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ZTE

ZTE CORPORATION
中興通訊股份有限公司

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

2018 THIRD QUARTERLY REPORT

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

§ 1 IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that there are no false information and misleading statements in this quarterly report nor any material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved at the Fortieth Meeting of the Seventh Session of the Board of Directors of the Company.
- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).

- 1.5 Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial statements contained in this quarterly report.
- 1.6 China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company's information disclosure. Investors are advised to be aware of the investment risks involved.

§ 2 CORPORATE INFORMATION

2.1 Major accounting data and financial indicators

2.1.1 Statement on retrospective adjustments to or restatement of accounting data of the previous year by the Company because of changes in accounting policies or for the rectification of accounting errors

In June 2018, the Ministry of Finance (“MOF”) published the “Notice on the Revision and Publication of the 2018 General Corporate Financial Reporting Format” (the “New Reporting Format”). The Company has amended the financial reporting format in accordance with relevant provisions. Financial assets at fair value through profit or loss expected to be held for one year or less have been included under “trading financial assets”, while the previous “bills receivable” and “trade receivables” have been combined as “bills receivable and trade receivables”; the previous “dividends receivable” and “other receivables” have been combined as “other receivables”; the previous “amounts due from customers for contract works” has been included under “contract assets”; financial assets at fair value through profit or loss expected to be held for more than one year have been included under “other non-current financial assets”; the previous “long-term deferred assets” and “other non-current assets” have been combined as “other non-current assets”; the previous “bills payable” and “trade payables” have been combined as “bills payable and trade payables”; the previous “advanced from customers” and “amounts due to customers for contract works” have been combined as “contract liabilities”; the previous “dividends payable” and “other payables” have been combined as “other payables”; and expected credit losses arising from provision for impairment in financial instruments have been included under “credit impairment losses”.

In September 2018, the MOF issued the “Explanation of Issues relating to the 2018 General Corporate Financial Reporting Format”. In accordance with relevant provisions, the Company accounted for handling charges received for the deduction of tax payments as other income relating to day-to-day activities and entered such income under “Other income” in the income statement. Comparable figures for the comparable period were also adjusted accordingly.

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

Item	As at the end of the reporting period (30 September 2018)	As at the end of last year (31 December 2017)	Change as at the end of the reporting period compared with the end of last year
Total assets (RMB in thousands)	124,214,723	143,962,215	(13.72%)
Owners’ equity attributable to holders of ordinary shares of the listed company (RMB in thousands)	22,720,076	31,646,875	(28.21%)
Total share capital (thousand shares)	4,192,672	4,192,672	—
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	5.42	7.55	(28.21%)

Item	Three months ended 30 September 2018	Change compared with the same period last year	Nine months ended 30 September 2018	Change compared with the same period last year
Operating revenue (RMB in thousands)	19,332,409	(14.34%)	58,766,186	(23.26%)
Net profit attributable to holders of ordinary shares of the listed company (RMB in thousands)	564,467	(64.98%)	(7,259,723)	(285.92%)
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company (RMB in thousands)	120,448	130.95%	(2,258,756)	(244.58%)
Net cash flows from operating activities (RMB in thousands)	(5,176,508)	(599.63%)	(10,222,894)	(222.44%)
Net cash flows from operating activities per share (RMB/share)	(1.23)	(592.00%)	(2.44)	(221.05%)
Basic earnings per share (RMB/share) ^{Note 1}	0.14	(63.16%)	(1.73)	(286.02%)
Diluted earnings per share (RMB/share) ^{Note 2}	0.14	(62.16%)	(1.73)	(288.04%)
Weighted average return on net assets (%)	2.49%	Decreased by 2.87 percentage points	(27.22%)	Decreased by 40.86 percentage points
Weighted average return on net assets after extraordinary items (%)	0.56%	Increased by 2.15 percentage points	(8.47%)	Decreased by 13.93 percentage points

Note 1: Basic earnings per share for the nine months ended 30 September 2018, three months ended 30 September 2018, nine months ended 30 September 2017 and three months ended 30 September 2017 have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

Note 2: As the 2017 share options granted by the Company have given rise to 0 potentially dilutive ordinary share for the nine months ended 30 September 2018 and the 2013 share options granted by the Company have given rise to 43,247,000 dilutive ordinary shares for the nine months ended 30 September 2017, dilutive earnings per share for the nine months ended 30 September 2018 and three months ended 30 September 2018 and the same periods last year have been calculated on the basis of basic earnings per share taking into account the said factor.

Extraordinary item

Unit: RMB in thousands

Extraordinary item	Amount	
	Three months ended 30 September 2018	Nine months ended 30 September 2018
Non-operating income, other income and others	1,097,588	1,508,498
Gains/(losses) from fair value change	(381,996)	(759,435)
Investment income/(loss)	(22,685)	151,569
Less: Other non-operating expenses/(income)	211,290	6,964,719
Less: Effect of income tax	72,243	(909,613)
Less: Effect of non-controlling interests (after tax)	(34,645)	(153,507)
Total	444,019	(5,000,967)

2.1.3 The amounts of net profit and shareholders' equity of the Group for the nine months ended 30 September 2018 and as at 30 September 2018 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.

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

Total number of shareholders

As at 30 September 2018 There were 422,010 shareholders in total (comprising 421,691 holders of A shares and 319 holders of H shares).

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

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Number of shareholdings as at the end of the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of pledged or frozen shares
1. Zhongxingxin Telecom Company Limited ("Zhongxingxin")	State-owned corporation	30.34%	1,271,868,333	—	Nil
2. HKSCC Nominees Limited ^{Note 1}	Foreign shareholder	17.99%	754,290,489	—	Unknown
3. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.25%	52,519,600	—	Nil
4. Hunan Nantian (Group) Co., Ltd	State-owned corporation	0.99%	41,516,065	—	Nil
5. NSSF Portfolio #111	Others	0.58%	24,119,900	—	Nil
6. NSSF Portfolio #104	Others	0.49%	20,500,881	—	Nil
7. China Mobile No. 7 Research Institute	State-owned corporation	0.45%	19,073,940	—	Nil
8. NSSF Portfolio #116	Others	0.43%	18,033,345	—	Nil
9. Hong Kong Securities Clearing Company Limited ^{Note 2}	Overseas corporation	0.40%	16,973,182	—	Nil
10. NSSF Portfolio #112	Others	0.39%	16,180,000	—	Nil

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A share
	2,038,000	H share
2. HKSCC Nominees Limited ^{Note 1}	754,290,489	H share
3. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
4. Hunan Nantian (Group) Co., Ltd	41,516,065	A share
5. NSSF Portfolio #111	24,119,900	A share
6. NSSF Portfolio #104	20,500,881	A share
7. China Mobile No. 7 Research Institute	19,073,940	A share
8. NSSF Portfolio #116	18,033,345	A share
9. Hong Kong Securities Clearing Company Limited ^{Note 2}	16,973,182	A share
10. NSSF Portfolio #112	16,180,000	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 top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up. 	
Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)	N/A	

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

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

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

Yes No

The Company had no preferential shares.

§ 3 MATERIAL MATTERS

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

Unit: RMB in thousands

Balance sheet

Item	30 September 2018	31 December 2017	Change	Analysis of reasons for changes
Cash	15,471,830	33,407,879	(53.69%)	Attributable mainly to the USD1 billion penalty and the additional suspended USD400 million penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018.
Derivative financial assets	78,856	116,794	(32.48%)	Attributable mainly to the decrease in gain on fair-value re-measurement of derivative investments for hedging protection for the period.
Held-for-sale assets	4,181,245	—	N/A	Attributable mainly to the reclassification of assets in ZTEsoft Technology Co., Ltd. (renamed “Whale Cloud Technology Co., Ltd.”, hereinafter “ZTEsoft”) as held-for-sale assets for the period.
Long-term trade receivables	811,073	1,244,760	(34.84%)	Attributable mainly to the decrease in trade receivables with longer credit periods for customers for the period.
Factored long-term trade receivables	1,329,319	2,608,006	(49.03%)	Attributable mainly to the decrease in long-term factored trade receivable business with limited recourse for the period.
Development costs	2,704,091	1,902,077	42.17%	Attributable mainly to the Group’s continued investments during the period in core technologies such as 5G wireless, core network, bearer, access and chips which were at a development stage.
Deferred tax assets	2,661,887	1,464,250	81.79%	Attributable mainly to the Company’s recognition of deferred tax assets relating to deductible losses.
Other non-current assets	6,114,411	4,128,596	48.10%	Attributable mainly to the additional suspended USD400 million penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018.

Item	30 September 2018	31 December 2017	Change	Analysis of reasons for changes
Derivative financial liabilities	326,279	49,830	554.78%	Attributable mainly to the increase in loss on fair-value re-measurement of derivative investments for hedging protection for the period.
Bills payable and trade payables	22,912,634	34,463,067	(33.52%)	Attributable mainly to repayment of amounts falling due for the period.
Other payable	9,554,572	7,071,421	35.12%	Attributable mainly to the advanced receipt of upfront payments following the entering into of, among others, the Framework Agreement for Cooperation between the Company and Shenzhen Investment Holdings Co., Ltd. (“SIHC”) during the period.
Deferred income	1,005,784	454,891	121.10%	Attributable mainly to the increase in grants received for the period.
Provisions	1,544,167	533,126	189.64%	Attributable mainly to the increase in the advanced provision for loss by the Company for the period.
Non-current liabilities due within one year	1,550,393	3,816,844	(59.38%)	Attributable mainly to the decrease in long-term loans due within one year for the period.
Held-for-sale liabilities	2,443,166	—	N/A	Attributable mainly to the reclassification of liabilities in ZTEsoft as held-for-sale liabilities for the period.
Bank advances on factored long-term trade receivables	1,329,319	2,948,006	(54.91%)	Attributable mainly to the decrease in long-term factored trade receivable business with limited recourse for the period.
Other comprehensive income	(1,954,178)	(723,770)	(170.00%)	Attributable mainly to the adjustment of the opening balance of retained profit by previous fair-value changes of equity instruments quoted in an active market and measured at fair value dealt with in “other comprehensive income” on a cumulative basis as a result of the implementation of New ASBEs on Financial Instruments for the period and loss on translation of foreign operations due to exchange rate volatility for the period.
Retained profits	6,889,594	14,667,683	(53.03%)	Attributable mainly to loss reported by the Group for the period.

Income Statement (Nine months ended 30 September)

Item	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Change	Analysis of reasons for changes
Finance costs	(160,881)	594,389	(127.07%)	Attributable mainly to exchange gain due to exchange rate volatility for the period versus exchange loss due to exchange rate volatility for the same period last year.
Investment income	(269,769)	2,314,659	(111.65%)	Attributable mainly to the combined effect of investment losses recognised according to share of loss of certain associates attributable to the Group for the period and investment gains from the partial disposal of equity interests in Nubia Technology Limited for the same period last year.
Gains/(losses) from changes in fair values	(759,435)	(50,561)	(1,402.02%)	Attributable mainly to the recognition of previous fair-value changes of equity instruments quoted in an active market and measured at fair value under “gains/(losses) from changes in fair values” as a result of the implementation of New ASBEs on Financial Instruments for the period and the increase in loss on fair-value re-measurement at the end of the investment term of derivative investments for hedging protection for the period.
Non-operating expenses	6,964,719	94,053	7,305.10%	Attributable to the USD1 billion penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018.
Income tax	(236,391)	996,485	(123.72%)	Attributable mainly to the Company’s recognition of deferred tax assets relating to deductible losses.
Non-controlling interests	(372,447)	14,462	(2,675.35%)	Attributable mainly to the loss reported by certain subsidiaries with a higher level of non-controlling interests for the period.
Effective portion of hedging instruments	—	(3,951)	100.00%	Attributable mainly to maturity of forward exchange contracts designated as net investment hedging instruments of overseas operations at the end of period of the previous year.
Exchange differences on translation of foreign operations	(791,926)	147,194	(638.02%)	Attributable mainly to the loss on translation of foreign operations due to exchange rate volatility for the period versus gain on translation of foreign operations due to exchange rate volatility for the same period last year.
Other comprehensive income attributable to non-controlling interests, net of tax	(21,111)	353,572	(105.97%)	Attributable mainly to the recognition of changes in fair value of restricted equity interests in listed companies held by subsidiary fund partnerships of Shenzhen ZTE Capital Management Company Limited (“ZTE Capital”) under “gains/(losses) from changes in fair values” as a result of the implementation of the New ASBEs on Financial Instruments for the period.

Income Statement (Three months ended 30 September)

Item	Three months ended 30 September 2018	Three months ended 30 September 2017	Change	Analysis of reasons for changes
Selling and distribution costs	1,911,540	3,057,778	(37.49%)	Attributable mainly to enhanced cost control during the period.
Research and development costs	3,465,205	2,520,697	37.47%	Attributable mainly to the Group's continued investments in core technologies such as 5G wireless, core network, bearer, access and chips during the period.
Finance costs	(344,232)	305,232	(212.78%)	Attributable mainly to exchange gain due to exchange rate volatility for the period versus exchange loss due to exchange rate volatility for the same period last year.
Impairment losses	109,839	618,452	(82.24%)	Attributable mainly to the inclusion of expected credit losses arising from impairment provisions for various financial instruments under "credit impairment losses" as a result of the adoption of the New Reporting Format for the period.
Other income	734,167	482,025	52.31%	Attributable mainly to the increase in grants received for the period.
Investment income	(251,067)	2,262,663	(111.10%)	Attributable mainly to the combined effect of investment loss recognised according to share of loss of certain associates attributable to the Group for the period and investment gains from the partial disposal of equity interests in Nubia Technology Limited for the same period last year.
Gains/(losses) from changes in fair values	(381,996)	7,494	(5,197.36%)	Attributable mainly to the loss on fair-value re-measurement at the end of the investment term of derivative investments for hedging protection for the period versus gain on re-measurement for the same period last year.
Non-operating income	(4,697)	24,190	(119.42%)	Attributable mainly to the recognition of the refund of handling charges for the deduction of personal income tax under "other income" as a result of the adoption of the New Reporting Format for the period and the decrease in incentive income for the period.
Non-operating expenses	211,290	15,429	1,269.43%	Attributable mainly to the increase in compensation expenses in respect of litigation for the period.
Income tax	328,642	252,301	30.26%	Attributable mainly to the increase in profit reported by certain subsidiaries of the Group for the period.
Non-controlling interests	(120,909)	14,076	(958.97%)	Attributable mainly to the loss reported by certain subsidiaries with a higher level of non-controlling interests for the period.

Item	Three months ended 30 September 2018	Three months ended 30 September 2017	Change	Analysis of reasons for changes
Effective portion of hedging instruments	—	6,704	(100.00%)	Attributable mainly to maturity of forward exchange contracts designated as net investment hedging instruments of overseas operations at the end of period of the previous year.
Exchange differences on translation of foreign operations	2,465	(108,109)	102.28%	Attributable mainly to gain on translation of foreign operations due to exchange rate volatility for the period versus loss on translation of foreign operations due to exchange rate volatility for the same period last year.
Other comprehensive income attributable to non-controlling interests, net of tax	—	369,325	(100.00%)	Attributable mainly to the recognition of changes in fair value of restricted equity interests in listed companies held by subsidiary fund partnerships of ZTE Capital under “gains/(losses) from changes in fair values” as a result of the implementation of the New ASBEs on Financial Instruments for the period.

Cash Flow Statement

Item	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Change	Analysis of reasons for changes
Net cash flows from operating activities	(10,222,894)	(3,170,483)	(222.44%)	Attributable mainly to the USD1 billion penalty and the additional suspended USD400 million penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018.
Net cash flows from investing activities	(2,370,357)	(4,387,188)	45.97%	Attributable mainly to the combined effect of the increase in cash received from the disposal of investments for the period and the decrease in cash paid for acquisition of fixed assets, intangible assets and other long-term assets for the period.
Net cash flows from financing activities	(5,046,449)	2,304,580	(318.97%)	Attributable mainly to the decrease in cash received from borrowings and the partial principal repayment for perpetual capital instruments for the period.
Effect of changes in foreign exchange rate on cash and cash equivalents	(151,794)	(276,602)	45.12%	Attributable mainly to the decrease in loss due to exchange rate volatility for the period.

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

3.2.1 *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

3.2.2 *Others*

3.2.2.1 *Progress of asset transactions*

1. Transfer of 43.66% shares in ZTEsoft by the Company

Based on considerations for the Company's strategic development, the Company, Nanjing Xiruan Corporate Management Limited Partnership ("Nanjing Xiruan") and ZTEsoft entered into the Agreement for Share Transfer and New Share Subscription on 9 February 2018, pursuant to which the Company shall transfer 43.66% shares in ZTEsoft, its subsidiary, to Nanjing Xiruan for RMB1,223.3 million, while Nanjing Xiruan shall concurrently inject RMB100 million into ZTEsoft as capital. On the closing date, Nanjing Xiruan shall pay the transfer consideration and the new share subscription amount to the Company and ZTEsoft, respectively, in full lump-sum payments. The aforesaid matter has been considered and approved at the Twenty-seventh Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-seventh Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on Matters pertaining to the Transfer of Certain Shares in ZTEsoft Technology Co., Ltd." published by the Company on 9 February 2018.

On 25 September 2018, the "Supplemental Agreement on Arrangements for Payment by Instalment" was entered into by the Company, Nanjing Xiruan and ZTEsoft, pursuant to which the full lump-sum payment by Nanjing Xiruan agreed under the Agreement for Share Transfer and New Share Subscription shall be adjusted to payment by instalment. The aforesaid matter was considered and approved at the Thirty-seventh Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Thirty-seventh Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement Updates on Matters pertaining to the Transfer of Certain Shares in ZTEsoft Technology Co., Ltd." published by the Company on 25 September 2018. As at the date of the publication of this report, Nanjing Xiruan has completed the payment of the first instalment of the transfer amounts to the Company.

2. Execution of contracts including Framework Agreement for Cooperation with SIHC and matters pertaining to Third-party Guarantee

On 19 September 2018, the Company entered into the Framework Agreement for Cooperation with SIHC in relation to the proposed transaction with SIHC in respect of land and property assets located in North Zone, Xili Industrial Park of Nanshan District of Shenzhen (which refers to North Zone, ZTE Industry Park situated alongside Liuxian Avenue, Nanshan District, Shenzhen) and Buji Sub-district of Longgang District of Shenzhen, respectively, held directly or indirectly by the Company (the “Project”). On the same date, the Company entered into the relevant Mortgage Contract and Contract for the Pledge of Equity with SIHC to provide guarantee in respect of the Company’s obligations under the Project secured by 90% equity interest in Shenzhen Guoxin Electronics Development Company Limited (“Guoxin Electronics”), a subsidiary of the Company, and land blocks and buildings thereon in North Zone, Xili Industrial Park of Nanshan District of Shenzhen held by the Company; Shenzhen ZTE Kangxun Telecom Company Limited (“ZTE Kangxun”), a subsidiary of the Company, entered into the Contract for the Pledge of Equity with SIHC to provide guarantee in respect of ZTE Kangxun’s obligations under the Project secured by 10% equity interests in Guoxin Electronics held by ZTE Kangxun; Guoxin Electronics entered into the Mortgage Contract with SIHC to provide guarantee in respect of the Company’s obligations under the Project secured by land blocks and buildings thereon in Buji Sub-district of Longgang District of Shenzhen held by Guoxin Electronics. SIHC has completed the payment of the first instalment of RMB2.2 billion to the Company within 3 working days after the contracts including Framework Agreement for Cooperation came into effect.

The transaction plan and consideration for the Project have yet to be finalised. SIHC shall conduct due diligence in respect of the assets concerned and the two parties shall jointly appoint an appraiser to conduct valuation in respect of the assets under the Project. The transaction plan and the definitive agreement shall be finalised through further negotiations between the two parties based on the valuation results and the actual conditions of the Projects.

The aforesaid matter was considered and approved at the Thirty-sixth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Announcement Resolutions of the Thirty-sixth Meeting of the Seventh Session of the Board of Directors” and the “Overseas Regulatory Announcement Announcement of execution of contracts including Framework Agreement for Cooperation with Shenzhen Investment Holdings Co., Ltd. and matters pertaining to Third-party Guarantee” published by the Company on 19 September 2018.

3.2.2.2 Provision of guarantee for contract performance by the Company for PT ZTE Indonesia (“ZTE Indonesia”)

The Company has proposed to provide joint-liability guarantee in respect of the performance obligations of ZTE Indonesia, a wholly-owned subsidiary, under the “Ultimate Radio Network Infrastructure Rollout Agreement” and the “Ultimate Radio Network Infrastructure Technical Support Agreement” (hereinafter referred to as the “Equipment Purchase Contract” and the “Technical Support Contract”, respectively) for an amount of USD40 million, with a term commencing on the date of issuance of a letter of guarantee by the parent company and ending on the date on which the obligations of assurance under the guarantee of the parent company are released in full. At the same time, the Company has proposed to apply to the relevant bank for the issuance of a bank letter of guarantee to provide guarantee with an amount of IDR300 billion (equivalent to approximately USD20.10 million) in respect of the performance obligations of ZTE Indonesia under the Equipment Purchase Contract and the Technical Support Contract, effective from the date of issuance of the bank letter of guarantee for a period of 3 years and 6 months or until the date on which the performance obligations of ZTE Indonesia under the Equipment Purchase Contract and the Technical Support Contract are completed in full, whichever is later. The aforesaid guarantee falls within the limit of USD200 million for the guarantee of contract performance provided for Wholly-owned Overseas Subsidiaries as considered and approved at the 2017 Annual General Meeting of the Company and has been considered and approved at the Thirty-ninth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Announcement of Resolutions of the Thirty-ninth Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on Third-party Guarantee” published by the Company on 15 October 2018.

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

On 3 July 2018, the Supervisory Committee of the Company received a Resignation Report of Shareholders’ Representative Supervisor in writing from Ms. Xu Weiyan, Shareholders’ Representative Supervisor. Due to her other personal commitments, Ms. Xu Weiyan had tendered her resignation from the position of Shareholders’ Representative Supervisor of the Company. The resignation of Ms. Xu Weiyan came into effect upon delivery of the Resignation Report of Shareholders’ Representative Supervisor at the Supervisory Committee. For details, please refer to the “Announcement Resignation of Shareholders’ Representative Supervisor” published by the Company on 3 July 2018.

Pursuant to the “Resolution on the appointment and removal of senior management personnel” considered and approved at the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 5 July 2018, it was approved that the appointment of Mr. Zhao Xianming as President of the Company, each of Mr. Xu Huijun, Mr. Zhang Zhenhui, Mr. Pang Shengqing, Mr. Xiong Hui and Mr. Shao Weilin as Executive Vice President of the Company and Mr. Shao Weilin as Chief Financial Officer of the Company be discontinued; that Mr. Xu Ziyang be appointed President of the Company and each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be appointed Executive Vice President of the Company; that Ms. Li Ying be concurrently appointed Chief Financial Officer of the Company; and that such newly appointed senior management shall be appointed for a term commencing on the date on which this resolution is considered and approved at the said meeting of the Board of Directors and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (i.e., 29 March 2019). For details, please refer to the “Announcement of Resolutions of the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company” published by the Company on 5 July 2018.

Pursuant to the “Resolution on the election of members of the Export Compliance Committee of the Seventh Session of the Board of Directors” considered and approved at the Thirty-fourth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 July 2018, Mr. Yuming Bao, Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Gordon Ng be elected as members of the Export Compliance Committee of the Seventh Session of the Board of Directors of the Company, with Mr. Yuming Bao as chair. For details, please refer to the “Announcement of Resolutions of the Thirty-fourth Meeting of the Seventh Session of the Board of Directors of the Company” published by the Company on 27 July 2018.

At the Second Extraordinary General Meeting of 2018 of the Company held on 28 August 2018, Mr. Xu Ziyang was elected as Executive Director of the Seventh Session of the Board of Directors of the Company for a term commencing on the date on which this resolution is considered and approved at the general meeting and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (i.e., 29 March 2019). For details, please refer to the “Announcement on Resolutions of the Second Extraordinary General Meeting of 2018” published by the Company on 28 August 2018.

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

The 2017 Share Option Incentive Scheme implemented by the Company has been approved by the Remuneration and Evaluation Committee, the Seventeenth Meeting of the Seventh Session of the Board of Directors, the Fourteenth Meeting of the Seventh Session of the Supervisory Committee and the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017 of the Company. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company’s overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company’s shares or the de facto controller, or their respective spouses and immediate or close family members). Pursuant to the “Resolution on Matters pertaining to the grant of share options under the 2017 Share Option Incentive Scheme” considered and approved at the Twentieth Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday). The Company granted 149,601,200 share options to 1,996 scheme participants. The exercise price of the share options granted shall be RMB17.06 per A share. The number of options granted is set out in the following table:

Name of participant	Position of participant	Number of unexercised options	Number of options granted during the reporting period	Number of options exercisable during the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Number of outstanding options at the end of the reporting period
		at the beginning of the reporting period	period	period	period	period	period
Xu Ziyang	Executive Director and President	252,000	0	0	0	0	252,000
Wang Xiyu	Executive Vice President	262,400	0	0	0	0	262,400
Li Ying	Executive Vice President and Chief Financial Officer	158,400	0	0	0	0	158,400
Cao Wei	Secretary to the Board	200,000	0	0	0	0	200,000
Other participants	—	148,728,400	0	0	0	0	148,728,400
Total	—	149,601,200	0	0	0	0	149,601,200

Note: Mr. Li Quancai, a participant under the 2017 Share Option Incentive Scheme of the Company, was elected Staff Representative Supervisor of the Company on 3 November 2017, and the 118,000 A share options previously granted to him were voided as a result of his appointment as Supervisor of the Company. Messrs. Zhang Jianheng, Luan Jubao, Zhao Xianming, Wang Yawen, Tian Dongfang and Zhan Yichao resigned as Directors of the Company on 29 June 2018, while Messrs. Zhao Xianming, Xu Huijun, Zhang Zhenhui, Pang Shengqing, Xiong Hui and Shao Weilin ceased to be senior management officers of the Company as from 5 July 2018. The 3,287,600 A share options previously granted to the aforesaid 11 persons as participants under the 2017 Share Option Incentive Scheme of the Company were voided. The Company will adjust the number of 2017 share options and participants following the performance of due review procedures.

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

3.2.2.5 The Company published announcements in relation to the activation of the denial order by the U.S. Department of Commerce’s Bureau of Industry and Security (“BIS”) and related effects and the actions taken by the Company and related parties on 17 April 2018, 18 April 2018, 20 April 2018, 22 April 2018, 25 April 2018, 1 May 2018, 6 May 2018, 9 May 2018, 16 May 2018, 23 May 2018, 30 May 2018 and 6 June 2018, respectively.

The Company and its wholly-owned subsidiary, ZTE Kangxun, have reached a superseding settlement agreement with BIS. For details, please refer to the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018. Pursuant to an order issued on 13 July 2018 (U.S. time), BIS has terminated the 15 April 2018 Denial Order and removed the Company and ZTE Kangxun from the Denied Persons List, effective immediately. For details, please refer to the “INSIDE INFORMATION ANNOUNCEMENT” published by the Company on 15 July 2018.

Due to the conduct described in the superseding settlement agreement entered into amongst the Company, ZTE Kangxun and BIS in June 2018, the United States District Court for Northern District of Texas (the “Court”) issued an order on 3 October 2018 (U.S. time) modifying the conditions of the Company’s corporate probation as described in the Agreement which became effective on 22 March 2017 (U.S. time) upon approval by the Court. For details, please refer to the “INSIDE INFORMATION ANNOUNCEMENT ON ORDER MODIFYING CONDITIONS OF PROBATION” published by the Company on 4 October 2018.

3.2.2.6 Conduct of continuing connected transactions during the reporting period

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

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available	Domestic announcement date	Domestic announcement index
						(RMB in ten thousands)			(RMB)			
Zhongxingxin and its subsidiaries and investee companies	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials by the Company and its subsidiaries from connected parties were conducted at prices determined through arm's length negotiations and on the basis of normal commercial terms. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms.	Cabinets and related accessories: RMB1-RMB300,000 per unit, cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	17,838.04	0.69%	No	Commercial acceptance bill	N/A	2015-9-23 2017-1-20	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201703 "Announcement on Execution of Supplemental Agreement for the 2016-2018 Purchase Framework Agreement with Zhongxingxin, a Connected Party"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and its subsidiaries	A company for which a natural person related to the Company acted as director and its subsidiaries	Purchase of hotel services	The purchase of hotel services from the connected party by the Company	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	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.	2,119.99	0.08%	No	Tele-transfer	N/A	2016-4-29 2018-6-29	Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201839 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	A company for which a natural person related to the Company acted as director and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company	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	From 1 January to 30 June 2018: 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. From 1 July to 31 December 2018: RMB86/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB64/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB133/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB65/sq.m./month for hotel and related equipment and facilities in Xi'an.	6,129.68	20.92%	No	Tele-transfer	N/A	2016-4-29 2018-6-29	Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201839 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
深圳市航天華科技發展有限公司 ("航天華科")	A company for which a natural person related to the Company acted as chairman	Sale of products	The sale of digital communications products and communications products to the connected party by the Company		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.	14,331.50	0.24%	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"
Total						40,419.21	N/A					

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	<p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2018 be capped at RMB1,000 million (before VAT); pursuant to the Supplemental Agreement for the Zhongxingxin Purchase Framework Agreement between the Company and Zhongxingxin considered and approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the scope of the Zhongxingxin Purchase Framework Agreement was extended to cover Zhongxingxin, its subsidiaries and investee companies (companies in which Zhongxingxin directly or indirectly held equity interests of 30% or above);</p> <p>At the 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 2017 and ending on 30 June 2018; 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 2017 and ending on 30 June 2018; at the Thirty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 29 June 2018, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, or its subsidiaries to procure hotel services be capped at RMB35 million for the period commencing on 1 July 2018 and ending on 31 December 2018; and the estimated amount payable by Zhongxing Hetai or its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB50 million for the period commencing on 1 July 2018 and ending on 31 December 2018;</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, a connected party, by the Group in 2018 be capped at RMB1,100 million (before VAT); and</p> <p>Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.</p>
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

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

3.3 Undertakings

1. **Undertakings by relevant undertaking parties, including the de facto controller, shareholders, connected parties, acquirers of the Company and the Company overdue and not completed during the reporting period**

(1) *Undertaking given upon the initial public offering or any refinancing exercise*

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

- b. Zhongxingxin, the controlling shareholder of the Company, provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares in 2018: (1) that it will not, for so long as it remains the controlling shareholder of the Company, act beyond its powers to interfere with the Company's operating and management activities or infringe upon the Company's interests; (2) that it will willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.

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

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

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

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

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

√ Applicable □ N/A

Preliminary results announcement	Loss	Beginning of year to end of next reporting period (January to December 2018)	Same period last year (January to December 2017)	Increase/decrease (%)
Net profit attributable to holders of ordinary shares of the listed company (RMB'000)	Loss: 6,200,000– 7,200,000		Profit: 4,568,172	Decreased by 235.72% –257.61%
Basic earnings per share (RMB/share)	Loss: 1.48–1.72		Profit: 1.09	Decreased by 235.78% –257.80%
Explanatory statement regarding the preliminary results announcement	<p>The substantial decline in results for the period from January to December 2018 as compared to the same period last year reflected mainly:</p> <ol style="list-style-type: none"> 1. The USD1 billion penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018; 2. The operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as described in the “INSIDE INFORMATION ANNOUNCEMENT” published by the Company on 9 May 2018. 			

Note: The aforesaid preliminary results announcement has not been pre-audited by a certified public accountant. For details, please refer to the “Preliminary Announcement of 2018 Annual Results” published by the Company on 25 October 2018.

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities

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

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gain/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	300438	Great Power ^{Note 1}	169.41	Fair-value measurement	1,464.50	(458.56)	—	—	432.09	(465.33)	590.94	Trading financial assets	Issue proceeds
Stock	300502	Eoptolink ^{Note 1}	974.45	Fair-value measurement	15,980.16	(5,273.06)	—	—	1,973.73	(5,647.81)	8,387.90	Trading financial assets	Issue proceeds
Stock	603986	Giga Device ^{Note 1}	1,282.86	Fair-value measurement	73,281.66	(9,592.25)	—	—	38,500.45	(6,297.86)	30,633.15	Trading financial assets	Issue proceeds
Stock	603633	Laimu ^{Note 1}	2,000.00	Fair-value measurement	6,016.67	(1,297.11)	—	—	1,214.53	(1,253.72)	3,564.36	Trading financial assets	Issue proceeds
Stock	603920	Olympic Circuit Technology ^{Note 1}	2,562.00	Fair-value measurement	21,924.37	(5,766.70)	—	—	—	(7,632.76)	16,157.67	Trading financial assets	Issue proceeds
Stock	002902	Mentech Optical ^{Note 1}	1,655.50	Fair-value measurement	19,688.89	(10,376.95)	—	—	—	(10,299.78)	9,311.94	Trading financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic ^{Note 2}	3,266.00	Fair-value measurement	10,060.65	(3,911.44)	—	—	—	(3,877.96)	6,149.21	Trading financial assets	Issue proceeds
Stock	300691	Union Optech ^{Note 2}	3,498.71	Fair-value measurement	20,599.32	(10,881.18)	—	—	—	(10,798.27)	9,718.14	Trading financial assets	Issue proceeds
Stock	002796	Shijia Science & Technology ^{Note 2}	1,575.00	Fair-value measurement	2,597.45	274.02	—	—	—	294.53	2,871.47	Trading financial assets	Issue proceeds
Stock	ENA:TSV	Enablence Technologies ^{Note 3}	3,583.26	Fair-value measurement	2,168.39	314.46	—	—	—	314.46	2,482.85	Other non-current financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
Total			20,567.19	—	173,782.06	(46,968.77)	—	—	42,120.80	(45,664.50)	89,867.63	—	—

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

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

Note 3: The initial investment for the acquisition of Enablence Technologies Inc. (“Enablence Technologies”) shares by ZTE H.K. Limited (“ZTE HK”), a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company’s foreign currency statement book exchange rate (CAD1:RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company’s foreign currency statement book exchange rate (CAD1:RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD28,192,700, equivalent to approximately RMB24,828,500 based on the Company’s foreign currency statement book exchange rate (HKD1:RMB0.88067) on 30 September 2018.

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

A. Shareholdings in Great Power

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. For the first three quarters of 2018, Zhonghe Chunsheng Fund transferred 139,600 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 353,000 shares in Great Power, accounting for 0.13% of the total share capital of Great Power.

B. Shareholdings in Eoptolink

For the first three quarters of 2018, Zhonghe Chunsheng Fund transferred 800,000 shares in Eoptolink (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 4,712,300 shares in Eoptolink, accounting for 1.98% of the total share capital of Eoptolink.

C. Shareholdings in Giga Device

For the first three quarters of 2018, Zhonghe Chunsheng Fund transferred 2,026,500 shares in Giga Device (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 3,452,400 shares (following implementation of the 2017 equity distribution plan) in Giga Device, accounting for 1.21% of the total share capital of Giga Device.

D. Shareholdings in Laimu

For the first three quarters of 2018, Zhonghe Chunsheng Fund transferred 640,000 shares in Laimu (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 3,501,300 shares (following implementation of the 2017 equity distribution plan) in Laimu, accounting for 2.24% of the total share capital of Laimu.

E. Shareholdings in Olympic Circuit Technology

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

F. Shareholdings in Mentech Optical

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

G. Shareholdings in Lianchuang Electronic

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaying Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Jiaying Fund held 6,887,600 shares in Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.25% of the total share capital of Lianchuang Electronic.

H. Shareholdings in Union Optech

As at the end of the reporting period, Jiaying Fund held 4,421,800 shares (following implementation of the 2017 equity distribution plan) in Union Optech, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.16% of the total share capital of Union Optech.

I. Shareholdings in Shijia Science & Technology

As at the end of the reporting period, Jiaying Fund held 1,025,500 shares in Shijia Science & Technology, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.00% of the total share capital of Shijia Science & Technology.

J. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total cash consideration of CAD2.70 million. ZTE HK entered into a Subscription Agreement with Enablence Technologies on 27 January 2016. On 2 February 2016, ZTE HK subscribed for 77 million shares issued by Enablence Technologies for a total cash consideration of CAD4.62 million. As at the end of the reporting period, ZTE HK held 95 million shares in Enablence Technologies, accounting for 15.28% of its total share capital.

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

3.5.2 Entrusted fund management

1. *Particulars of the Group's entrusted fund management during the reporting period are set out as follows:*

Unit: RMB in ten thousand

Specific type	Source of funds under entrusted management	Amount of funds under entrusted management incurred ^{Note 1}	Outstanding balance	Amount overdue and yet to be recouped
Bank investment product	Internal funds and issue proceeds	76,555	76,555	—
Total		76,555	76,555	—

Note 1: The amount of funds under entrusted management incurred represents the highest daily balance of such entrusted funds during the reporting period, namely, the maximum value of the total outstanding daily balance of such entrusted funds during the reporting period.

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

Applicable N/A

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

Applicable N/A

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

Applicable N/A

The Company did not host any reception of investors, communications sessions or press interviews during the reporting period.

3.6 Derivative Investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment	Initial investment amount in the derivative investment	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 of the Company at the end of the period (%)	Actual profit or loss for the reporting period
Financial institution	N/A	No	Foreign exchange forwards	—	2017/12/6	2019/9/12	166,397.94	472,271.69	182,092.98	—	456,576.65	20.09%	(5,049.70)
Financial institution	N/A	No	Foreign exchange forwards	—	2017/12/20	2019/3/11	108,183.83	357,106.25	128,127.20	—	337,162.88	14.84%	(3,728.99)
Financial institution	N/A	No	Foreign exchange forwards	—	2017/12/27	2019/9/19	192,340.64	341,736.88	255,561.35	—	278,516.17	12.26%	(3,080.36)
Other financial institution	N/A	No	Foreign exchange forwards	—	2017/12/4	2019/9/12	484,166.77	685,809.71	648,764.89	—	521,211.59	22.94%	(5,764.55)
Total				—	—	—	951,089.18	1,856,924.53	1,214,546.42	—	1,593,467.29	70.13%	(17,623.60)
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 Fifteenth Meeting of the Seventh Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2017,” both dated 23 March 2017, and “Overseas Regulatory Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors,” both dated 15 March 2018.									
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)				“Announcement on Resolutions of the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017 dated 20 June 2017 and “Announcement on Resolutions of the 2017 Annual General Meeting” dated 29 June 2018.									
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 2018. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; Liquidity risks: The value-protection derivative investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company’s current assets was insignificant; Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks; Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled. 												
Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The Company has recognised gains/losses from investments in derivatives during the reporting period. Total losses recognised for the reporting period amounted to RMB176 million, comprising losses from fair-value change of RMB312 million and recognised investment gains of RMB136 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. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedures performed have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association.</p>												

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

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

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

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

§ 4 APPENDICES

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

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

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

BALANCE SHEET

RMB in thousands

Assets	2018.9.30		2017.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	15,471,830	6,712,983	33,407,879	18,665,112
Derivative financial assets	78,856	33,059	116,794	1,679
Trading financial assets	1,675,577	—	—	—
Bills receivable and trade receivables	21,571,376	27,285,025	26,398,228	29,072,067
Factored trade receivables	903,705	832,978	1,080,449	704,593
Prepayments	725,968	47,093	591,664	56,680
Other receivables	2,815,754	33,210,430	3,629,933	25,387,464
Inventories	27,770,988	15,282,962	26,234,139	16,484,640
Amount due from customers for contract works	—	—	9,012,909	4,291,058
Contract assets	5,813,915	2,224,844	—	—
Other current assets	7,168,757	3,523,974	7,758,594	4,313,873
Held-for-sale assets	4,181,245	250,441	—	—
Total current assets	88,177,971	89,403,789	108,230,589	98,977,166
Non-current assets:				
Available-for-sale financial assets	—	—	3,181,668	461,091
Other non-current financial assets	1,417,581	618,291	—	—
Long-term trade receivables	811,073	5,523,402	1,244,760	5,752,524
Factored long-term trade receivables	1,329,319	1,388,174	2,608,006	2,491,751
Long-term equity investments	3,475,091	13,183,178	3,960,597	13,685,375
Investment properties	2,030,773	1,622,208	2,023,809	1,615,458
Fixed assets	8,682,777	4,863,982	8,694,456	4,887,175
Construction in progress	1,695,056	853,089	1,472,986	905,876
Intangible assets	4,803,258	1,702,593	4,741,615	1,235,751
Deferred development costs	2,704,091	240,257	1,902,077	404,145
Goodwill	311,435	—	308,806	—
Deferred tax assets	2,661,887	1,453,752	1,464,250	566,364
Other non-current assets	6,114,411	5,331,345	4,128,596	3,452,454
Total non-current assets	36,036,752	36,780,271	35,731,626	35,457,964
Total assets	124,214,723	126,184,060	143,962,215	134,435,130

Legal Representative:
Li Zixue

Chief Financial Officer:
Li Ying

Head of Finance Division:
Xu Jianrui

RMB in thousands

Liabilities	2018.9.30		2017.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	16,725,646	11,133,920	14,719,023	7,158,482
Derivative financial liabilities	326,279	9,802	49,830	30,078
Bank advances on factored trade receivables	903,705	832,978	1,080,472	704,617
Bills payable and trade payables	22,912,634	52,748,937	34,463,067	52,386,859
Amount due to customers for contract works	—	—	8,050,655	5,584,395
Advances from customers	—	—	8,702,351	6,424,220
Contract liabilities	16,848,495	10,902,398	—	—
Salary and welfare payables	5,728,205	3,408,634	7,389,544	4,118,982
Taxes payable	1,061,116	176,759	1,263,723	155,820
Other payables	9,554,572	17,739,213	7,071,421	20,730,300
Deferred income	1,005,784	671,829	454,891	329,251
Provisions	1,544,167	1,300,736	533,126	301,785
Non-current liabilities due within one year	1,550,393	759,879	3,816,844	74,000
Held-for-sale liabilities	2,443,166	—	—	—
Total current liabilities	80,604,162	99,685,085	87,594,947	97,998,789
Non-current liabilities:				
Long-term loans	2,768,165	2,160,220	3,002,146	2,121,125
Bank advances on factored long- term trade receivables	1,329,319	1,388,174	2,948,006	2,831,751
Provision for retirement benefits	131,341	131,341	133,191	133,191
Deferred tax liabilities	354,407	—	338,131	—
Deferred income	1,100,348	130,513	1,224,978	149,260
Other non-current liabilities	3,551,040	2,769,826	3,340,669	2,781,120
Total non-current liabilities	9,234,620	6,580,074	10,987,121	8,016,447
Total liabilities	89,838,782	106,265,159	98,582,068	106,015,236

RMB in thousands

Shareholders' equity	2018.9.30		2017.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Shareholders' equity:				
Share capital	4,192,672	4,192,672	4,192,672	4,192,672
Capital reserves	11,449,634	9,226,721	11,304,854	9,067,096
Other comprehensive income	(1,954,178)	706,014	(723,770)	706,538
Surplus reserve	2,142,354	1,608,094	2,205,436	1,543,680
Retained profits	6,889,594	(3,526,238)	14,667,683	3,588,581
Total equity attributable to ordinary shareholders of the parent	22,720,076	12,207,263	31,646,875	19,098,567
Other equity instruments — perpetual capital instruments	7,711,638	7,711,638	9,321,327	9,321,327
Non-controlling interests	3,944,227	—	4,411,945	—
Total shareholders' equity	34,375,941	19,918,901	45,380,147	28,419,894
Total liabilities and shareholders' equity	124,214,723	126,184,060	143,962,215	134,435,130

INCOME STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2018		Nine months ended 30 September 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
1. Operating revenue	58,766,186	54,698,659	76,579,739	70,696,979
Less: Operating costs	39,782,746	45,679,241	52,352,996	59,943,443
Taxes and surcharges	486,762	133,358	687,974	246,082
Selling and distribution costs	6,641,162	3,610,108	8,734,330	5,219,422
Administrative expenses	1,903,312	1,132,657	2,192,603	1,329,212
Research and development costs	8,525,829	2,141,020	9,197,376	2,545,308
Finance costs	(160,881)	(641,941)	594,389	807,982
Including: Interest expenses	799,200	397,555	831,105	511,320
Interest income	600,118	100,659	701,111	260,912
Impairment losses	1,339,690	902,620	1,644,208	1,177,201
Credit impairment losses	1,926,974	1,868,253	—	—
Add: Other income	2,025,730	230,711	1,851,043	51,080
Investment income	(269,769)	(164,806)	2,314,659	3,946,738
Including: Share of profits and losses of associates and joint ventures	(478,214)	(400,495)	(20,364)	(11,518)
Gains/(Losses) from changes in fair values	(759,435)	59,005	(50,561)	(25,592)
2. Operating profit	(682,882)	(1,747)	5,291,004	3,400,555
Add: Non-operating income	98,800	56,284	93,593	61,697
Less: Non-operating expenses	6,964,719	6,855,289	94,053	84,695
Including: Gain/(Loss) from disposal of non-current assets	—	—	64,924	56,182
3. Total profit	(7,548,801)	(6,800,752)	5,290,544	3,377,557
Less: Income tax	(236,391)	(700,931)	996,485	140,720
4. Net profit	(7,312,410)	(6,099,821)	4,294,059	3,236,837
Attributable to holders of ordinary shares of the parent	(7,259,723)	(6,419,581)	3,904,652	2,861,892
Attributable to holders of perpetual capital instruments	319,760	319,760	374,945	374,945
Non-controlling interests	(372,447)	—	14,462	—

RMB in thousands

Item	Nine months ended 30 September 2018		Nine months ended 30 September 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
5. Other comprehensive income, net of tax	(813,037)	(524)	686,922	(6,945)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	(791,926)	(524)	333,350	(6,945)
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods				
Gains or losses arising from changes in the fair value of available-for-sale financial assets	—	—	190,107	—
Effective portion of hedging instruments	—	—	(3,951)	—
Exchange differences on translation of foreign operations	(791,926)	(524)	147,194	(6,945)
	<u>(791,926)</u>	<u>(524)</u>	<u>333,350</u>	<u>(6,945)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	(21,111)	—	353,572	—
6. Total comprehensive income	<u>(8,125,447)</u>	<u>(6,100,345)</u>	<u>4,980,981</u>	<u>3,229,892</u>
Attributable to holders of ordinary shares of the parent	(8,051,649)	(6,420,105)	4,238,002	2,854,947
Attributable to holders of perpetual capital instruments	319,760	319,760	374,945	374,945
Attributable to non-controlling interests	(393,558)	—	368,034	—
7. Earnings per share				
(1) Basic earnings per share	RMB(1.73)		RMB0.93	
(2) Diluted earnings per share	RMB(1.73)		RMB0.92	

INCOME STATEMENT

RMB in thousands

Item	Three months ended 30 September 2018		Three months ended 30 September 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
1. Operating revenue	19,332,409	15,119,171	22,569,143	19,620,491
Less: Operating costs	12,274,393	12,565,396	15,905,255	17,804,800
Taxes and surcharges	109,645	39,598	154,674	20,150
Selling and distribution costs	1,911,540	901,265	3,057,778	1,951,417
Administrative expenses	543,965	209,133	764,854	470,816
Research and development costs	3,465,205	516,243	2,520,697	881,907
Finance costs	(344,232)	(676,111)	305,232	276,086
Including: Interest expenses	309,651	157,588	264,675	145,904
Interest income	116,633	24,992	171,479	31,426
Impairment losses	109,839	(50,210)	618,452	466,739
Credit impairment losses	270,129	166,495	—	—
Add: Other income	734,167	131,374	482,025	1,080
Investment income	(251,067)	(170,860)	2,262,663	3,935,903
Including: Share of profits and losses of associates and joint ventures	(264,680)	(220,267)	(16,857)	(6,355)
Gains/(Losses) from changes in fair values	(381,996)	(15,539)	7,494	18,026
2. Operating profit	<u>1,093,029</u>	<u>1,392,337</u>	<u>1,994,383</u>	<u>1,703,585</u>
Add: Non-operating income	(4,697)	(6,740)	24,190	(1,357)
Less: Non-operating expenses	211,290	133,770	15,429	50,937
Including: Gain/(Loss) from disposal of non-current assets	—	—	64,924	56,182

RMB in thousands

Item	Three months ended 30 September 2018		Three months ended 30 September 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
3. Total profit	877,042	1,251,827	2,003,144	1,651,291
Less: Income tax	328,642	8,584	252,301	(113,631)
4. Net profit	548,400	1,243,243	1,750,843	1,764,922
Attributable to holders of ordinary shares of the parent	564,467	1,138,401	1,611,785	1,639,940
Attributable to holders of perpetual capital instruments	104,842	104,842	124,982	124,982
Non-controlling interests	(120,909)	—	14,076	—
5. Other comprehensive income, net of tax	2,465	129	465,808	(6,728)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	2,465	129	96,483	(6,728)
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods				
Gains or losses arising from changes in the fair value of available-for-sale financial assets	—	—	197,888	—
Effective portion of hedging instruments	—	—	6,704	—
Exchange differences on translation of foreign operations	2,465	129	(108,109)	(6,728)
	2,465	129	96,483	(6,728)
Other comprehensive income attributable to non-controlling interests, net of tax	—	—	369,325	—

RMB in thousands

Item	Three months ended 30 September 2018		Three months ended 30 September 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
6. Total comprehensive income	<u>550,865</u>	<u>1,243,372</u>	<u>2,216,651</u>	<u>1,758,194</u>
Attributable to holders of ordinary shares of the parent	566,932	1,138,530	1,708,268	1,633,212
Attributable to holders of perpetual capital instruments	104,842	104,842	124,982	124,982
Attributable to non-controlling interests	(120,909)	—	383,401	—
7. Earnings per share				
(1) Basic earnings per share	RMB0.14		RMB0.38	
(2) Diluted earnings per share	RMB0.14		RMB0.37	

CONSOLIDATED CASH FLOW STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2018		Nine months ended 30 September 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	66,923,382	61,357,177	81,909,396	76,613,296
Refunds of taxes	5,555,111	3,685,892	5,512,529	3,711,100
Cash received relating to other operating activities	5,486,476	3,981,528	2,122,333	1,385,980
Sub-total of cash inflows	77,964,969	69,024,597	89,544,258	81,710,376
Cash paid for goods and services	49,485,605	62,385,691	60,606,470	75,801,457
Cash paid to and on behalf of employees	17,654,647	7,267,823	15,556,378	5,634,014
Cash paid for various types of taxes	4,936,980	1,122,103	5,177,862	339,729
Cash paid relating to other operating activities	16,110,631	12,831,173	11,374,031	9,961,659
Sub-total of cash outflows	88,187,863	83,606,790	92,714,741	91,736,859
Net cash flows from operating activities	(10,222,894)	(14,582,193)	(3,170,483)	(10,026,483)
2. Cash flows from investing activities				
Cash received from sale of investments	2,269,428	—	1,127,820	41,103
Cash received from return on investment	443,663	394,537	358,886	6,495,771
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	25,515	24,757	126,639	257,503
Net cash received from the disposal of subsidiaries and other operating units	—	—	—	978,025
Sub-total of cash inflows	2,738,606	419,294	1,613,345	7,772,402
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	3,158,053	1,045,155	4,212,182	2,717,920
Cash paid for acquisition of investments	1,950,910	340,746	1,140,513	1,098,934
Cash paid relating to other investing activities	—	—	647,838	—
Sub-total of cash outflows	5,108,963	1,385,901	6,000,533	3,816,854
Net cash flows from investing activities	(2,370,357)	(966,607)	(4,387,188)	3,955,548

RMB in thousands

Item	Nine months ended 30 September 2018		Nine months ended 30 September 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from investments	280,611	—	102,440	88,240
Including: Capital injection into subsidiaries by minority shareholders	280,611	—	14,200	—
Cash received from borrowings	19,376,927	12,399,556	24,991,302	13,367,576
Sub-total of cash inflows	19,657,538	12,399,556	25,093,742	13,455,816
Cash repayment of borrowings	21,899,142	9,247,312	21,372,091	10,960,460
Cash paid for perpetual capital instruments	1,500,000	1,500,000	—	—
Cash payments for distribution of dividends or for interest expenses	1,304,845	818,859	1,417,071	982,881
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	195,782	—	57,596	—
Sub-total of cash outflows	24,703,987	11,566,171	22,789,162	11,943,341
Net cash flows from financing activities	(5,046,449)	833,385	2,304,580	1,512,475
4. Effect of changes in foreign exchange rate on cash and cash equivalents	(151,794)	170,212	(276,602)	(134,153)
5. Net increase in cash and cash equivalents	(17,791,494)	(14,545,203)	(5,529,693)	(4,692,613)
Add: cash and cash equivalents at the beginning of the period	30,109,268	17,006,734	30,049,791	15,752,732
6. Net balance of cash and cash equivalents at the end of the period	12,317,774	2,461,531	24,520,098	11,060,119

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
25 October 2018

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