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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)**

## **2010 FIRST QUARTERLY REPORT**

This announcement is published simultaneously in Mainland pursuant to the Rules Governing Listing of Stocks on Shenzhen Stock Exchange and in Hong Kong pursuant to the disclosure obligations under Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **1. IMPORTANT**

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the "Company") confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved by the Third Meeting of the Fifth Session of the Board of Directors of the Company. Mr. Wang Zhanchen, Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Hou Weigui, Chairman, to vote on his behalf. Mr. He Shiyou, Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Shi Lirong, Director, to vote on his behalf. Mr. Chen Naiwei, Independent Director, was unable to attend the meeting due to work reasons, and has authorised in writing Ms. Qu Xiaohui, Independent Director, to vote on his behalf.
- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs").
- 1.5 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial report contained in this quarterly report.

## 2. CORPORATE INFORMATION

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

During the reporting period, investments in telecommunications equipment in the domestic market remained stable, with mobile network construction and optical communication equipment accounting for a major share of the capital expenditure of carriers. In the international market, the impact of the financial crisis was waning, while the Group was presented with more opportunities as some equipment manufacturers were diverting to other products while others were seeking to exit the mainstream market.

During the reporting period, the Group maintained growth in a relatively stable pace. Our market position at home has been enhanced by our deliveries in 3G mobile network construction, while outstanding results were also achieved in the sales of terminals and relevant carriers’ network products. Internationally, we were sustaining sound growth in various regional markets with the benefit of strong investments in equipment in emerging markets which were enjoying early economic recovery or focused on the export of resources.

By product category, our business segment of carriers’ networks reported a 0.9% growth compared to the same period last year, driven mainly by revenue from the sales of optical communication products and wireline switch and access products. The terminal segment reported year-on-year growth of 41.8%, attributable mainly to the rapid growth in the sales of high-end products featuring mainly 3G handsets. Revenue from telecommunications software systems, services and other products also grew by 40.8%, reflecting mainly growth in revenue from enterprise network products and servicing products.

The Group will continue to strengthen its implementation capabilities in the next reporting period, paying close attention to the enhancement of management efficiency. We will seek in-depth understanding of market and customer requirements to secure further opportunities in both the domestic and the international markets that would ensure stable development for the Group.

## 2.2 Major Accounting Data and Financial Indicators

### 2.2.1 Major Accounting Data and Financial Indicators of the Group

Items	End of the reporting period (31 March 2010)	End of last year (31 December 2009)	Change as at the end of the reporting period compared with the end of last year (%)
Total assets ( <i>RMB in thousands</i> )	<b>68,865,733</b>	68,342,322	0.77%
Owners' equity attributable to shareholders of the listed company ( <i>RMB in thousands</i> )	<b>20,231,431</b>	16,825,267	20.24%
Share capital <sup>Note 1</sup> ( <i>RMB in thousands</i> )	<b>1,911,154</b>	1,831,336	4.36%
Net assets per share attributable to shareholders of the listed company <sup>Note 2</sup> ( <i>RMB</i> )	<b>10.99</b>	9.55	15.08%

Items	The reporting period (Three months ended 31 March 2010)	Same period last year (Three months ended 31 March 2009)	Change compared with the same period last year (%)
Total operating revenue ( <i>RMB in thousands</i> )	<b>13,255,783</b>	11,670,176	13.59%
Net profit attributable to shareholders of the listed company ( <i>RMB in thousands</i> )	<b>109,864</b>	78,655	39.68%
Net cash flow from operating activities ( <i>RMB in thousands</i> )	<b>-7,115,538</b>	-4,486,410	-58.60%
Net cash flow from operating activities per share <sup>Note 3</sup> ( <i>RMB</i> )	<b>-3.86</b>	-2.57	-50.19%
Basic earnings per share <sup>Note 4</sup> ( <i>RMB</i> )	<b>0.06</b>	0.05	20.00%
Diluted earnings per share <sup>Note 5</sup> ( <i>RMB</i> )	<b>0.06</b>	0.04	50.00%
Weighted average return on net assets (%)	<b>0.59%</b>	0.55%	0.04%
Weighted average return on net assets after extraordinary items (%)	<b>0.32%</b>	0.49%	-0.17%

- Note 1:* The share capital of the Company for the reporting period was increased to 1,911,154,456 shares as a result of the Company's placing of additional H shares and the exercise of "Zhongxing ZXC1" Warrants. Please refer to sections 3.2.1 and 3.2.2 of the report for details.
- Note 2:* Net assets per share attributable to shareholders of the listed company as at the end of the period is calculated on the basis of the total share capital as at the end of the period less 69,737,523 restricted shares remaining in lock-up. Net assets per share attributable to shareholders of the listed company as at the end of the previous year was calculated on the basis of the total share capital as at the end of the previous year less 69,737,523 restricted shares remaining in lock-up.
- Note 3:* Net cash flow per share from operating activities as at the end of the period is calculated on the basis of the total share capital as at the end of the period less 69,737,523 restricted shares remaining in lock-up. Net cash flow per share from operating activities as at the end of the previous year was calculated on the basis of the total share capital after the implementation of the 2008 profit distribution plan, namely 1,746,329,402 shares.
- Note 4:* Basic earnings per share for the same period of 2009 has been restated as a result of the implementation of the 2008 profit distribution plan; basic earnings per share for the reporting period is calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 69,737,523 restricted shares remaining in lock-up.
- Note 5:* Diluted earnings per share is calculated on the basis of basic earnings per share, taking into account 69,737,523 and 46,753,747 potentially dilutive ordinary shares arising from subject share quotas remaining in lock-up under the Phase I Share Incentive Scheme of the Company during the reporting period and the same period of 2009, respectively. Diluted earnings per share for the same period of 2009 has been restated accordingly.

#### *Extraordinary items*

<b>Extraordinary items</b>	<b>Amount</b>
	<i>(Unit: RMB in thousands)</i>
Government grants accounted for in current profit and loss ( <i>Note</i> )	26,260
Gain/loss from fair-value change in financial assets for trading and financial liabilities for trading and investment gains from the disposal of financial assets for trading, financial liabilities for trading and available-for-sale financial assets	39,447
Other non-operating income	11,445
Less: Profit/loss arising from the disposal of non-current assets	709
Other non-operating expenses	16,752
Effect of income tax	8,954
<b>Total</b>	<b>50,737</b>

*Note:* With the exception of government grants which were closely related to the ordinary business operations of the Company and received in fixed amounts on a continuous basis in accordance with national policies and designated standards.

**2.2.2 The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2010 and as at 31 March 2010 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 top ten holders of shares not subject to lock-up as at the end of the reporting period**

**Total number of shareholders as at the end of the reporting period** The Company had 45,048 shareholders in total (of which 44,718 were holders of A shares and 330 were holders of H shares).

*Top ten holders of shares not subject to lock-up*

<b>Name of shareholder</b>	<b>Number of shares not subject to lock-up at the end of the reporting period (shares)</b>	<b>Class</b>
1. Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin")	620,214,413	A shares
2. HKSCC Nominees Limited	349,242,103	H shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	35,943,881	A shares
4. Guangfa Jufeng Stock Fund	32,067,600	A shares
5. Industrial Global View Securities Investment Fund	20,981,141	A shares
6. Hunan Nantian (Group) Co., Ltd	20,805,894	A shares
7. E Fund SZSE100 ETF	16,418,797	A shares
8. Rongtong New Blue-chip Stock Fund	16,197,202	A shares
9. Changsheng Tongqing Separate Trading Stock Fund	13,999,865	A shares
10. BoCom-Schroders Blue-chip Stock Fund	13,510,377	A shares

**3. MATERIAL MATTERS**

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

✓ Applicable     N/A

Balance sheet

Item	At 31 March 2010	At 31 December 2009	Change	Analysis of Reasons
Cash on hand and at bank	9,501,801	14,496,808	-34.46%	Mainly as a result of the increase in cash outflow from operating activities
Derivative financial assets	39,447	—	100.00%	Mainly reflecting spread income from RMB cross-border financial management products
Bills receivable	2,710,122	779,112	247.85%	Mainly as a result of the increase of payments received in the form of bank acceptances
Taxes payable	-102,370	77,715	-231.72%	Mainly as a result of the increase in deductible Input VAT tax
Dividend payable	133,378	16,966	686.15%	Mainly as a result of the increase in dividend payable to minority shareholders
Non-current liabilities with maturity of less than 1 year	2,804,574	1,939,965	44.57%	Mainly as a result of the transfer of certain long-term borrowings to non-current liabilities with maturity of less than 1 year
Deferred tax liabilities	2,650	3,924	-32.47%	Mainly as a result of the reversal of other deferred tax liabilities recognized in the previous year
Capital reserve	9,936,706	6,749,899	47.21%	Mainly reflecting premium in share capital arising from the placing of new H shares and the exercise of warrants

*Income statement (Three months ended 31 March)*

<b>Item</b>	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>	<b>Change</b>	<b>Reasons</b>
Taxes and surcharges	<b>163,357</b>	98,643	65.60%	Mainly as a result of the increase in income subject to business tax
Impairment losses	<b>237,263</b>	165,169	43.65%	Mainly as a result of the increase in bad debt provision
Gains/(losses) from changes in fair values	<b>39,447</b>	-1,913	2162.05%	Mainly reflecting spread income from RMB cross-border financial management products
Investment income	—	-7,126	100.00%	Mainly as a result of the absence of any gains/losses arising from the settlement of forward currency contract upon maturity, compared to investment losses arising from the same for the same period last year
Non-operating income	<b>225,151</b>	117,370	91.83%	Mainly as a result of the increase of VAT tax rebate relating to software products
Non-operating expenses	<b>17,461</b>	31,451	-44.48%	Mainly as a result of the decrease in compensation payments
Net profit attributable to owners of the parent	<b>109,864</b>	78,655	39.68%	Mainly as a result of the decrease in expense rates and growth in non-operating incomes for the period

<b>Item</b>	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>	<b>Change</b>	<b>Reasons</b>
Minority interests	<b>84,388</b>	27,382	208.19%	Mainly as a result of the increase in profit for subsidiaries with a higher percentage of minority interests
Other comprehensive income	<b>10,364</b>	-29,680	134.92%	Mainly reflecting gains arising from the translation of accounts denominated in foreign currencies
Comprehensive income attributable to owners of the parent	<b>139,539</b>	67,976	105.28%	Mainly as a result of the increase in net profit attributable to owners of the parent and gains arising from the translation of accounts denominated in foreign currencies for the period
Comprehensive income attributable to minority interests	<b>65,077</b>	8,381	676.48%	Mainly as a result of the increase in profit for subsidiaries with a higher percentage of minority interests



*Cash flow statement*

<b>Item</b>	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>	<b>Change</b>	<b>Reasons</b>
Net cash flows from operating activities	<b>-7,115,538</b>	-4,486,410	-58.60%	Mainly as a result of the increase in cash paid for the purchase of goods or services
Net cash flows from investing activities	<b>-635,794</b>	-127,483	-398.73%	Mainly as a result of the increase in cash paid for the purchase or construction of fixed assets, intangible assets and other long-term assets
Net cash flows from financing activities	<b>2,808,756</b>	1,942,739	44.58%	Mainly reflecting the increase in proceeds from the placing of new H shares and the exercise of warrants
Effect of exchange differences on cash flows	<b>-52,431</b>	-92,608	43.38%	Mainly as a result of the decrease in exchange losses from exchange rate fluctuations

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

√ Applicable    □ N/A

#### **3.2.1 Issue of additional H shares of the Company by way of placing during the period**

The Company completed its H share placing under the general mandate on 21 January 2010. A total of 58,294,800 H shares were issued and listed at a placing price of HK\$45.0 per share, raising net proceeds of approximately HK\$2,596 million. For details, please refer to the “Completion of the Placing of New H Shares Pursuant to the General Mandate” published by the Company on 21 January 2010.

#### **3.2.2 Bonds cum warrants of the Company**

The application of proceeds from the issue of bonds cum warrants (the “Bonds cum Warrants”) during the reporting period was in compliance with the Administrative Measures of Shenzhen Stock Exchange for Issue Proceeds of Listed Companies (《深圳證券交易所上市公司募集資金管理辦法》). On 1 February 2010, the Company made

payments of bond interests with a total amount of RMB32,000,000 (before tax). For details please refer to the “Announcement of Interest Payment for “中興債1” published by the Company on 22 January 2010.

The “Zhongxing ZXC1” Warrants of the Bonds cum Warrants were delisted after 15:00 hours on 12 February 2010. As at the close of trading on 12 February 2010, a total of 23,348,590 “ZXC1” Warrants had been exercised to subscribe for 21,523,441 A shares, raising proceeds of approximately RMB912 million. For details, please refer to the “Announcement of the Results of the Exercise of the ‘Zhongxing ZXC1’ Warrants and Changes in Shareholdings” published by the Company on 23 February 2010.

On 23 March 2010, the “Resolution of the Company on the replacement of internal funds that had previously been invested in the issue proceed projects with proceeds from the exercise of the warrants” was passed at the Thirty-fourth meeting of the Fourth Session of the Board of Directors of the Company, and the internal funds previously invested in the issue proceed projects were replaced with proceeds from the exercise of the “Zhongxing ZXC1” Warrants amounting to RMB912,464,758.64. For details, please refer to the “Announcement of the Company on the replacement of internal funds that had previously been invested in the issue proceed projects with proceeds from the exercise of the warrants” dated 24 March 2010.

For details of the issue of the Bonds cum Warrants of the Company, please refer to the section headed “Material Matters” and “Report of the Board of Directors” in the 2009 annual report of the Company.

### ***3.2.3 Progress of the Phase I Share Incentive Scheme of the Company during the reporting period***

At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was confirmed that 3,265 Scheme Participants had fulfilled the conditions for the first unlocking under the Phase I Share Incentive Scheme and the first unlocking was approved. Shares to be unlocked represented 20% of the shares granted to the Scheme Participants under the Share Incentive Scheme, namely 15,269,290 A shares. However, 709,582 A shares granted to 19 incumbent directors and senior management staff members of the Company and 1 former senior management staff member who had resigned shall remain under lock-up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on the Shenzhen Stock Exchange and Changes in Shareholdings. The lock-up period for 20% of the shares granted under the Share Incentive Scheme to the said 19 incumbent directors and senior management staff members of the Company and 1 former senior management staff member who had resigned, namely the 709,582 A shares remaining under lock-up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on the Shenzhen Stock Exchange and Changes in Shareholdings, has expired. Registration of the unlocking of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed on 26 February 2010. For details, please refer to the Announcement of the Company on the First Unlocking of Shares Granted to the Directors and Senior Management of the Company under the Share Incentive Scheme dated 26 February 2010.

During the reporting period, the Phase I Share Incentive Scheme of the Company was under normal implementation. Details of the impact of the Phase I Share Incentive Scheme of the Company on the financial position and results of operation of the Company has been set out in the section headed “Material Matters” in the 2009 annual report of the Company.

### ***3.2.4 Contracts executed during the reporting period or progress during the period of contracts executed prior to the reporting period***

<b>No.</b>	<b>Contents of material contracts</b>	<b>Date of Disclosure</b>	<b>Newspaper for publication</b>	<b>Performance</b>
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal, Securities Times, Shanghai Securities News	Under normal progress
2	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		Under normal progress
3	Network Supply Agreement and Entrusted Maintenance Agreement with Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited.	27 January 2010		Under normal progress

### ***3.2.5 Significant connected transactions of the Group during the reporting period***

#### ***(1) Conduct of ongoing connected transactions during the reporting period***

During the reporting period, the Group did not conduct any purchases from or sales of goods or provide labour services to connected parties with amounts exceeding 5% of the latest audited net asset value during the reporting period.

During the reporting period, ongoing connected transactions (as defined in the Rules Governing Listing of Stocks on Shenzhen Stock Exchange) of the Group included the purchase of raw materials and property leasing from connected parties by the Company and its subsidiaries. Such connected transactions were conducted after arm’s length negotiation on the basis of normal commercial terms. The prices at which the Group made purchases from the connected parties were not higher than the prices at which the connected parties sell similar products to other users in similar quantities. The prices at which properties were leased to the Group by connected parties were not higher than market rates for the lease of similar properties in neighbouring areas. In addition, such connected transactions would not have any adverse impact on the Group’s profit. The Group is not dependent on the connected party and the connected transactions do not affect the independence of the Group.

Connected parties from which the Group made purchases was selected as long-term supplier of the Group because they were able to manufacture products required by the Group on a regular basis and provide quality products and services at competitive prices. The Group considers trustworthy and cooperative suppliers as very important and beneficial to the Group's operations.

Connected parties from which the Group leased properties were able to provide lease properties in sound conditions. The Group considers trustworthy and cooperative suppliers as very important and beneficial to the Group's operations.

Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (for information on the connected parties, their connected relationships with the Group, basic terms of the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2010 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or the general meeting of the Company, please refer to the "Announcement Regarding Connected Transactions" and "Announcement Regarding 2009 Ongoing Connected Transactions (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange)" published by the Company on 19 April 2007, 24 October 2008, 24 April 2009 and 28 October 2009 respectively in China Securities Journal, Securities Times and Shanghai Securities News.

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for	As a percentage	Settlement	Whether different from estimated
						January to March 2010 (Excluding VAT) (RMB10,000)	of transactions in the same classification		
Purchase of raw materials	ZTE Kangxun Telecom Company, Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB1–RMB31,000 per unit; Cases: RMB1–RMB17,000 per unit depending on level of sophistication; Distribution frames: RMB2–RMB150,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB0.3–RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	13,558.2	1.68%	Commercial acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2,500 per piece, RF parts and components RMB350–4,100 per unit, depending on technical parameters and functional features.	5,033.1	0.62%	Commercial acceptance bill	No

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for	As a percentage	Settlement	Whether different from estimated
						January to March 2010 (Excluding VAT) (RMB10,000)	of transactions in the same classification		
Property leasing	ZTE Corporation and majority-owned subsidiary Chengdu Zhongxing Software Company, Limited	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 19,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (property management undertaken by ZTE and no management fees are payable)	217.52	2.99%	Banker's acceptance bill	No
	ZTE Corporation	Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees for landscape area)	515.41	7.09%	Banker's acceptance bill	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 31,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (property management undertaken by ZTE and no management fees are payable)	935.20	12.86%	Banker's acceptance bill	No
		Chongqing Zhongxing Development Company Limited (lessor)	Property located at No.3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq. m. (property management undertaken by the Company and no management fees are payable)	122.48	1.68%	Banker's acceptance bill	No

(2) At the Second Meeting of the Fifth Session of the Board of Directors of the Company held on 8 April 2010, the “Resolution of ZTE Corporation on the Asset Acquisition and Connected Transaction of Wholly-owned Subsidiary Xi’an Zhongxing New Software Company Limited”, was approved pursuant to which the execution of a Real Estate Transfer Contract between Xi’an Zhongxing New Software Company Limited, a wholly-owned subsidiary of the Company, and Zhongxingxin, the controlling shareholder of the Company, for the acquisition of the land use rights of a site on the eastern side of Zhangba Road II, Gaoxin District, Xi’an, Shaanxi Province and the houses and buildings erected thereon owned by Zhongxingxin at a purchase price of approximately RMB152,900,400. The said Real Estate Transfer Contract became effective on the date of approval by the Board of Directors of the Company, while the Property Lease Contract entered into between the Company and Zhongxingxin on 18 April 2007 was automatically revoked on the same date as the new Real Estate Transfer Contract between Xi’an Zhongxing New Software Company Limited and Zhongxingxin took effect. For details, please refer to the “Connected Transaction — Acquisition of Properties” published by the Company on 8 April 2010.

### 3.3 Performance of undertakings by the Company, its shareholders and effective controller

Applicable  N/A

Undertakings	Given by:	Details of undertaking	Performance
Other undertakings	Zhongxingxin	On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, acquired additional A shares in the Company through the trading system of Shenzhen Stock Exchange. Zhongxingxin undertook that it would not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period. As at 9 October 2009, the additional share acquisition by Zhongxingxin was completed and a total of 7,649,116 A shares in the Company had been additionally acquired on a cumulative basis. The additional acquisition was in compliance with relevant provisions of the Securities Law and other relevant laws and regulations, departmental rules and the business rules of Shenzhen Stock Exchange. For details please refer to the Announcement of the Completion of the Controlling Shareholders' Acquisition of Additional Shares in the Company published by the Company on 9 October 2009.	In compliance with its undertaking, Zhongxingxin did not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period

### 3.4 Warning and explanation of possible accumulated net loss projected for the period from the beginning of the year through the end of the next reporting period or significant changes in accumulated net profit as compared to the same period last year and the reasons thereof

Applicable  N/A

### 3.5 Other material matters requiring disclosure

#### 3.5.1 Investment in securities

Applicable  N/A

#### 3.5.2 Equity interests in other listed companies

Applicable  N/A

#### 3.5.3 Equity interests in non-listed financial enterprises and companies proposed for listing

Applicable  N/A



The application for initial public offering by Nationz Technologies Inc. (“Nationz Technologies”), an associate of the Company, was approved by the GEM Board Issue Approval Committee under the China Securities Regulatory Commission (“CSRC”) at the 13th working meeting of 2010 of the Committee on 26 March 2010.

As at 31 March 2010, the Company owned 21.76 million shares of Nationz Technologies, representing 26.67% equity interest of Nationz Technologies before the offering.

**3.5.4 The Company did not provide any funds to the controlling shareholders or its connected parties or provide third-party guarantees in violation of stipulated procedures.**

**3.5.5 Reception of investors and analysts, communications and press interviews of the Company during the reporting period.**

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
External meetings	Hong Kong	March 2010	Credit Suisse Asia Investment Forum	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
<b>Overseas investors</b>						
Company visits by analysts	Company	First quarter 2010	Verbal	CLSA, BNP, Brunnei Investment Agency, Philadelphia International, Cavalry Asset Management, Baillie Gifford, Harris Associates, UOB, Piper Jaffray, Daiwa Securities, Yuanta Taiwan, Fidelity Fund, UBS Fundamental Investment Group, Sloane Robinson Investment Management, Kylin Management, Joho Asia, Front point Management, MUFG Securities, Mitsui, Mairui Assets Management, Nikko Assets	Day-to-day operations of the Company	Published announcements and regular reports
<b>Domestic investors</b>						
	Company	First quarter 2010	Verbal	Peng Sheng Assets Management Company Limited, Hong Yuan Securities, China Life Asset Management Company Limited, China Securities, China International Fund Management, China Jianyin Investment Securities, New Value, Essence Securities, Ming Yuan Investment, United Securities, Harfor Fund	Day-to-day operations of the Company	Published announcements and regular reports

**3.5.6 Explanation of other significant matters**

Applicable  N/A

**3.6 Derivative investments**

Applicable  N/A

**3.6.1 Outstanding position in derivative investments as at the end of the reporting period**

Applicable  N/A

**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

(Currency: RMB in thousands)

Assets	2010.3.31		2009.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash on hand and at bank	9,501,801	5,827,231	14,496,808	10,096,875
Derivative financial assets	39,447	—	—	—
Bills receivables	2,710,122	2,571,265	779,112	672,374
Trade receivables	18,119,555	22,282,784	15,319,215	19,557,131
Factored trade receivables	2,980,336	2,860,839	2,870,221	2,727,445
Prepayments	385,737	180,238	355,422	173,408
Dividends receivable	—	1,592,597	—	1,017,020
Other receivables	855,666	3,192,374	1,059,829	3,240,367
Inventories	11,047,448	5,370,593	9,324,800	4,747,278
Amount due from customers for contract works	10,141,236	8,986,728	11,388,496	10,829,088
<b>Total current assets</b>	<b>55,781,348</b>	<b>52,864,649</b>	<b>55,593,903</b>	<b>53,060,986</b>
Non-current assets:				
Available-for-sale financial assets	253,760	244,448	253,760	244,448
Long term trade receivables	362,904	1,347,932	383,749	1,347,932
Factored long term trade receivables	2,841,376	2,966,376	2,968,629	3,093,629
Long-term equity investments	441,752	2,210,136	440,282	2,196,637
Fixed assets	4,725,379	3,212,194	4,714,533	3,195,746
Construction in progress	1,615,760	1,025,925	1,332,735	790,491
Intangible assets	607,547	476,594	613,773	481,171
Development costs	932,427	173,190	778,375	151,564
Deferred income tax assets	687,192	386,864	643,918	382,537
Long-term deferred assets	8,098	—	10,306	—
Other non-current assets	608,190	608,190	608,359	608,359
<b>Total non-current assets</b>	<b>13,084,385</b>	<b>12,651,849</b>	<b>12,748,419</b>	<b>12,492,514</b>
<b>Total assets</b>	<b>68,865,733</b>	<b>65,516,498</b>	<b>68,342,322</b>	<b>65,553,500</b>

Liabilities and shareholders' equity	Note	2010.3.31		2009.12.31	
		Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:					
Short-term loans		4,103,426	2,991,536	4,906,503	3,388,734
Bank advances on factored trade receivables		2,980,336	2,860,839	2,870,221	2,727,445
Bills payable		7,434,233	8,128,555	8,484,861	9,473,080
Trade payables		11,098,967	16,437,290	13,046,804	17,834,626
Amount due to customers for contract works		2,475,943	1,901,339	2,519,706	2,153,082
Advances from customers		2,647,819	2,420,461	2,337,628	2,039,175
Salary payables		2,339,339	859,735	2,398,720	878,705
Taxes payable		(102,370)	(319,671)	77,715	(307,988)
Dividends payable		133,378	75	16,966	75
Other payables		2,475,712	4,561,263	2,213,477	5,662,122
Deferred income		103,639	39,578	92,830	33,237
Provision		195,640	86,138	189,664	88,298
Long-term loans due within one year		<u>2,804,574</u>	<u>2,015,342</u>	<u>1,939,965</u>	<u>1,204,846</u>
<b>Total current liabilities</b>		<b><u>38,690,636</u></b>	<b><u>41,982,480</u></b>	<b><u>41,095,060</u></b>	<b><u>45,175,437</u></b>
Non-current liabilities:					
Long-term loans		2,075,910	1,483,129	2,396,393	1,742,512
Bank advances on factored long-term trade receivables		2,841,376	2,966,376	2,968,629	3,093,629
Bonds payable		3,639,139	3,639,139	3,632,681	3,632,681
Deferred income tax liabilities		2,650	1,143	3,924	1,143
Other non-current liabilities		<u>370,637</u>	<u>370,637</u>	<u>296,769</u>	<u>296,769</u>
<b>Total non-current liabilities</b>		<b><u>8,929,712</u></b>	<b><u>8,460,424</u></b>	<b><u>9,298,396</u></b>	<b><u>8,766,734</u></b>
<b>Total liabilities</b>		<b><u>47,620,348</u></b>	<b><u>50,442,904</u></b>	<b><u>50,393,456</u></b>	<b><u>53,942,171</u></b>
Shareholders' equity:					
Share capital		1,911,154	1,911,154	1,831,336	1,831,336
Capital reserves		9,936,706	9,902,561	6,749,899	6,745,877
Restricted shares remaining in lock-up		(447,235)	(447,235)	(447,235)	(447,235)
Surplus reserves		1,505,203	842,986	1,505,203	842,986
Retained profits		6,963,546	2,326,519	6,853,682	2,100,753
Proposed final dividend		552,425	552,425	552,425	552,425
Foreign currency translation differences		(190,368)	(14,816)	(220,043)	(14,813)
Equity attributable to equity holders of the parent		<u>20,231,431</u>	<u>15,073,594</u>	<u>16,825,267</u>	<u>11,611,329</u>
Minority Interests		<u>1,013,954</u>	—	<u>1,123,599</u>	—
<b>Total shareholders' equity</b>		<b><u>21,245,385</u></b>	<b><u>15,073,594</u></b>	<b><u>17,948,866</u></b>	<b><u>11,611,329</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>68,865,733</u></b>	<b><u>65,516,498</u></b>	<b><u>68,342,322</u></b>	<b><u>65,553,500</u></b>

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

## Income Statement (unaudited)

Currency: RMB in thousands

Item	Three months ended 31 March 2010		Three months ended 31 March 2009	
	Consolidated	Company	Consolidated	Company
1. Operating revenue	13,255,783	12,023,905	11,670,176	11,371,947
Less: Operating costs	8,832,482	10,026,163	7,657,391	9,301,300
Taxes and surcharges	163,357	14,244	98,643	1,911
Selling and distribution costs	1,867,015	1,210,412	1,510,104	1,193,699
Administrative expenses	657,561	358,045	627,369	367,733
Research and development costs	1,184,616	368,137	1,130,099	225,811
Finance costs	308,672	255,943	393,164	176,836
Impairment losses	237,263	214,714	165,169	74,461
Add: Fair value gains/losses	39,447	—	(1,913)	(1,913)
Investment income	—	591,314	(7,126)	12,532
Including: Share of profits and losses of associates and jointly controlled entities	—	—	—	—
2. Operating profit	<u>44,264</u>	<u>167,561</u>	<u>79,198</u>	<u>40,815</u>
Add: Non-operating income	225,151	62,561	117,370	19,495
Less: Non-operating expenses	17,461	2,127	31,451	7,577
Including: Profit/loss on disposal of non-current assets	709	709	—	—
3. Total profit	<u>251,954</u>	<u>227,995</u>	<u>165,117</u>	<u>52,733</u>
Less: Income tax	<u>57,702</u>	<u>2,226</u>	<u>59,080</u>	<u>11,460</u>
4. Net profit	<u>194,252</u>	<u>225,769</u>	<u>106,037</u>	<u>41,273</u>
Attributable to equity holders of the parent company	109,864	225,769	78,655	41,273
Minority interests	84,388	—	27,382	—
5. Earnings per share				
(1) Basic*	0.06		0.05	
(2) Diluted**	0.06		0.04	
6. Other comprehensive income	<u>10,364</u>	<u>(3)</u>	<u>(29,680)</u>	<u>(336)</u>
7. Comprehensive income	<u>204,616</u>	<u>225,766</u>	<u>76,357</u>	<u>40,937</u>
Comprehensive income attributable to equity holders of the parent	139,539	225,766	67,976	40,937
Comprehensive income attributable to minority interests	65,077	—	8,381	—

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

\* *As a result of the implementation of the 2008 profit distribution plan, the basic earnings per share for the same period of 2009 was restated. Basic earnings per share for the period under review was calculated on the basis of the weighted average number of ordinary share capital, namely the total share capital at the end of the period after deduction of 69,737,523 restricted shares remaining in lock-up.*

\*\* *As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company have given rise to 69,737,523 and 46,753,747 potentially dilutive ordinary shares, respectively, for the reporting period and the same period of 2009, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and the diluted earnings per share for the same period of 2009 has been restated.*

## Cash Flow Statement (unaudited)

Currency: RMB in thousands

Item	Three months ended 31 March 2010		Three months ended 31 March 2009	
	Consolidated	Company	Consolidated	Company
<b>1 Cash flows from operating activities</b>				
Cash received from sale of goods or rendering services	11,889,391	10,490,132	6,990,257	6,105,024
Cash received from taxes returned	1,167,243	1,019,893	877,036	746,194
Cash received relating to other operating activities	147,722	76,589	59,083	41,926
<b>Sub-total of cash inflow</b>	<b>13,204,356</b>	<b>11,586,614</b>	<b>7,926,376</b>	<b>6,893,144</b>
Cash paid for goods and services	14,009,804	14,957,650	7,932,558	10,420,057
Cash paid to and on behalf of employees	1,818,834	455,288	2,158,346	492,977
Payments of taxes and levies	1,020,312	85,380	680,680	57,355
Cash paid relating to other operating activities	3,470,944	3,153,834	1,641,202	1,289,961
<b>Sub-total of cash outflow</b>	<b>20,319,894</b>	<b>18,652,152</b>	<b>12,412,786</b>	<b>12,260,350</b>
<b>Net cash flows from operating activities</b>	<b>(7,115,538)</b>	<b>(7,065,538)</b>	<b>(4,486,410)</b>	<b>(5,367,206)</b>
<b>2 Cash flows from investing activities</b>				
Cash received from gains of investment	—	15,736	—	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,410	—	161	—
<b>Sub-total of cash inflow</b>	<b>2,410</b>	<b>15,736</b>	<b>161</b>	<b>—</b>
Cash paid to acquire fixed asset, intangible assets and other long-term assets	633,704	430,668	119,380	89,557
Cash paid for investment	4,500	—	8,264	4,264
<b>Sub-total of cash outflow</b>	<b>638,204</b>	<b>430,668</b>	<b>127,644</b>	<b>93,821</b>
<b>Net cash flow from investing activities</b>	<b>(635,794)</b>	<b>(414,932)</b>	<b>(127,483)</b>	<b>(93,821)</b>

Item	Three months ended 31 March 2010		Three months ended 31 March 2009	
	Consolidated	Company	Consolidated	Company
<b>3 Cash flows from financing activities</b>				
Cash received from investment	<b>3,197,918</b>	<b>3,197,918</b>	26,871	26,871
Cash received from borrowings	<b>1,187,946</b>	<b>682,531</b>	2,310,516	1,858,017
<b>Sub-total of cash inflow</b>	<b>4,385,864</b>	<b>3,880,449</b>	2,337,387	1,884,888
Cash paid for debt repayments	<b>1,446,897</b>	<b>528,616</b>	262,319	205,773
Cash payments for distribution of dividends on interest expenses	<b>130,211</b>	<b>89,716</b>	132,329	96,778
<b>Sub-total of cash outflow</b>	<b>1,577,108</b>	<b>618,332</b>	394,648	302,551
<b>Net cash flow from financing activities</b>	<b>2,808,756</b>	<b>3,262,117</b>	1,942,739	1,582,337
<b>4 Effect of changes in foreign exchange rate on cash</b>	<b>(52,431)</b>	<b>(51,291)</b>	(92,608)	(64,048)
<b>5 Net increase in cash and cash equivalents</b>	<b>(4,995,007)</b>	<b>(4,269,644)</b>	(2,763,762)	(3,942,738)
Add: Opening balance of cash and cash equivalents	<b>14,075,822</b>	<b>9,808,228</b>	11,344,160	8,323,750
<b>6 Closing balance of cash and cash equivalents</b>	<b>9,080,815</b>	<b>5,538,584</b>	8,580,398	4,381,012

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

\* Restricted items have been excluded from the opening and closing balances of cash and cash equivalents.

By order of the Board  
**Hou Weigui**  
Chairman

Shenzhen, PRC  
27 April 2010

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