deposit balance (principal cum interest) for the 9 months ended 30 September 2016.
- Note 2:* The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the 9 months ended 30 September 2016.
- Note 3:* ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2016, and the funds utilised for settlement were limited to the cash deposits placed with ZTE Group Finance by Zhongxing Hetai and its subsidiaries. No handling fees were charged for such settlement service.
- Note 4:* For details of “Approved Cap”, please refer to the section headed “Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)”.

3.3 Undertakings by the Company, its shareholders, de facto controller, acquirer, Directors, Supervisors, senior management or other connected parties fulfilled during or outstanding as at the end of the reporting period

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

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

2. Other undertaking given to minority shareholders of the Company

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

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

Applicable N/A

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities

1. Investment in securities at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	603118	Gongjin Electronics ^{Note 1}	4,274.93	Fair-value measurement	48,798.08	—	(15,330.74)	—	33,223.85	29,382.12	4,085.22	Available-for-sale financial assets	Issue proceeds
Stock	300438	Great Power ^{Note 1}	3,095.24	Fair-value measurement	37,350.00	—	(7,253.61)	—	17,275.51	15,727.89	14,368.50	Available-for-sale financial assets	Issue proceeds
Stock	300502	Eoptolink ^{Note 1}	1,385.12	Fair-value measurement	1,385.12	—	32,364.56	—	—	—	33,749.68	Available-for-sale financial assets	Issue proceeds
Stock	603986	Giga Device ^{Note 1}	1,800.00	Fair-value measurement	1,800.00	—	54,711.70	—	—	—	56,511.70	Available-for-sale financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic ^{Note 2}	3,266.00	Fair-value measurement	22,170.63	—	(3,884.17)	—	—	—	18,286.46	Available-for-sale financial assets	Issue proceeds
Stock	ENA: TSV	Enablance Technologies ^{Note 3}	3,583.26	Fair-value measurement	981.36	—	246.13	2,190.16	—	—	3,417.65	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
Total			17,404.55	—	112,485.19	—	60,853.87	2,190.16	50,499.36	45,110.01	130,419.21	—	—

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

Note 2: Figures corresponding to Lianchuang Electronic Technology Co., Ltd. (“Lianchuang Electronic”, formerly named “China-Hemp Industrial Investment Co., Ltd.”) are provided with Jiaying Xinghe Equity Investment Partnership (“Jiaying Fund”) as the accounting subject.

Note 3: The initial investment for the acquisition of Enablance Technologies Inc. (“Enablance Technologies”) shares by ZTE H.K. Limited (“ZTE HK”), a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablance Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD39,746,100, equivalent to approximately RMB34,176,500 based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.85987) on 30 September 2016.

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

A. Shareholdings in Gongjin Electronics

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. Zhonghe Chunsheng Fund disposed of 5.37 million and 3.00 million shares in Gongjin Electronics (a company listed on the Shanghai Stock Exchange) on 20 May and 8 June 2016, respectively, through the block trading system. During the third quarter of 2016, Zhonghe Chunsheng Fund transferred a total of 950,500 shares in Gongjin Electronics in the secondary market. As at the end of the reporting period, Zhonghe Chunsheng Fund held 1,051,000 shares in Gongjin Electronics, accounting for 0.30% of the total share capital of Gongjin Electronics.

B. Shareholdings in Great Power

On 16 May 2016, Zhonghe Chunsheng Fund transferred the 1.50 million shares in Great Power (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 4.50 million shares in Great Power (following the implementation of the 2015 equity distribution plan), accounting for 1.79% of the total share capital of Great Power.

C. Shareholdings in Eoptolink

As at the end of the reporting period, Zhonghe Chunsheng Fund held 2,611,800 shares in Eoptolink, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.37% of the total share capital of Eoptolink.

D. Shareholdings in Giga Device

As at the end of the reporting period, Zhonghe Chunsheng Fund held 3,175,400 shares in Giga Device, a company listed on the Shanghai Stock Exchange, accounting for 3.18% of the total share capital of Giga Device.

E. Shareholdings in Lianchuang Electronic

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Fund, which was a partnership reported in the consolidated financial statements of the Company. Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, was required to repurchase shares held by its shareholders for cancellation as compensation following its failure to meet the net profit undertaking for 2015. As a result, Lianchuang Electronic repurchased 310,700 shares held by Jiaxing Fund. As at the end of the reporting period, Jiaxing Fund held 6,887,600 shares in Lianchuang Electronic, accounting for 1.18% of the total share capital of Lianchuang Electronic.

F. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total cash consideration of CAD2.70 million. ZTE HK entered into a Subscription Agreement with Enablence Technologies on 27 January 2016. On 2 February 2016, ZTE HK

subscribed for 77 million shares issued by Enablence Technologies for a total cash consideration of CAD4.62 million. As at the end of the reporting period, ZTE HK held 95 million shares in Enablence Technologies, accounting for 18.66% of its total share capital.

- G. 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. Details of investment in securities after the end of the reporting period

During the period from 10 October to 20 October 2016, Zhonghe Chunsheng Fund transferred a total of 1,051,000 Gongjin Electronics shares in the secondary market. As at the date of publication of this quarterly report, Zhonghe Chunsheng no longer holds any Gongjin Electronics.

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

During the reporting period, the Company hosted 10 receptions of investors for research purposes, including 13 institutional investors. No individual investors or other researchers have been received. Please refer to the following table for details. The Company has not disclosed, divulged or given away any unpublished material information to investors.

Nature	Time	Location	Mode	Audience received	Key contents discussed	Index of research
External meetings	July 2016	Shanghai	Founder Securities investors' meeting	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	July 2016	Shanghai	Industrial Securities investors' meeting	Customers of Industrial Securities	Day-to-day operations of the Company	Published announcements and regular reports
	August 2016	Shanghai	China Merchants Securities investors' meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Shanghai	Hua Chuang Securities investors' meeting	Customers of Hua Chuang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Hangzhou	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Shenzhen	Huatai United investors' meeting	Customers of Huatai United	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Shenzhen	Founder Securities investors' meeting	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
Company visits by investors	September 2016	Shenzhen	Guosen Securities investors' meeting	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	July to September 2016	Company	Verbal	<p>Overseas investors</p> <p>UBS Asset Management(Singapore) Ltd, BBL Asset Management Co. Ltd, Morgan Stanley, Cathay Life, UG Investment Advisers Limited, Claw Capital, Deutsche Asset& Wealth Management, CLSA, Pacific Crest Securities, Samsung Securities</p> <p>Domestic investors</p> <p>China Merchants Securities, China Securities, Mingyuan Ruida</p>	Day-to-day operations of the Company	Published announcements and regular reports
	July to September 2016	Company	Verbal	China Merchants Securities, China Securities, Mingyuan Ruida	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	Start date	End date	Opening balance of investment amount	Amount purchased during the period	Amount disposed during the period	Impairment provision amount (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets ^{Note 2}	Actual profit or loss for the reporting period
Financial institutions	N/A	No	Interest rate swap ^{Note 3}	—	2011/12/19	2016/7/8	32,470.00	—	33,344.00	—	—	—	—
Financial institutions	N/A	No	Interest rate swap ^{Note 3}	—	2011/12/22	2016/7/8	32,470.00	—	33,344.00	—	—	—	—
Financial institutions	N/A	No	Forward foreign exchange contract	—	2016/2/15	2017/1/26	23,484.25	157,554.40	103,535.86	—	77,502.79	2.45%	(4,299.62)
Financial institutions	N/A	No	Forward foreign exchange contract	—	2015/12/30	2017/1/30	22,481.58	137,566.67	93,641.67	—	66,406.58	2.10%	(3,684.04)
Financial institutions	N/A	No	Forward foreign exchange contract	—	2016/2/11	2017/1/20	10,463.78	153,681.83	105,236.10	—	58,909.51	1.86%	(3,268.12)
Financial institutions	N/A	No	Forward foreign exchange contract	—	2016/1/20	2017/1/26	140,123.64	402,358.72	399,736.00	—	142,746.36	4.50%	(7,919.13)
Total				—	—	—	261,493.25	851,161.62	767,089.63 ^{Note 4}	—	345,565.24	10.91%	(19,170.91)
Source of funds for derivative investment				Internal funds									
Litigation (if applicable)				Not involved in any litigation									
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)				“Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2015,” both dated 25 March 2015, and “Announcement Resolutions of the Second Meeting of the Seventh Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2016,” both dated 6 April 2016.									
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)				“Announcement on Resolutions of the 2014 Annual General Meeting” dated 28 May 2015 and “Announcement on Resolutions of the 2015 Annual General Meeting” dated 2 June 2016.									
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period				<p>Value-protection derivative investments were conducted by the Company during the first three quarters of 2016. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; Liquidity risks: The value-protection derivative investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company’s current assets was insignificant; Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks; Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled. 									
Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives				The Company has recognised losses from investments in derivatives for the reporting period. Total loss recognised for the reporting period amounted to RMB191.71 million, comprising losses from fair-value change of RMB175.41 million and investment loss of RMB16.30 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.									
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period				There was no significant change in the Company’s accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.									
Specific opinion of Independent Non-executive Directors on the Company’s derivative investments and risk control				<p>Independent Non-executive Directors’ Opinion:</p> <p>The Company has conducted value protection derivative investments through financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.</p>									

- Note 1:* Derivative investments are classified according to the financial institutions involved and the types of derivative investments;
- Note 2:* Net assets as at the end of the reporting period represented net assets attributable to holders of ordinary shares of the listed company as at the end of the reporting period;
- Note 3:* The difference between the amount of interest rate swaps sold during the reporting period and the opening balance of the investment amount reflected differences in exchange rates for translation; the amount denominated in the original currency remained unchanged. Interest rate swaps were dealt with as value protection hedging for accounting purposes and the gain or loss arising from interest rate swaps for the reporting period was recognised in other comprehensive income;
- Note 4:* The difference between the total amount of disposals for the reporting period and the sum of amounts with various financial institutions is owing to revaluation of interest rate swaps.

3.7 Development and implementation of internal control in the third quarter of 2016

During the first quarter of 2016, the Company was mainly engaged in the review and assessment of internal control operations conducted in 2015. The internal control assessment report for 2015 and the compliance check for investments in derivatives and securities in 2015 were completed, while internal control work plans and plans for the self-assessment of internal control for 2016 were also formulated. During the second quarter of 2016, the Company implemented key measures for the control of risk exposures associated with exchange rate volatility in emerging markets and political risks in certain Latin American countries. We also adopted initiatives to optimise internal control over contract work outsourcing management and further strengthened control over legal compliance of our operations, with a view to enhancing our internal control standards and ability to implement. For details of internal control developments and implementation in the first half of 2016, please refer to the section headed “Material Matters” in the 2016 interim report of the Company.

Details of implementation of the Company’s internal control in the third quarter of 2016 are set out as follows:

1. The Company continued to identify and analyse risk exposures that the Company’s operations were subject to, while further optimising risk classification and categorisation to designate specific risk control responsibilities at various levels and substantiate its risk database;
2. The Company continued to optimise internal control over contract management, cost management, contract work outsourcing management, partner management and duty rotation for sensitive positions;
3. The Company made further efforts in the self-assessment of internal control in relation to business segments such as government and corporate business, terminals, sales and engineering services, supply chain and finance, with a view to building a sound and comprehensive internal control regime;
4. The Company continued to drive risk management and the cultivation of a culture for internal control at all staff levels, and conducted results tracking in respect of such effort;
5. The Internal Control and Audit Department conducted a review of internal control and audit for the first half of 2016 and reported to the same to the Audit Committee and Board of Directors of the Company.

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

§4 APPENDICES

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

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

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

BALANCE SHEET

RMB in thousands

Assets	2016.9.30		2015.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	26,913,150	12,033,537	28,025,009	17,708,219
Derivative financial assets	116,115	933	10,110	3,234
Bills receivable	3,500,819	2,622,440	3,463,358	1,461,254
Trade receivables	28,801,411	40,161,011	25,251,287	36,128,987
Factored trade receivables	2,380,444	466,424	1,272,068	445,819
Prepayments	2,439,136	160,273	640,113	28,871
Dividend receivable	—	3,628,939	—	3,473,753
Other receivables	4,267,748	8,656,083	2,970,258	8,659,093
Inventories	29,105,969	18,691,527	19,731,741	13,315,871
Amount due from customers for contract works	8,501,769	5,289,299	13,928,446	9,580,171
Total current assets	106,026,561	91,710,466	95,292,390	90,805,272
Non-current assets:				
Available-for-sale financial assets	2,616,993	412,998	2,381,467	366,724
Long-term trade receivables	1,154,659	5,998,724	362,831	5,908,497
Factored long-term trade receivables	1,474,345	1,222,800	1,593,528	1,282,435
Long-term equity investments	552,490	8,987,380	560,939	7,350,908
Investment properties	2,012,612	1,610,296	2,010,396	1,603,107
Fixed assets	7,533,313	4,431,107	7,692,175	4,340,067
Construction in progress	1,275,356	455,013	643,789	270,243
Intangible assets	3,903,745	1,013,763	4,224,446	1,176,400
Deferred development costs	1,183,359	230,835	789,815	166,417
Deferred tax assets	1,479,109	532,833	1,434,143	671,519
Long-term deferred assets	37,981	34,991	32,790	32,388
Other non-current assets	3,417,708	3,417,708	3,875,188	3,745,208
Total non-current assets	26,641,670	28,348,448	25,601,507	26,913,913
Total assets	132,668,231	120,058,914	120,893,897	117,719,185

Legal Representative:
Zhao Xianming

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

RMB in thousands

Liabilities and shareholders' equity	2016.9.30		2015.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	12,907,287	8,173,313	7,907,572	5,710,313
Derivative financial liabilities	139,209	5,929	19,840	6,421
Bonds payable	—	—	4,000,000	4,000,000
Bank advances on factored trade receivables	2,383,513	467,043	1,273,346	446,283
Bills payable	12,108,186	14,836,883	9,885,129	13,366,928
Trade payables	26,370,938	35,638,828	22,932,866	35,274,224
Amount due to customers for contract works	7,811,117	5,372,832	4,423,103	3,016,655
Advances from customers	6,775,189	3,886,403	4,035,638	3,761,156
Salary and welfare payables	5,068,225	2,448,793	3,644,694	1,253,431
Taxes payable	(6,338,945)	(4,881,826)	(2,329,886)	(2,018,958)
Dividends payable	908	184	7,418	184
Other payables	8,103,618	22,545,052	6,005,130	19,557,447
Deferred income	368,993	175,694	438,920	179,198
Provisions	602,108	329,585	776,682	448,459
Long-term loans due within one year	1,893,264	1,867,264	4,617,604	1,700,000
Total current liabilities	78,193,610	90,865,977	67,638,056	86,701,741
Non-current liabilities:				
Long-term loans	5,399,514	485,000	6,016,254	1,469,570
Bank advances on factored long-term trade receivables	1,474,345	1,222,800	1,593,528	1,282,435
Provision for retirement benefits	142,773	142,773	144,280	144,280
Deferred tax liabilities	56,302	—	52,769	—
Deferred income	720,284	89,538	759,394	109,026
Other non-current liabilities	1,103,815	889,043	1,341,011	1,290,829
Total non-current liabilities	8,897,033	2,829,154	9,907,236	4,296,140
Total liabilities	87,090,643	93,695,131	77,545,292	90,997,881
Shareholders' equity:				
Share capital	4,159,606	4,159,606	4,150,791	4,150,791
Capital reserves	10,664,520	8,654,165	10,493,439	8,483,084
Other comprehensive income	(662,685)	693,964	(685,067)	694,904
Surplus reserve	2,022,709	1,360,953	2,022,709	1,360,953
Retained profits	15,498,584	2,232,773	13,678,222	2,710,245
Total equity attributable to holders of ordinary shares of the parent	31,682,734	17,101,461	29,660,094	17,399,977
Other equity instruments — perpetual capital instruments	9,262,322	9,262,322	9,321,327	9,321,327
Non-controlling interests	4,632,532	—	4,367,184	—
Total shareholders' equity	45,577,588	26,363,783	43,348,605	26,721,304
Total liabilities and shareholders' equity	132,668,231	120,058,914	120,893,897	117,719,185

INCOME STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2016		Nine months ended 30 September 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	71,564,004	66,984,085	68,523,242	64,391,245
Less: Operating costs	48,937,259	56,394,369	45,667,396	53,815,709
Taxes and surcharges	507,398	46,400	1,086,399	611,526
Selling and distribution costs	8,858,192	5,211,210	7,956,903	5,009,166
Administrative expenses	1,923,457	1,196,512	1,778,877	1,089,423
Research and development costs	9,888,282	2,897,928	8,290,865	2,212,459
Finance expenses	140,760	117,872	1,167,580	683,002
Impairment losses	1,279,652	984,037	2,500,431	1,856,205
Add: Gains/(Losses) from changes in fair values	(14,083)	5,279	(66,240)	(8,733)
Investment income	937,437	279,413	440,550	1,200,420
Including: Share of profits/(losses) of associates and joint ventures	(18,565)	(21,203)	(24,678)	(21,511)
2. Operating profit	952,358	420,449	449,101	305,442
Add: Non-operating income	3,324,369	702,536	3,143,457	939,061
Less: Non-operating expenses	90,525	17,983	116,278	106,416
Including: Gains/(Losses) on disposal of non-current assets	7,830	4,778	20,513	8,308
3. Total profit	4,186,202	1,105,002	3,476,280	1,138,087
Less: Income tax	764,931	169,004	580,886	142,510
4. Net profit	3,421,271	935,998	2,895,394	995,577
Net profit attributable to holders of ordinary shares of the parent	2,858,887	561,053	2,604,180	705,445
Interest accruals attributable to holders of perpetual capital instruments	374,945	374,945	290,132	290,132
Non-controlling interests	187,439	—	1,082	—

RMB in thousands

Item	Nine months ended 30 September 2016		Nine months ended 30 September 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
5. Other comprehensive income, net of tax	<u>155,752</u>	<u>(940)</u>	<u>(16,216)</u>	<u>(126)</u>
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	<u>22,382</u>	<u>(940)</u>	<u>(279,369)</u>	<u>(126)</u>
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods subject to certain conditions				
Changes in the fair value of available-for-sale financial assets	97,345	—	48,489	—
Effective portion of hedging instruments	(65,991)	—	2,061	—
Exchange differences on translation of foreign operations	<u>(8,972)</u>	<u>(940)</u>	<u>(329,919)</u>	<u>(126)</u>
	<u>22,382</u>	<u>(940)</u>	<u>(279,369)</u>	<u>(126)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>133,370</u>	<u>—</u>	<u>263,153</u>	<u>—</u>
6. Total comprehensive income	<u>3,577,023</u>	<u>935,058</u>	<u>2,879,178</u>	<u>995,451</u>
Comprehensive income attributable to holders of ordinary shares of the parent	2,881,269	560,113	2,324,811	705,319
Comprehensive income attributable to holders of perpetual capital instruments	374,945	374,945	290,132	290,132
Comprehensive income attributable to non-controlling interests	320,809	—	264,235	—
7. Earnings per share				
(1) Basic earnings per share	RMB0.69		RMB0.63	
(2) Diluted earnings per share	RMB0.68		RMB0.62	

INCOME STATEMENT

RMB in thousands

Item	Three months ended 30 September 2016		Three months ended 30 September 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	23,806,702	21,379,768	22,624,454	19,858,158
Less: Operating costs	17,112,872	18,557,749	15,240,648	16,309,292
Taxes and surcharges	136,200	5,394	240,579	109,791
Selling and distribution costs	2,879,585	1,545,059	2,623,729	1,541,153
Administrative expenses	529,472	305,167	571,070	290,088
Research and development costs	2,829,118	665,337	2,798,953	755,708
Finance expenses	235,818	202,606	160,478	(69,213)
Impairment losses	228,434	115,898	618,325	419,582
Add: Gains/(Losses) from changes in fair values	22,267	10,293	(76,196)	(20,392)
Investment income	579,472	122,360	78,282	29,146
Including: Share of profits/(losses) of associates and joint ventures	952	—	13,433	13,915
2. Operating profit	456,942	115,211	372,758	510,511
Add: Non-operating income	1,060,639	266,881	1,012,245	314,070
Less: Non-operating expenses	39,160	13,084	51,111	35,770
Including: Gains/(Losses) on disposal of non-current assets	3,171	2,765	4,469	3,049
3. Total profit	1,478,421	369,008	1,333,892	788,811
Less: Income tax	245,504	34,764	270,684	178,655
4. Net profit	1,232,917	334,244	1,063,208	610,156
Net profit attributable to holders of ordinary shares of the parent	1,092,490	209,262	988,595	500,777
Interest accruals attributable to holders of perpetual capital instruments	124,982	124,982	109,379	109,379
Non-controlling interests	15,445	—	(34,766)	—

RMB in thousands

Item	Three months ended 30 September 2016		Three months ended 30 September 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
5. Other comprehensive income, net of tax	829,498	(334)	(575,789)	(14)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	550,735	(334)	(426,957)	(14)
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods subject to certain conditions				
Changes in the fair value of available-for-sale financial assets	152,819	—	(77,655)	—
Effective portion of hedging instruments	(6,484)	—	1,144	—
Exchange differences on translation of foreign operations	404,400	(334)	(350,446)	(14)
	550,735	(334)	(426,957)	(14)
Other comprehensive income attributable to non-controlling interests, net of tax	278,763	—	(148,832)	—
6. Total comprehensive income	2,062,415	333,910	487,419	610,142
Comprehensive income attributable to holders of ordinary shares of the parent	1,643,225	208,928	561,638	500,763
Comprehensive income attributable to holders of perpetual capital instruments	124,982	124,982	109,379	109,379
Comprehensive income attributable to non-controlling interests	294,208	—	(183,598)	—
7. Earnings per share				
(1) Basic earnings per share	RMB0.26		RMB0.24	
(2) Diluted earnings per share	RMB0.26		RMB0.24	

CASH FLOW STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2016		Nine months ended 30 September 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	86,671,142	70,350,840	72,777,233	69,006,872
Refunds of taxes	5,943,793	3,911,875	5,447,304	3,372,304
Cash received relating to other operating activities	2,141,097	1,726,718	2,170,812	1,838,772
Sub-total of cash inflows	94,756,032	75,989,433	80,395,349	74,217,948
Cash paid for goods and services	68,515,148	66,534,466	58,173,307	65,530,449
Cash paid to and on behalf of employees	13,420,290	4,687,480	10,985,440	3,705,973
Cash paid for all types of taxes	6,281,686	984,820	5,864,979	759,000
Cash paid relating to other operating activities	5,319,606	4,176,707	5,016,936	4,027,282
Sub-total of cash outflows	93,536,730	76,383,473	80,040,662	74,022,704
Net cash flows from operating activities	1,219,302	(394,040)	354,687	195,244
2. Cash flows from investing activities				
Cash received from sale of investments	950,822	241,385	1,182,207	45,474
Cash received from return on investments	645,925	82,182	578,688	187,086
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	86,380	8,689	17,517	10,059
Net cash received from the disposal of subsidiaries and other operating units	—	70,850	—	126
Sub-total of cash inflows	1,683,127	403,106	1,778,412	242,745
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	2,475,670	886,011	2,026,035	548,854
Cash paid for acquisition of investments	1,797,360	1,945,850	975,423	149,935
Sub-total of cash outflows	4,273,030	2,831,861	3,001,458	698,789
Net cash flows from investing activities	(2,589,903)	(2,428,755)	(1,223,046)	(456,044)

RMB in thousands

Item	Nine months ended 30 September 2016		Nine months ended 30 September 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from capital injection	1,899,815	98,904	34,500	—
Including: Capital injection into subsidiaries by minority shareholders	1,800,911	—	34,500	—
Cash received from the issuance of perpetual capital instruments	—	—	7,415,500	7,415,500
Cash received from borrowings	18,829,492	11,200,130	13,277,967	10,532,547
Sub-total of cash inflows	20,729,307	11,299,034	20,727,967	17,948,047
Cash repayment of borrowings	18,913,403	12,326,841	15,692,062	13,710,611
Cash payments for distribution of dividends or for interest expenses	2,376,776	2,174,289	1,814,235	1,490,342
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	25,613	—	—	—
Sub-total of cash outflows	21,290,179	14,501,130	17,506,297	15,200,953
Net cash flows from financing activities	(560,872)	(3,202,096)	3,221,670	2,747,094
4. Effect of changes in foreign exchange rate on cash and cash equivalents	(220,873)	148,386	(259,961)	(116,955)
5. Net increase in cash and cash equivalents	(2,152,346)	(5,876,505)	2,093,350	2,369,339
Add: cash and cash equivalents at the beginning of the period	26,616,996	17,325,750	17,230,140	9,715,869
6. Net balance of cash and cash equivalents at the end of the period	24,464,650	11,449,245	19,323,490	12,085,208

By Order of the Board
Zhao Xianming
Chairman

Shenzhen, the PRC
27 October 2016

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