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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)

2012 THIRD QUARTERLY REPORT

This announcement is published simultaneously in the Mainland pursuant to the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange (“Shenzhen Listing Rules”) 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 (“Hong Kong Listing Rules”).

§1 IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the “Company”) confirm that this quarterly report does not contain any false information, 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 Thirty-fifth Meeting of the Fifth Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons, and has authorized Mr. Wang Zhanchen, Director, to vote on his behalf. Mr. Dong Lianbo, Director, was unable to attend the Meeting due to work reasons, and has authorized Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. Mr. Tan Zhenhui, Independent Director, was unable to attend the Meeting due to work reasons, and has authorized Mr. Chen Naiwei, 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 Company and its subsidiaries (the “Group”) during the reporting period

During the reporting period, the growth of investment in equipment by the global telecommunications industry continued to slow down, although market demand for smart terminals continued to increase in tandem with the development of the Mobile Internet and the growing variety of mobile applications, while government and corporate networks and the cloud computing sectors provided the driving force behind the development of the ICT industry. In the domestic market, the Group was actively tracking the network construction plans of carriers in a bid to fortify its market shares amidst the slowdown in investments in the telecommunications industry. Internationally, although carriers were becoming more cautious in their network equipment investment, the Group continued with its efforts in international market development to strengthen cooperation with global mainstream carriers in various products.

The Group’s operating revenue for the reporting period amounted to RMB60.733 billion, an increase by approximately 5.01% as compared to same period last year, reflecting primarily the combined effect of delayed progress of certain international projects and the collective procurement method adopted by domestic carriers on the Company’s revenue recognition; net profit attributable to shareholders of the parent amounted to RMB–1.700 billion representing a year-on-year decrease of 259.14%, reflecting a larger number of low-margin contracts in Europe, Asia and the domestic market recognised for the period; basic earnings per share was RMB–0.50.

Product-wise, the Group reported a year-on-year decrease of 5.21% in revenue generated from carriers’ networks, which was attributable primarily to lower sales of wireline exchange and access products and CDMA systems equipment; a year-on-year increase of 15.36% in revenue generated from terminal products, which reflected primarily the combined effect of rapid growth in the sales of 3G handsets, and decreased sales of GSM handsets and data cards; a year-on-year increase of 23.29% in revenue generated from telecommunications software systems, services and other products which was attributable primarily to the growth in sales of video and network terminal products.

Looking to the next reporting period, the Group will focus on the operation of mainstream products and solutions, optimise its strategies for populous nations and mainstream carriers, develop the market for government and corporate services, strengthen its cash flow management, exercise reasonable control over contract risks, optimise its process systems, enhance its operating efficiency and operating results.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	End of the reporting period (30 September 2012)	End of last year (31 December 2011)	Change as at the end of the reporting period compared with the end of last year (%)
Total assets (<i>RMB in thousands</i>)	103,083,724	105,368,114	-2.17%
Owners' equity attributable to shareholders of the listed company (<i>RMB in thousands</i>)	22,504,421	24,231,717	-7.13%
Share capital (<i>thousand shares</i>)	3,440,078	3,440,078	0.00%
Net assets per share attributable to shareholders of the listed company (<i>RMB/share</i>) ^{Note 1}	6.56	7.06	-7.08%

Item	Three months ended 30 September 2012	Change compared with the same period last year (%)	Nine months ended 30 September 2012	Change compared with the same period last year (%)
Operating revenue (<i>RMB in thousands</i>)	18,091,590	-13.13%	60,733,488	5.01%
Net profit attributable to shareholders of the listed company (<i>RMB in thousands</i>)	(1,945,340)	-750.04%	(1,700,465)	-259.14%
Net cash flow from operating activities (<i>RMB in thousands</i>)	(2,187,096)	65.63%	(5,826,768)	53.52%
Net cash flow from operating activities per share (<i>RMB/share</i>) ^{Note 2}	(0.64)	65.59%	(1.70)	53.55%
Basic earnings per share (<i>RMB/share</i>) ^{Note 3}	(0.57)	-733.33%	(0.50)	-261.29%
Diluted earnings per share (<i>RMB/share</i>) ^{Note 4}	(0.57)	-733.33%	(0.49)	-258.06%
Weighted average return on net assets (%)	-8.28%	-9.57%	-7.28%	-11.89%
Weighted average return on net assets after extraordinary items (%)	-9.63%	-11.02%	-9.94%	-11.00%

- Note 1:* Net asset per share attributable to shareholders of the listed company as at the end of the third quarter of 2012 and the end of 2011 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme;
- Note 2:* Net cash flow from operating activities per share for the nine months and three months ended 30 September 2012 are calculated on the basis of the number of shares representing the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme; net cash flow from operating activities per share for the nine months and three months ended 30 September 2011 were calculated on the basis of the total share capital as at 30 September 2011 less 14,356,561 restricted shares then remaining in lock-up under the share incentive scheme;
- Note 3:* Basic earnings per share for the nine months and three months ended 30 September 2012 was calculated on the basis of the weighted average number of shares less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme. Basic earnings per share for the nine months and three months ended 30 September 2011 were calculated on the basis of the weighted average number of shares less 14,356,561 restricted shares then remaining in lock-up under the share incentive scheme;
- Note 4:* As certain Subject Share quotas under the Share Incentive Scheme of the Company have given rise to 6,874,194 and 12,220,791 potentially dilutive ordinary shares for the reporting period and the same period of 2011, respectively, therefore diluted earnings per share have been calculated on the basis of basic earnings per share taking into account the said factors.

Extraordinary items

	<i>RMB in thousands</i>	
	Amount	
	Three months ended 30 September 2012	Nine months ended 30 September 2012
Extraordinary item		
Non-operating income	88,225	408,661
Gains/(Losses) from changes in fair values	(53,243)	(84,682)
Investment income	363,779	460,472
Less: Gains/(Losses) arising from the disposal of non-current assets	7,710	19,778
Less: Other non-operating expenses	16,434	32,105
Less: Effect of income tax	56,192	109,885
Total	318,425	622,683

2.2.2 The amounts of net profit and shareholders' equity of the Group for the nine months ended 30 September 2012 and as at 30 September 2012 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 140,112 shareholders in total (of which 139,751 were holders of A shares and 361 were holders of H shares).

Top ten holders of shares not subject to lock-up

Name of shareholders	Number of shares not subject to lock-up as at the end of the reporting period (shares)	Class
1. Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”)	1,058,191,944	A share
2. HKSCC Nominees Limited	628,378,505	H share
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen	83,440,627	A share
4. CITIC Trust Co., Ltd. — Wealth Management 06	58,194,000	A share
5. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	43,749,373	A share
6. Hunan Nantian (Group) Co., Ltd.	37,450,609	A share
7. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	36,021,482	A share
8. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange — Traded Fund	30,859,376	A share
9. China Life Insurance (Group) Company — Traditional — General Insurance Products	25,569,044	A share
10. Agricultural Bank of China — Franklin Sealand Flex Cap Stock Fund	24,307,050	A share

§3 MATERIAL MATTERS

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

RMB in thousands

Balance Sheet

Item	At 30 September 2012	At 31 December 2011	Change	Analysis of Reasons
Factored trade receivables	2,251,065	3,623,096	-37.87%	Mainly attributable to the fulfillment of conditions for derecognition for certain factored trade receivables
Prepayments	762,937	494,200	54.38%	Mainly attributable to the increase in prepayments to suppliers under contracts for the purchase of materials
Other receivables	2,804,148	2,118,700	32.35%	Mainly attributable to the increase in software tax rebate receivable by the Company
Long-term trade receivables	1,219,854	864,274	41.14%	Mainly attributable to the offering of more favourable payment terms to customers
Investment properties	1,595,977	—	N/A	Mainly attributable to the reclassification of partial buildings used by the Company as leased properties
Construction in progress	940,370	1,580,462	-40.50%	Mainly attributable to the reclassification of construction in progress as fixed assets for the period
Trading financial liabilities	81,754	5,305	1,441.07%	Mainly attributable to losses arising from the fair-value revaluation of certain derivative investments at the end of the period
Bank advances on factored trade receivables	2,186,290	3,789,731	-42.31%	Mainly attributable to the fulfillment of conditions for derecognition for certain factored trade receivables
Dividends payable	250,165	170,046	47.12%	Mainly reflecting the dividends declared by certain subsidiaries for the period but not yet paid
Deferred income	344,955	74,986	360.03%	Mainly attributable to the increase in asset-related government subsidies
Long-term liabilities due within one year	4,514,875	693,099	551.40%	Mainly attributable to transfer of certain bonds due within one year into this class
Bonds payable	6,010,095	3,884,198	54.73%	Mainly attributable to the issue of bonds by the Company during the period
Deferred tax liabilities	15,583	—	N/A	Mainly attributable to the deferred tax liability in respect of investment income derived from proceeds from the issue and listing of new shares in Shenzhen Jufei Optoelectronics Co., Ltd. (“Jufei”)
Proposed final dividends	—	686,190	-100.00%	Mainly attributable to the dividend distribution for the period
Foreign currency translation differences	(774,686)	(527,696)	-46.81%	Mainly attributable to exchange rate volatility

Income statement (Nine months ended 30 September)

Item	Nine months ended 30 September 2012	Nine months ended 30 September 2011	Change	Analysis of Reasons
Finance expenses	946,271	1,460,352	-35.20%	Mainly attributable to exchange gains during the period as compared to exchange losses during the same period last year arising from exchange rate volatility
Gains/(Losses) from changes in fair values	(84,682)	(290,563)	70.86%	Mainly attributable to losses arising from changes in fair values on the transfer of Nationz Technologies Inc. ("Nationz Technologies") to financial assets held for trading from long-term equity investment in the Company's accounts
Investment income	465,683	1,166,924	-60.09%	Mainly attributable to the investment income on equity disposal of Nationz Technologies for the same period last year, versus the decrease in investment income for the period under review
Non-operating income	2,205,048	1,544,484	42.77%	Mainly attributable to the increase in VAT rebates for software products
Income tax	178,410	399,127	-55.30%	Mainly attributable to the decrease in taxable profit
Minority interests	192,205	112,422	70.97%	Mainly attributable to the increase in profit for the period of certain subsidiaries
Other comprehensive income	699,467	(266,320)	362.64%	Mainly attributable to the appreciation of investment properties upon valuation
Total comprehensive income attributable to minority interests	209,417	117,341	78.47%	Mainly attributable to increase in profit for the period of certain subsidiaries

Income statement (Three months ended 30 September)

Item	Three months ended 30 September 2012	Three months ended 30 September 2011	Change	Analysis of Reasons
Research and development costs	2,632,507	1,959,156	34.37%	Mainly attributable to the increase in the Company's investment in research and development
Finance expenses	115,208	1,019,867	-88.70%	Mainly attributable to exchange gains during the period as compared to exchange losses during the same period last year arising from exchange rate volatility
Impairment losses	(95,839)	115,463	-183.00%	Mainly attributable to the write-back of provisions for trade receivables and bad debts versus the increase in provisions for trade receivables and bad debts for the same period last year
Investment income	374,805	1,635	22823.85%	Mainly attributable to investment income arising from the disposal of equity interests in Shenzhen ZTE Special Equipment Company Limited ("ZTE Special Equipment") for the period
Non-operating expenses	24,144	5,826	314.42%	Mainly attributable to the increase in compensation expenses for the period
Income tax	(85,214)	(37,292)	-128.50%	Mainly attributable to the decrease in taxable profit
Other comprehensive income	(25,132)	(264,017)	90.48%	Mainly attributable to the decrease in losses arising from foreign currency translation differences

Cash flow statement

Item	Nine months ended 30 September 2012	Nine months ended 30 September 2011	Change	Analysis of Reasons
Net cash flow from operating activities	(5,826,768)	(12,535,367)	53.52%	Mainly attributable to the increase in cash received for the sales of goods and rendering of services
Net cash flow from investing activities	(1,442,928)	(2,655,820)	45.67%	Mainly attributable to the increase in cash received from the sale of investments and the decrease in cash paid to acquisition of fixed assets, intangible assets and other long-term assets
Net cash flow from financing activities	865,994	13,043,619	-93.36%	Mainly attributable to the increase in cash outlay for the repayment of borrowings

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

3.2.1 Statement of qualified opinion

Applicable N/A

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

Applicable N/A

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

During the reporting period, the Company did not enter into any materials contracts requiring disclosure. Details of material contracts entered into prior to and subsisting during the reporting period are set out as follows:

No.	Contents of material contracts	Date of Disclosure	Newspaper for publication	Performance
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal	Under normal progress
2	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007	Securities Times	Under normal progress
3	Network Supply Agreement and Managed Service 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	Shanghai Securities News	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012–2015 with Qualcomm	21 February 2012		Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012–2014 with Broadcom	21 February 2012		Under normal progress

3.2.4 Others

3.2.4.1 Implementation of the 2011 profit distribution plan of the Company

The plan of profit distribution for 2011 was considered and passed at the 2011 Annual General Meeting held on 25 May 2012 and implementation had been completed on 18 July. The Company made a profit distribution of RMB2 for every 10 shares (including tax) in cash based on a share capital of 3,430,952,127 shares (comprising 2,801,366,682 A shares and 629,585,445 H shares), namely total share capital of 3,440,078,020 shares (comprising 2,810,492,575 A shares and 629,585,445 H shares) as at the record date less 9,125,893 restricted shares under the share incentive scheme as at the record date. The record date was 17 July 2012 and the ex-rights/ex-dividend date was 18 July 2012, for A shares. In respect of H shares, the record date was 4 June 2012, and the dividend payment date was 18 July 2012. For details, please refer to the “Information on Payment of Final Dividend” published by the Company on 10 July 2012.

3.2.4.2 Information on the Bonds cum Warrants issued by the Company

On 30 January 2012, the Company made interest payments in respect of 中興債1, the bond component of the bonds cum warrants (“Bonds cum Warrants”), with a total amount of RMB32,000,000 (including tax). For details, please refer to the relevant announcement of the Company dated 16 January 2012.

For details of the bonds cum warrants issued by the Company, please refer to the sections headed “Report of the Board of Directors” and “Material Matters” in the 2012 interim report of the Company.

3.2.4.3 Information on the issue of corporate bonds of the Company

To meet the Company’s working capital requirements, further improve its debt structure and lower its finance costs, the Company was given approval to issue corporate bonds with a nominal value of not more than RMB6 billion at an issue price of RMB100 each and a coupon interest rate of 4.20% for a term of 3 years, in accordance with relevant provisions of the Company Law of the People’s Republic of China, Securities Law of the People’s Republic of China, Trial Measures for the Issue of Corporate Bonds and other pertinent laws, regulations and regulatory documents, following consideration and approval at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 March 2012 and the First Extraordinary Meeting of 2012 of the Company held on 11 April 2012 and approval by the China Securities Regulatory Commission (“CSRC”) by virtue of the document Zheng Jian Xu Ke [2012] No. 754. The Issue was conducted by way of a combination of online offering to public investors and offline bid placing to institutional investors. Corporate bonds under the Issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code “112090” and the abbreviated bond name “12中興01”. As at 30 September 2012, there were 77 holders of corporate bonds of the Company, the top ten of which were as follows:

No.	Name of bond holders	Number of bonds held	Bond holding rate (%)
1	China Merchants Bank Co., Ltd.	10,000,000	16.67%
2	Industrial and Commercial Bank of China Limited	9,300,000	15.50%
3	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Fund	6,000,000	10.00%
5	NSSF Portfolio #204	2,700,000	4.50%
6	Agricultural Bank of China — Penghua Jingang Capital Preservation Mixed Fund	2,500,000	4.17%
7	China Merchants Bank — BOC Stable Profit and Dividend Bond Fund	2,000,100	3.33%
8	China Construction Bank — Penghua Harvest Bond Fund	2,000,000	3.33%
9	Industrial and Commercial Bank of China — BOC Stable Profit Increment Bond Fund	1,973,540	3.29%
10	NSSF Portfolio #409	1,000,000	1.67%

For details of the corporate bonds issued by the Company, please refer to the sections headed “Report of the Board of Directors” and “Material Matters” in the 2012 interim report of the Company.

3.2.4.4 Capital reduction of four subsidiaries of the Company by way of Juxian's disposal of equity interests and acquisition of 10% equity interests in Guangdong New Pivot from Juxian

At the Thirty-first Meeting of the Fifth Session of the Board of the Directors of the Company, it was approved that four subsidiaries, namely Shenzhen ZTE Kangxun Telecom Company Limited (“ZTE Kangxun”), Shenzhen Zhongxing Microelectronics Technology Company Limited (“Zhongxing Microelectronics”), Shenzhen Zhongxing Software Company Limited (“Shenzhen Software”) and Shenzhen Changfei Investment Company Limited (“Changfei Investment”) would reduce their respective capital by way of the disposal by Shenzhen Juxian Investment Co., Ltd. (“Juxian”) of its respective equity interests in the said companies, upon the completion of which Juxian would no longer hold any equity interest in the said companies; and that the Company would acquire from Juxian a 10% equity interest in Guangdong New Pivot Technology & Service Company Limited (“Guangdong New Pivot”).

The aforesaid matter constituted a connected transaction under the Hong Kong Listing Rules but not under the Shenzhen Listing Rules. For details please refer to the “Connected Transactions Increase of Interest in Five Subsidiaries by way of Capital Reductions and Equity Acquisition” published by the Company on 16 July 2012.

3.2.4.5 Disposal of equity interests in ZTE Special Equipment

In line with the requirements of its strategic development and to facilitate the development of its principal businesses, the Company entered into the “Equity Transfer Agreement on the Transfer of 68% equity interests in Shenzhen ZTE Special Equipment Company Limited” with 10 investors including Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限公司), Guandong Hongtu Venture Capital Management Co., Ltd. (廣東紅土創業投資有限公司) and Nanjing Hongtu Venture Capital Management Co., Ltd. (南京紅土創業投資有限公司), etc (the “Buyers”) on 21 September 2012 following consideration and approval at the Thirty-fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 21 September 2012, pursuant to which the Company disposed of 68% equity interests in ZTE Special Equipment to the Buyers (the “Equity Transfer”). Investment income generated from the disposal of equity interests, estimated to be in the range of RMB360 million to RMB440 million.

For details please refer to the “Announcement Disposal of Equity Interests in Shenzhen ZTE Special Equipment Company Limited” published by the Company on 21 September 2012.

Investment income in the amount of RMB365 million have been recognized for the reporting period. The remaining amount of investment income will be recognized upon the completion of the Equity Transfer.

3.2.4.6 Progress of the Phase I Share Incentive Scheme of the Company

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period. The impact of the Phase I Share Incentive Scheme on the Company's financial conditions and operating results was discussed in further detail in "Material Matters" in the 2012 interim report of the Company.

3.2.4.7 Material litigation and arbitration during the reporting period

During the reporting period, the Group did not incur any material litigation or arbitration. No progress was noted during the reporting period in respect of immaterial litigation and arbitration proceedings incurred prior to the reporting period. Immaterial litigation and arbitration proceedings incurred during the reporting period are as follows:

In July 2012, the Company and ZTE USA, Inc. ("ZTE USA"), a wholly-owned subsidiary of the Company, received a statement of claim filed by a certain U.S. company with the International Trade Commission (ITC) and the Federal District Court of California in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in chips. Defendants in the ITC case included other companies as well. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order that would prevent the Company's products that had infringed its patent rights in chips from entering the United States. In the case filed with the District Court, damages for losses and payments of attorney fees were also demanded of the defendants, although no specific amount of compensation was named. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. There has been no substantial progress of the case at the moment.

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

3.2.4.8 Conduct of ongoing connected transactions during the reporting period

The connected transactions disclosed in the following table represented connected transactions that reached the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification		Impact on the Company's profit	Market price (RMB in ten thousands)	Reason for substantial difference between transaction prices and referential market prices
							Settlement	(%)			
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited, Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of various products such as cases, cabinets, distribution frames, flexible circuit boards and shelters by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Prices at which the Group made purchases from the connected parties were not higher than prices at which similar products of comparable quantity are sold to other users by the connected parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring area.	Cabinets and accessories: RMB1–RMB31,000 per unit; Cases and accessories: RMB1–RMB17,000 per unit depending on level of sophistication; Distribution frames and accessories: RMB2–RMB150,000 per unit depending on level of sophistication and functional features; flexible 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.	37,678.75	1.15%	Commercial acceptance bill	N/A	N/A	N/A
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communication antennas and radio frequency transmitter by the Company from the connected party	Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; junior engineer at a price ranging from RMB230–320 per head/day	Communication antenna: RMB320–RMB2,500 per piece and radio frequency Transmitter: RMB350–4,100 per unit, depending on technical parameters and functional features.	18,908.46	0.58%	Commercial acceptance bill	N/A	N/A	N/A
Huatong Technology Company Limited (華通科技有限公司)	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; junior engineer at a price ranging from RMB230–320 per head/day	Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; junior engineer at a price ranging from RMB230–320 per head/day	2,656.57	0.08%	Tele-transfer	N/A	N/A	N/A
Zhongxing Software Technology (Nanchang) Company Limited (中興軟件技術(南昌)有限公司)	A company the majority of board members of which can be controlled by another company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; junior engineer at a price ranging from RMB230–320 per head/day	Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; junior engineer at a price ranging from RMB230–320 per head/day	1,501.57	0.05%	Tele-transfer	N/A	N/A	N/A
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of hotel services	The purchase of hotel services by the Company from the connected party	Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	Single room: RMB240–380/night; double room: RMB240–380/night; suite: RMB500–600/night	884.63	0.03%	Tele-transfer	N/A	N/A	N/A
Zhongxing Development Company Limited	A company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m. by the Company from the connected party	Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and the cafeteria respectively and monthly management fee of RMB2.5/sq.m.	Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	3,048.38	5.80%	Tele-transfer	N/A	N/A	N/A
Chongqing Zhongxing Development Company Limited	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. by the Company from the connected party	Monthly rent of RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of amortization of assets.	Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and the cafeteria respectively and monthly management fee of RMB2.5/sq.m.	669.72	1.27%	Tele-transfer	N/A	N/A	N/A
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company	Rent was RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of amortization of assets.	Rent was RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of amortization of assets.	438.44	0.83%	Tele-transfer	N/A	N/A	N/A
Total				—	—	65,786.52	N/A	—	—	—	—

Detailed information of substantial sales return	Nil
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to its operations.
Effect of the connected transaction on the independence of the listed company	All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period	<p>At the Second Extraordinary General Meeting of 2009 of the Company convened on 29 December 2009, it was considered and approved that the estimated purchases from Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and its subsidiaries, Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited and Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited by ZTE Kangxun, a subsidiary of the Company in 2012 be capped at RMB1.69 billion (before VAT);</p> <p>At the Twenty-third Meeting of the Fifth Session of the Board of Directors held on 27 October 2011, it was considered and approved that the estimated purchases from Mobi Antenna Technologies (Shenzhen) Co., Ltd., a connected party, by ZTE Kangxun, a subsidiary of the Company in 2012 be capped at RMB600 million (before VAT);</p> <p>At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, it was considered and approved that the estimated purchases from Huatong Technology Company Limited (華通科技有限公司) and Zhongxing Software Technology (Nanchang) Company Limited (中興軟件技術(南昌)有限公司), both connected parties, by the Company in 2012 be capped at RMB90 million and RMB42 million, respectively;</p> <p>At the Third Meeting of the Fifth Session of the Board of Directors held on 27 April 2010, it was considered and approved that the annual rent payable by the Company to Zhongxing Development Company Limited, a connected party, for property lease, be capped at RMB44.16 million;</p> <p>At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors held on 13 December 2011, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development Company Limited, a connected party, for property lease, be capped at RMB11.40 million;</p> <p>At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, it was considered and approved that the estimated purchase of hotel services from Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited (a connected party) or its subsidiaries by the Company for the period from 1 July 2012 to 30 June 2013 be capped at RMB90 million, and the estimated lease of property and related equipment and facilities to Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiaries by the Company for the period from 1 July 2012 to 30 June 2013 be capped at RMB46 million. Please refer to the above table for details of the execution of the aforesaid connected transactions.</p>
Statement on connected transaction	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.

3.3 Performance of undertakings by the Company, its shareholders and de facto controller

Applicable N/A

There were no undertakings by the Company and its directors, supervisors, senior management and shareholders interested in 5% or more of the shares in the Company and de facto controllers.

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

Applicable N/A

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities and equity interests in other listed companies

1. Investment in securities

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

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the end of the period (10 thousands shares)	Nominal value at the end of the period	Percentage of total investment in securities at the end of the period	Profit and loss in the reporting period
Stock	300077	Nationz Technologies	172.38	312.58	5,301.45	100%	(3,322.78)
Other investment in securities held at the end of the period			—	—	—	—	—
Profit and loss from sales of investment in securities in the reporting period			—	—	—	—	—
Total			172.38	312.58	5,301.45	100%	(3,322.78)
Date of announcement of Board approval of the investment in securities					N/A		
Date of announcement of General Meeting's approval of the investment in securities					N/A		

(2) Details in investment in securities

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

As at the end of the reporting period, the Company currently held 3,125,800 shares in Nationz Technologies (accounting for approximately 1.15% of the total share capital of Nationz Technologies), all of which were unrestricted circulating shares. As the Company no longer exercises significant influence over the operating activities of Nationz Technologies, the outstanding unsold shares, previously accounted for as long-term equity, have been reclassified as trading financial assets for accounting purposes and investment income and gains/(losses) from changes in fair values have been measured at fair value.

2. Equity interests in other listed companies

On 13 December 2011, the IPO application of Jufei, a company in which the Company held an indirect interest, was approved at the 78th working meeting of 2011 of the GEM Board Issue Approval Committee under CSRC, and was listed on the GEM Board of the Shenzhen Stock Exchange on 19 March 2012.

As at the end of the reporting period, the Company was the controlling shareholder of Changfei Investment holding a 69.73% equity interest. Changfei Investment held 21.879 million shares in Jufei (following the implementation of Jufei's interim profit distribution and capitalization of capital reserve plan for 2012), representing 16.09% of the total share capital of Jufei.

On 28 February 2012, the IPO application of Huizhou Speed Wireless Technology Co., Ltd. ("Speed"), a company in which the Company held an indirect interest, was approved at the 12th working meeting of 2012 of the GEM Board Issue Approval Committee under CSRC, and was listed on the GEM Board of the Shenzhen Stock Exchange on 8 June 2012.

As at the end of the reporting period, the Company and Shenzhen ZTE Capital Management Company Limited ("ZTE Capital") held in aggregate 31% equity interests in Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I ("Zhonghe Chunsheng Fund"). Zhonghe Chunsheng Fund was a partnership reported in the consolidated financial statements of the Company. Zhonghe Chunsheng Fund held 2 million shares in Speed, accounting for 2.14% of the total share capital of Speed.

Unit: RMB in ten thousands

Stock code	Stock name	Initial investment	Percentage of equity interest in issuer	Nominal value at the end of the period	Gain/loss for the reporting period	Change in owner's equity for the reporting period	Accounting classification	Source of shares
300303	Jufei	450.00	16.09%	12,540.83	7,237.16	7,237.16	Long-term equity investment	Initial investment
300322	Speed	762.79	2.14%	4,130.00	—	3,367.21	Available-for-sale financial assets	Initial investment
Total		1,212.79	—	16,670.83	7,237.16	10,604.37	—	—

Note: Figures corresponding to Jufei are provided with Changfei Investment as the accounting subject; figures corresponding to Speed are provided with Zhonghe Chunsheng Fund as the accounting subject.

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

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

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
Presentation of the Company	Shenzhen	July 2012	Teleconference	Analysts and investors	Preliminary Announcement of 2012 Interim Results	Published announcements and regular reports
	Shenzhen	August 2012	Teleconference	Analysts and investors	2012 Interim Report	Published announcements and regular reports
External meetings	Chengdu	July 2012	Galaxy Securities investors' meeting	Customers of Galaxy Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Chengdu	July 2012	Sinolink Securities investors' meeting	Customers of Sinolink Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	August 2012	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	August 2012	Merrill Lynch Securities investors' meeting	Customers of Merrill Lynch Securities	Day-to-day operations of the Company	Published announcements and regular reports
Overseas Investors						
Company visits by investors	Company	July to September 2012	Verbal	Atlantis Investment, GSI Bermuda Ltd, Piper Jaffray, Credit Suisse, Artisan Partners Limited, Daiwa Capital Market, Macquarie Securities, Wedge Partners, HighBridge, Cathay Securities Investment Trust, Morgan Stanley, Goldman Sachs, Prime Capital Management, Uni-President Asset Management Corp., Nomura Securities, Mitsubishi UFJ Investment Services (HK) Limited, Citi Bank, Asian Values PLC, Mondrian Investment Partners Limited, Cadian Capital, JF Asset Management, Westwood Global Investments LLC, UBS, TRILOGY GLOBAL ADVISORS USA, Standard Chartered Bank (Hong Kong) Limited, Kanya Hasegawa from Broad Peak Investment	Day-to-day operations of the Company	Published announcements and regular reports
Domestic Investors						
Company visits by investors	Company	July to September 2012	Verbal	China Merchants Securities, Harvest Fund, Caitong Fund, China Merchants Fund, Taishi Investment, China Alpha Investment, Springs Capital, Guosen Assets Management, Shangke Investment, Bosera Fund, Galaxy Securities, Invesco Great Wall, Guangfa Fund, Sinolink Securities, Franklin Sealand Fund, Everbright Pramerica Fund	Day-to-day operations of the Company	Published announcements and regular reports

3.6 Derivative Investments

Principal terms of a derivative investment contract (include but not limited to: the source of funds, parties to the contract, investment shares, investment period, product types, whether litigation is involved, whether there are disguised applications of issue proceeds and review of the investment by competent decision making authorities)

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

As at the end of the third quarter of 2012, the Company conducted derivative investment using its internal funds through either ZTE, ZTE Kangxun or ZTE (H.K.) Limited (“ZTE HK”). Contract types included fixed income derivatives and value-protection derivatives. Fixed income derivatives had an investment term of 1 year or less. Value protection derivatives included USD forwards, Euro forwards and USD interest rate swap. The investment term of USD forwards and Euro forwards was 1 year or less. The investment term of USD interest rate swap matched the medium- and long-term debts of ZTE HK.

The derivative investment quota of 2012 was considered and passed by the Twenty-seventh Meeting of the Fifth session of the Board of Directors and 2011 annual general meeting of the Company. For details, please refer to the “Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors” published by the Company on 28 March 2012 and “Announcement on the Resolutions of the 2011 Annual General Meeting” published by the Company on 25 May 2012. The Derivative investments made by the Company have not been involved in litigation or disguised applications of issue proceeds.

Derivative investments conducted during the first three quarters of 2012 included fixed income derivatives and value-protection derivatives. The major risks and control measures are discussed as follows:

1. Market risks: For fixed-income derivatives, gains were recognized at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. Gains or losses arising from the difference between the exchange rate for settlement of value-protection derivatives investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date.

2. Liquidity risks: Fixed-income derivative investments are based on the foreign exchange payments for imports. The product did not effectively require the appropriation of available funds and therefore presented minimal liquidity risks. The value-protection derivatives investments of the Company were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small.
3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks.
4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives may result in operational risks in actual operation; Obscure terms in the trade contract may result in legal risks.
5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments will be duly controlled.

Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives

The gains from investments in derivatives during the reporting period was recognized by the Company. Net losses for the reporting period amounted to RMB14.31 million, representing losses from changes in fair values of RMB45.96 million and recognized investment income of RMB31.65 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.

Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period

There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.

Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control

Independent Non-executive Directors' Opinion:

The Company conducted fixed-income derivative investments based on due USD payables to offset exchange losses arising from the appreciation of RMB by obtaining low-risk fixed income. The Company conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange-rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and dedicated staff. The counterparties with which the Company and its subsidiaries enter into contracts for derivative investments are organizations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries are closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

3.6.1 Positions in derivative investments at the end of the reporting period

Unit: RMB in thousands

Type of contract <i>Note 1</i>	Opening balance of contract	Closing balance of contract	Gain/loss during the Reporting period	Contract amount as a percentage of the Company's net assets <i>Note 2</i> as at the end of the period
Fixed-income derivative investment	2,705,863	—	132	—
Value-protection derivative investment	2,669,974	6,991,641	−14,446	31.07%
Total	5,375,837	6,991,641	−14,314	31.07%

Note 1: Contracts are classified according to the different purposes of derivative investments and accounting treatments of such derivative investments.

Note 2: The net asset value of the Company as at the end of the reporting period is based on equity attributable to shareholders of the parent company at the end of the period.

3.7 Implementation of internal control development in the third quarter of 2012

During the first quarter of 2012, the internal control development project team of the Company reviewed the implementation of the Company's internal control regulation in 2011, completed the "Report on Implementation of the Internal Control Plan in 2011" and the "2011 Report on Self Assessment of Internal Control" and worked actively with the independent audit firm to conduct internal audit and rectify any deficiencies on an going basis. During the second quarter of 2012, the internal control development project team of the Company compiled and issued the "Conclusive Report on the Implementation of Internal Control Regulation in 2011" and the "2012 Internal Control Work Plan." It also carried out continuous tracking of risk-related issues discussed at the routine meetings of the Risk Management Committee of the Company, such as foreign exchange risks and the Euro debt crisis; at the same time, the internal control development project team conducted special investigations and research in relation to the Company's foreign exchange risks and financial processes, formulated a control mechanism for the management of foreign exchange risks, and optimized and renewed the financial processes. For details of the implementation of internal control development in the first half year of 2012, please refer to the section headed "Material Matters" in the 2012 interim report of the Company.

Progress of the implementation of internal control development during the third quarter of 2012:

1. *The convening of the working meeting for the internal control development project*

At the 2012 working meeting for the internal control development project convened by the internal control development project team of the Company in early August 2012, it was reiterated that the Company would continue to upgrade and optimize its internal control development in 2012 in accordance with 18 application guidelines in the "Supplementary Guidelines for Corporate Internal Control" (《企業內部控制配套指引》) issued by five ministries and commissions including the Ministry of Finance of the PRC and the CSRC, with special emphasis on key processes affecting the effectiveness of internal control relating to the Company's financial statements.

2. *Confirming officers in charge of the internal control processes at the business units*

Drawing inspirations from the work accomplished in our 2011 internal control development, the internal control development project team of the Company adjusted the breakdown of certain sub-processes in the internal control process following thorough communication with the process managers and the heads of relevant departments of the Company's key businesses, while officially delegating the task of sub-process streamlining to designated officers of relevant business units. The specific requirements of the internal development work for 2012 have been delivered to each of the respective officers in charge of the sub-processes and the heads of relevant departments.

3. *Streamlining of internal control processes*

The internal control development project team of the Company followed up with the heads of business departments to procure them to complete the internal control process streamlining work for 2012 in accordance with the internal control milestones. The team also sorted the feedback from the officers-in-charge and consolidated the internal control work drafts for various application guidelines, furnished revision comments and procured the updating of such drafts.

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

§4 APPENDICES

- 4.1 Balance Sheet (unaudited) Please see the attached.**
- 4.2 Income Statement (unaudited) Please see the attached.**
- 4.3 Cash Flow Statement (unaudited) Please see the attached.**

BALANCE SHEET

RMB in thousands

Assets	2012.09.30		2011.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	15,096,978	9,822,352	21,471,967	13,575,178
Trading financial assets	79,414	60,116	95,618	87,180
Bills receivable	3,436,133	3,032,699	3,223,529	2,992,133
Trade receivables	28,392,074	34,361,946	23,873,425	33,136,024
Factored trade receivables	2,251,065	2,244,841	3,623,096	3,306,558
Prepayments	762,937	66,567	494,200	22,969
Dividends receivable	—	5,656,439	—	3,696,751
Other receivables	2,804,148	7,118,910	2,118,700	3,477,706
Inventories	13,199,699	5,760,946	14,988,379	8,634,564
Amount due from customers for contract works	13,615,127	9,301,429	14,588,455	12,171,992
Total current assets	79,637,575	77,426,245	84,477,369	81,101,055
Non-current assets:				
Available-for-sale financial assets	1,011,867	212,448	819,972	212,448
Long-term trade receivables	1,219,854	3,670,457	864,274	3,633,751
Factored long-term trade receivables	4,350,625	4,349,951	4,156,083	4,059,772
Long-term equity investments	604,977	5,976,014	514,091	4,750,471
Investment properties	1,595,977	1,326,789	—	—
Fixed assets	7,186,206	5,162,423	7,003,824	4,791,141
Construction in progress	940,370	92,745	1,580,462	739,549
Intangible assets	1,195,814	671,173	1,194,946	715,716
Deferred development costs	2,239,083	551,732	1,925,610	499,988
Deferred tax assets	1,384,185	797,289	1,128,836	622,619
Long-term deferred assets	66,306	29,941	61,741	30,096
Other non-current assets	1,650,885	1,466,391	1,640,906	1,489,944
Total non-current assets	23,446,149	24,307,353	20,890,745	21,545,495
TOTAL ASSETS	103,083,724	101,733,598	105,368,114	102,646,550

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

RMB in thousands

Liabilities and shareholders' equity	2012.09.30		2011.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	11,734,267	7,705,560	11,183,349	6,536,028
Trading financial liabilities	81,754	39,553	5,305	—
Bank advances on factored trade receivables	2,186,290	2,180,066	3,789,731	3,473,193
Bills payable	10,841,819	13,747,871	11,149,367	11,904,593
Trade payables	17,700,679	32,178,966	21,542,885	31,997,323
Amount due to customers for contract works	3,178,097	2,167,904	3,068,804	2,401,582
Advances from customers	2,649,288	1,836,339	2,458,428	1,608,213
Salary and welfare payables	1,956,036	323,498	2,409,032	720,866
Taxes payable	(948,382)	(1,014,681)	(990,041)	(1,628,377)
Dividends payable	250,165	152	170,046	128
Other payables	6,470,872	15,826,010	7,526,477	20,133,672
Deferred income	344,955	147,283	74,986	29,483
Provisions	363,322	205,833	393,343	241,134
Long-term liabilities due within one year	4,514,875	4,508,534	693,099	693,099
Total current liabilities	61,324,037	79,852,888	63,474,811	78,110,937
Non-current liabilities:				
Long-term loans	6,632,070	—	6,940,702	1,130,090
Bank advances on factored long-term trade receivables	4,350,625	4,349,951	4,156,083	4,059,772
Bonds payable	6,010,095	6,010,095	3,884,198	3,884,198
Deferred tax liabilities	15,583	—	—	—
Other non-current liabilities	611,273	589,194	623,545	622,297
Total non-current liabilities	17,619,646	10,949,240	15,604,528	9,696,357
Total liabilities	78,943,683	90,802,128	79,079,339	87,807,294
Shareholders' equity:				
Share capital	3,440,078	3,440,078	3,440,078	3,440,078
Capital reserves	9,452,348	9,469,841	8,539,807	8,534,677
Restricted shares subject to lock-up	(40,537)	(40,537)	(40,537)	(40,537)
Surplus reserves	1,581,699	925,674	1,587,891	925,674
Retained profits	8,845,519	(2,846,793)	10,545,984	1,309,523
Proposed final dividends	—	—	686,190	686,190
Foreign currency translation differences	(774,686)	(16,793)	(527,696)	(16,349)
Total equity attributable to equity holders of the parent	22,504,421	10,931,470	24,231,717	14,839,256
Minority interests	1,635,620	—	2,057,058	—
Total shareholders' equity	24,140,041	10,931,470	26,288,775	14,839,256
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	103,083,724	101,733,598	105,368,114	102,646,550

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

INCOME STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2012		Nine months ended 30 September 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
1. Operating revenue*	60,733,488	51,768,403	57,838,612	49,418,048
Less: Operating costs	46,083,675	50,269,075	40,650,190	44,694,913
Taxes and surcharges*	853,526	348,621	864,211	149,124
Selling and distribution costs	8,047,342	5,244,001	7,869,191	5,403,375
Administrative expenses	1,644,099	1,039,596	1,763,678	1,018,457
Research and development costs	6,657,940	1,665,830	5,623,630	1,544,929
Finance expenses	946,271	622,544	1,460,352	1,262,252
Impairment losses	364,651	136,484	402,180	272,015
Add: Gains/(Losses) from changes in fair values	(84,682)	(66,617)	(290,563)	(223,535)
Investment income	465,683	2,860,331	1,166,924	3,357,915
Including: Share of profits and losses of associates and jointly-controlled entities	(6,921)	(20,693)	9,407	(1,942)
2. Operating profit	(3,483,015)	(4,764,034)	81,541	(1,792,637)
Add: Non-operating income	2,205,048	413,614	1,544,484	310,435
Less: Non-operating expenses	51,883	24,963	45,940	37,334
Including: Gains/(Losses) on disposal of non-current assets	19,778	11,148	14,610	4,664
3. Total profit	(1,329,850)	(4,375,383)	1,580,085	(1,519,536)
Less: Income tax	178,410	(219,067)	399,127	15,177
4. Net profit	(1,508,260)	(4,156,316)	1,180,958	(1,534,713)
Net profit attributable to owners of the parent	(1,700,465)	(4,156,316)	1,068,536	(1,534,713)
Minority interests	192,205	—	112,422	—

RMB in thousands

Item	Nine months ended 30 September 2012		Nine months ended 30 September 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
5. Earnings per share				
(1) Basic earnings per share**	RMB-0.50		RMB0.31	
(2) Diluted earnings per share***	RMB-0.49		RMB0.31	
6. Other comprehensive income	699,467	922,220	(266,320)	(568)
7. Total comprehensive income	<u>(808,793)</u>	<u>(3,234,096)</u>	<u>914,638</u>	<u>(1,535,281)</u>
Total comprehensive income attributable to owners of the parent	(1,018,210)	(3,234,096)	797,297	(1,535,281)
Total comprehensive income attributable to minority interests	209,417	—	117,341	—

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

* Comparative figures for operating revenue and taxes and surcharges amounting to RMB446,171,000 have been restated to comply with the reporting requirement of presenting operating revenue for the current reporting period net of Brazilian industrial commodity tax and ICMS tax.

** Basic earnings per share for the reporting period has been calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme.

*** Diluted earnings per share has been calculated on the basis of basic earnings per share taking into account 6,874,194 and 12,220,791 potentially dilutive ordinary shares arising from certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company which have not been unlocked in the reporting period and the same period of 2011, respectively.

INCOME STATEMENT

RMB in thousands

Item	Three months ended 30 September 2012		Three months ended 30 September 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
1. Operating revenue*	18,091,590	15,197,910	20,825,501	18,451,446
Less: Operating costs	14,805,685	16,714,183	14,406,459	17,088,088
Taxes and surcharges*	245,407	66,719	291,294	33,370
Selling and distribution costs	2,723,779	1,720,308	2,955,795	2,276,580
Administrative expenses	606,073	396,431	627,293	379,344
Research and development costs	2,632,507	650,994	1,959,156	500,334
Finance expenses	115,208	169,082	1,019,867	660,292
Impairment losses	(95,839)	(187,712)	115,463	53,779
Add: Gains/(Losses) from changes in fair values	(53,243)	(44,932)	(54,012)	(42,071)
Investment income	374,805	1,128,170	1,635	543,050
Including: Share of profits and losses of associates and jointly-controlled entities	1,001	—	—	—
2. Operating profit	(2,619,668)	(3,248,857)	(602,203)	(2,039,362)
Add: Non-operating income	658,330	85,265	915,365	166,437
Less: Non-operating expenses	24,144	12,482	5,826	6,549
Including: Gains/(Losses) on disposal of non-current assets	7,710	2,737	9,523	3,076
3. Total profit	(1,985,482)	(3,176,074)	307,336	(1,879,474)
Less: Income tax	(85,214)	(188,646)	(37,292)	(9,001)
4. Net profit	(1,900,268)	(2,987,428)	344,628	(1,870,473)
Net profit attributable to owners of the parent	(1,945,340)	(2,987,428)	299,265	(1,870,473)
Minority interests	45,072	—	45,363	—

RMB in thousands

Item	Three months ended 30 September 2012		Three months ended 30 September 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
5. Earnings per share				
(1) Basic earnings per share**	RMB-0.57		RMB0.09	
(2) Diluted earnings per share***	RMB-0.57		RMB0.09	
6. Other comprehensive income	(25,132)	4	(264,017)	(359)
7. Total comprehensive income	<u>(1,925,400)</u>	<u>(2,987,424)</u>	<u>80,611</u>	<u>(1,870,832)</u>
Total comprehensive income attributable to owners of the parent	(1,973,063)	(2,987,424)	32,690	(1,870,832)
Total comprehensive income attributable to minority interests	47,663	—	47,921	—

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

* Comparative figures for operating revenue and taxes and surcharges amounting to RMB122,687,000 have been restated to comply with the reporting requirement of presenting operating revenue for the current reporting period net of Brazilian industrial commodity tax and ICMS tax.

** Basic earnings per share for the reporting period has been calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme.

*** Diluted earnings per share has been calculated on the basis of basic earnings per share taking into account 6,874,194 and 12,220,791 potentially dilutive ordinary shares arising from certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company which have not been unlocked in the reporting period and the same period of 2011, respectively.

CASH FLOW STATEMENT

RMB in thousands

Item	Nine months ended 30 September 2012		Nine months ended 30 September 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	61,384,281	51,401,370	52,019,889	45,809,723
Refunds of taxes	5,620,474	4,169,837	4,165,672	3,474,914
Cash received relating to other operating activities	525,204	396,694	3,038,103	5,438,750
Sub-total of cash inflows	67,529,959	55,967,901	59,223,664	54,723,387
Cash paid for goods and services	50,442,010	51,641,287	48,114,603	49,770,234
Cash paid to and on behalf of employees	10,594,745	3,905,744	10,291,559	3,921,990
Cash paid for all types of taxes	6,540,546	488,523	4,090,779	615,858
Cash paid relating to other operating activities	5,779,426	3,640,276	9,262,090	5,166,523
Sub-total of cash outflows	73,356,727	59,675,830	71,759,031	59,474,605
Net cash flows from operating activities	(5,826,768)	(3,707,929)	(12,535,367)	(4,751,218)
2. Cash flows from investing activities				
Cash received from sale of investments	1,299,639	264,180	958,327	738,327
Cash received from return on investments	132,817	451,656	138,158	63,973
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	30,577	26,557	34,587	30,367
Sub-total of cash inflows	1,463,033	742,393	1,131,072	832,667
Cash paid to acquisition of fixed assets, intangible assets and other long-term assets	1,630,930	858,294	2,494,095	1,196,565
Cash paid for acquisition of investments	1,275,031	889,668	1,292,797	1,757,700
Sub-total of cash outflows	2,905,961	1,747,962	3,786,892	2,954,265
Net cash flows from investing activities	(1,442,928)	(1,005,569)	(2,655,820)	(2,121,598)

RMB in thousands

Item	Nine months ended 30 September 2012		Nine months ended 30 September 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from capital injections	8,100	—	10,118	—
Including: Capital injection into subsidiaries by minority shareholders	8,100	—	10,118	—
Cash received from borrowings	23,015,412	18,233,417	25,491,878	9,644,240
Sub-total of cash inflows	23,023,512	18,233,417	25,501,996	9,644,240
Cash repayments of borrowings	20,530,285	15,957,475	10,807,843	4,363,163
Cash payments for distribution of dividends or for interest expenses	1,627,233	1,232,990	1,650,534	1,382,733
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	54,592	—	34,794	—
Sub-total of cash outflows	22,157,518	17,190,465	12,458,377	5,745,896
Net cash flows from financing activities	865,994	1,042,952	13,043,619	3,898,344
4. Effect of changes in foreign exchange rate on cash	(304,984)	(589)	(266,314)	(163,808)
5. Net increase in cash and cash equivalents	(6,708,686)	(3,671,135)	(2,413,882)	(3,138,280)
Add: cash and cash equivalents at the beginning of the period	20,662,089	13,276,732	14,905,099	9,505,157
6. Net balance of cash and cash equivalents at the end of the period	13,953,403	9,605,597	12,491,217	6,366,877

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

By Order of the Board

Hou Weigui

Chairman

Shenzhen, the PRC

25 October 2012

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