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ZTE中兴
ZTE CORPORATION
中兴通讯股份有限公司

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

(Stock Code: 763)

2013 FIRST 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 and Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the inside information provisions set out in Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

§1 IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the “Company”) confirm that 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 Second Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman, was unable to attend the Meeting due to work reasons, and has authorized Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. 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. Zhang Junchao, Director, was unable to attend the Meeting due to work reasons, and has authorized Mr. Wang Zhanchen, Director, to vote on his behalf. Mr. Wei Wei, Independent Non-executive Director, was unable to attend the Meeting due to work reasons, and has authorized Ms. Qu Xiaohui, Independent Non-executive Director, to vote on his behalf.
- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).
- 1.5 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial report contained in this quarterly report.

- 1.6 China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company's information disclosure. Only information of the Company published in the aforesaid media should be relied upon.

§2 CORPORATE INFORMATION

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

There was a slow growth in investments in equipment by the global telecommunications industry during the reporting period, although performances varied from region to region. The progress of commercial deployment of LTE networks was gaining pace, as national broadband strategies adopted by various nations across the globe continued to drive the construction of wireline broadband access networks, while modernisation upgrades of wireless networks and LTE network construction were driving the construction of transmission networks. Market demand for smart terminals continued to increase. In the domestic market, the domestic telecommunications sector reported relatively fast growth in equipment investment mainly with the benefit of large-scale TD-LTE deployment and the construction of ancillary facilities, with wireless, broadband and transmission equipment remaining in focus. The Group worked in close tandem with the technological preferences and network construction plans of carriers to capitalise on market opportunities and consolidate its market shares. Internationally, the Group continued to focus its efforts on major populous nations and leading carriers, while vigorously enhancing market development in key sectors of government and enterprise networks.

During the reporting period, the Group reported operating revenue of RMB18.093 billion, representing a 2.79% decrease compared to the same period last year. Net profit attributable to shareholders of the parent company amounted to RMB205 million, representing a 35.87% growth over the same period last year. Basic earnings per share amounted to RMB0.06.

Looking ahead to the next reporting period, equipment investment by the telecommunications industry is expected to be focused on broadband conversion of wireless and wireline networks and the construction of ancillary facilities. The Group will commit its efforts to product innovation and solution-based operations with a strong focus on mainstream products and improve R&D efficiency. The strategy for populous nations and mainstream carriers will be reinforced, as we seek to concentrate on markets in which we claim strengths while vigorously expanding in the government, enterprise and service segments. The Group will continue to implement the settlement system to facilitate resource management and control, so as to refine cost management and enhance operating efficiency.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	As at the end of the reporting period (31 March 2013)	As at the end of last year (31 December 2012)	Change as at the end of the reporting period compared with the end of last year (%)
Total assets (<i>RMB in thousands</i>)	100,247,395	107,446,306	(6.70%)
Owners' equity attributable to shareholders of the listed company (<i>RMB in thousands</i>)	21,853,296	21,502,474	1.63%
Total share capital (<i>thousand shares</i>)	3,440,078	3,440,078	—
Net assets per share attributable to shareholders of the listed company (<i>RMB/share</i>) ^{Note 1}	6.36	6.26	1.60%

Item	The reporting period (Three months ended 31 March 2013)	Same period last year (Three months ended 31 March 2012)	Change compared with the same period last year (%)
Operating revenue (<i>RMB in thousands</i>)	18,093,388	18,613,038	(2.79%)
Net profit attributable to shareholders of the listed company (<i>RMB in thousands</i>)	204,996	150,874	35.87%
Net profit after extraordinary items attributable to shareholders of the listed company (<i>RMB in thousands</i>)	(615,485)	89,157	(790.34%)
Net cash flow from operating activities (<i>RMB in thousands</i>)	(3,173,773)	(6,363,569)	50.13%
Net cash flow from operating activities per share (<i>RMB/share</i>) ^{Note 2}	(0.92)	(1.85)	50.27%
Basic earnings per share (<i>RMB/share</i>) ^{Note 3}	0.06	0.04	50.00%
Diluted earnings per share (<i>RMB/share</i>) ^{Note 4}	0.06	0.04	50.00%
Weighted average return on net assets (%)	0.95%	0.62%	Increased by 0.33 percentage points
Weighted average return on net assets after extraordinary items (%)	(2.84%)	0.37%	Decreased by 3.21 percentage points

Note 1: Net assets per share attributable to shareholders of the listed company as at the end of the first quarter of 2013 and the end of 2012 were calculated on the basis of the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company;

Note 2: Net cash flow from operating activities per share for the first quarter of 2013 was calculated on the basis of the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. The corresponding indicator for the first quarter of 2012 was calculated on the basis of the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up;

Note 3: Basic earnings per share for the reporting period was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. The corresponding indicator for the first quarter of 2012 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up;

Note 4: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company have given rise to 0 and 6,874,194 potentially dilutive ordinary shares for the reporting period and the first quarter of 2012, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors.

Extraordinary items

RMB in thousands

Amount from the beginning of the year to the end of the reporting period

Extraordinary item

Non-operating income	92,108
Gains/(losses) from fair value change	77,826
Investment gains	803,056
Less: Gains/losses arising from the disposal of non-current assets	4,990
Less: Other non-operating expenses	2,728
Less: Effect of income tax	144,791
	<hr/>
Total	<u>820,481</u>

2.2.2 *The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2013 and as at 31 March 2013 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.*

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

Total number of shareholders

Total number of shareholders as at 31 March 2013 The Company had 131,495 shareholders in total (of which 131,136 were holders of A shares and 359 were holders of H shares).

Top 10 shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Number of shareholdings as at the end of the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of pledged or frozen shares
1. Shenzhen Zhongxinxin Telecommunication Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.76%	1,058,191,944	0	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.26%	628,236,876	0	Unknown
3. CITIC Trust Co., Ltd. — Wealth Management 06	Others	1.69%	58,194,000	0	Unknown
4. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	Others	1.16%	39,900,000	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	State-owned corporation	1.09%	37,450,609	0	Unknown
6. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	0.95%	32,618,704	0	Unknown
7. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Securities Investment Fund (LOF)	Others	0.90%	30,953,445	0	Unknown
8. China Construction Bank — Bosera Themed Industry Stock Securities Investment Fund	Others	0.84%	28,998,901	0	Unknown
9. NSSF Portfolio #103	Others	0.81%	27,999,466	0	Unknown
10. Bank of China — Harvest Research Select Stock Securities Investment Fund	Others	0.80%	27,419,004	0	Unknown

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. Zhongxingxin	1,058,191,944	A share
2. HKSCC Nominees Limited	628,236,876	H share
3. CITIC Trust Co., Ltd. — Wealth Management 06	58,194,000	A share
4. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	39,900,000	A share
5. Hunan Nantian (Group) Co., Ltd	37,450,609	A share
6. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	32,618,704	A share
7. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Securities Investment Fund (LOF)	30,953,445	A share
8. China Construction Bank — Bosera Themed Industry Stock Securities Investment Fund	28,998,901	A share
9. NSSF Portfolio #103	27,999,466	A share
10. Bank of China — Harvest Research Select Stock Securities Investment Fund	27,419,004	A share

Descriptions of any connected party relationships or concerted party relationships among the above shareholders

1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares not subject to lock-up listed above.
2. The Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that are not subject to lock-up.

§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 31 March 2013	At 31 December 2012	Change	Analysis of Reasons for Changes
Cash	15,926,247	24,126,423	(33.99%)	Mainly attributable to the redemption of Bonds cum Warrants
Available-for-sale financial assets	1,458,620	1,092,335	33.53%	Mainly attributable to equity investment by the Company in the acquisition of restricted shares of China All Access (Holdings) Limited (“China All Access”)
Held-to-maturity investments	162,725	—	N/A	Mainly attributable to investment by the Company in the acquisition of convertible bonds of China All Access
Construction in progress	327,424	824,387	(60.28%)	Mainly attributable to the reclassification of certain construction in progress as fixed assets
Short-term loans	11,414,743	17,923,607	(36.31%)	Mainly attributable to the transfer of syndicate loans to short-term loans because of the Company’s inability to meet required financial benchmarks as at the end of 2012 and the retransfer of the same to long-term loans for the reporting period after obtaining an exemption letter
Trading financial liabilities	59,618	105,739	(43.62%)	Mainly attributable to the settlement of certain derivative investments on the maturity date
Deferred income	361,338	267,082	35.29%	Mainly attributable to the increase in income-related government subsidies
Non-current liabilities due within one year	6,269	4,524,420	(99.86%)	Mainly attributable to the redemption of Bonds cum Warrants
Long-term loans	6,559,123	989,990	562.54%	Mainly attributable to the transfer of syndicate loans to short-term loans because of the Company’s inability to meet required financial benchmarks as at the end of 2012 and the retransfer of the same to long-term loans for the reporting period after obtaining an exemption letter

Income Statement (Three months ended 31 March)

Item	Three months ended 31 March 2013	Three months ended 31 March 2012	Change	Analysis of Reasons for Changes
Finance expenses	577,673	99,276	481.89%	Mainly attributable to exchange losses due to exchange rate volatility for the period versus exchange gains due to exchange rate volatility for the same period last year
Impairment losses	509,094	365,359	39.34%	Mainly attributable to the increase in bad debts provisions for trade receivables for the period
Gains/(Losses) from changes in fair values	77,826	(878)	8,964.01%	Mainly attributable to gains arising from the fair-value revaluation at the end of the period and the settlement on the maturity date of certain derivative investments
Investment income	803,056	73,030	999.62%	Mainly attributable to investment gains arising from the disposal of equity interests in Shenzhen ZNV Technology Co., Ltd. (“ZNV”)
Non-operating expenses	7,718	11,707	(34.07%)	Mainly attributable to decrease in compensation expenses for the period
Minority interests	(4,464)	61,644	(107.24%)	Mainly attributable to the decrease in the percentage of shareholdings by minority shareholders and the decrease in the profit reported by certain subsidiaries
Other comprehensive income	153,320	(35,886)	527.24%	Mainly attributable to the increase in translation differences and the appreciation of available-for-sale financial assets upon revaluation of fair value

Cash Flow Statement (Three months ended 31 March)

Item	Three Months ended 31 March 2013	Three months ended 31 March 2012	Change	Analysis of Reasons for Changes
Net cash flow from operating activities	(3,173,773)	(6,363,569)	50.13%	Mainly attributable to the increase in cash received for the sales of goods and rendering of services and the decrease in expenses for the period
Net cash flow from investing activities	(386,012)	(724,392)	46.71%	Mainly attributable to the increase in cash received from the disposal of subsidiaries
Net cash flow from financing activities	(4,476,435)	311,009	(1,539.33%)	Mainly attributable to the increase in cash paid for debt repayment and the decrease in cash received from loan drawdowns
Effect of changes in foreign exchange rate on cash	(163,956)	11,485	(1,527.57%)	Mainly attributable to exchange losses due to exchange rate volatility for the period versus exchange gains due to exchange rate volatility for the same period last year

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

3.2.1 Statement of qualified opinion

Applicable N/A

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

Applicable N/A

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

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

No.	Contents of material contracts	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	By reference to market prices	USD378 million	No	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012-2015 between the Company and Qualcomm	By reference to market prices	Not less than USD4 billion	No	Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012-2014 between the Company and Broadcom	By reference to market prices	Not less than USD1 billion	No	Under normal progress

3.2.4 Others

3.2.4.1 Disposal of an aggregate of 81% equity interests in ZNV to Ocean Delight Investments Limited (“Ocean Delight”) by the Company and ZTE (H.K.) Limited (“ZTE HK”, a wholly-owned subsidiary of the Company)

(1) Disposal of assets

Unit: RMB in ten thousands

Counterparty	Assets disposed of	Date of execution of agreement	Transaction price	Gain/loss from disposal for the reporting period	Net profit contributions of the asset disposal to the listed company as a percentage of total profit	Pricing principle for asset disposal	Whether a connected transaction	Relationship with the counterparty (as applicable for the purposes of connected transactions)	Whether titles to asset involved have been transferred in full	Whether creditors' rights and debts have been transferred in full	Domestic announcement date and index
Ocean Delight	81% interests in ZNV	28 December 2012	USD equivalent of RMB1,292 million	84,768.42	317.77%	The pricing of the equity transfer was determined by reference to the then financial and operating conditions of ZNV.	No	N/A	Yes	Yes	29 December 2012 Announcement No. 201262 “Announcement of Disposal of Equity Interests in Shenzhen ZNV Technology Co., Ltd.”

Note 1: The aforesaid represented connected transaction as defined under the Shenzhen Listing Rules and other domestic securities regulatory provisions;

Note 2: Information set out under “Whether titles to asset involved have been transferred in full” and “Whether creditors’ rights and debts have been transferred in full” represented status as at the date of this quarterly report.

(2) Statement relating to the disposal of assets

To meet the requirements of the Company’s strategic development and to facilitate the development of the Company’s principal business, the Company and ZTE HK (a wholly-owned subsidiary of the Company) respectively entered into the “Equity Transfer Agreement for the Transfer of 65% Equity Interests in the Target Company” and “Equity Transfer Agreement for the Transfer of 16% Equity Interests in the Target Company” with Ocean Delight on 28 December 2012, pursuant to which the Company and ZTE HK disposed of an aggregate of 81% equity interests in ZNV held directly or indirectly by the Company to Ocean Delight.

The said equity transfer did not constitute a connected transaction or a significant asset reorganisation of the Company and was considered and approved at the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012. The said equity transfer will result in an investment gain for the Company in the region of RMB820 million to RMB880 million in 2013, which will provide additional working capital for the Company to support the development of its principal businesses. For details please refer to the “Discloseable Transaction — Disposal of 81% Equity Interests in Shenzhen ZNV Technology Co., Ltd.” published on 28 December 2012.

- (3) Progress of the event since the publication of the announcement of asset disposal and the impact on the operating results for and financial conditions of the reporting period

The two parties to the transaction have been working on the settlement of and related payments for the equity interests in accordance with the “Equity Transfer Agreement for the Transfer of 65% Equity Interests in the Target Company” and “Equity Transfer Agreement for the Transfer of 16% Equity Interests in the Target Company.” Investment gains of approximately RMB850 million was recognised by the Company during the reporting period.

3.2.4.2 Changes in the Directors, Supervisors and senior management of the Company

Pursuant to the “Resolution on the Removal of Senior Management Personnel” considered and passed at the Thirty-ninth Meeting of the Fifth Session of the Board of Directors of the Company held on 14 January 2013, the discontinuation of the employment of Mr. Xie Daxiong as Executive Vice President of the Company and each of Mr. Ni Qin, Mr. Wu Zengqi and Mr. Wang Jiaran as Senior Vice President of the Company was approved.

At the First Extraordinary General Meeting of 2013 of the Company held on 7 March 2013, Mr. Hou Weigui, Mr. Zhang Jianheng, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Shi Lirong, Mr. Yin Yimin, Mr. He Shiyou, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Timohty Alexander Steinert were elected Directors of the Sixth Session of the Board of Directors of the Company. The term of office of the Sixth Session of the Board of Directors of the Company shall commence on 30 March 2013 and end on 29 March 2016. For details of the term of office of Directors of the Sixth Session of the Board of Directors, please refer to the “Announcement of Resolutions of the First Extraordinary General Meeting of 2013” published by the Company on 7 March 2013.

At the First Extraordinary General Meeting of 2013 of the Company held on 7 March 2013, Mr. Chang Qing and Ms. Xu Weiyan were elected Shareholders’ Representative Supervisors of the Sixth Session of the Supervisory Committee of the Company. On 28 February 2013, Mr. Xie Daxiong, Ms. He Xuemei, Mr. Zhou Huidong were elected Staff Representative Supervisors of the Sixth Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company. The term of office of the Sixth Session of the Supervisory Committee of the Company shall commence on 30 March 2013 and end on 29 March 2016. For details of the term of office of Supervisors of the Sixth Session of the Supervisory Committee, please refer to the “Announcement of Resolutions of the First Extraordinary General Meeting of 2013” published by the Company on 7 March 2013.

At the First Meeting of the Sixth Session of the Board of Directors held on 2 April 2013, the “Resolution of the Company on the Appointment of Senior Management Personnel of the Company for a New Term” was considered and passed, whereby the re-appointments of Mr. Shi Lirong as President of the Company; each of Mr. He Shiyou, Mr. Wei Zaisheng, Mr. Tian Wenguo, Qiu Weizhao and Mr. Fan Qingfeng as Executive Vice President of the Company; Mr. Wei Zaisheng as Chief Financial Officer of the Company; and each of Ms. Chen Jie, Mr. Zhao Xianming, Mr. Pang Shengqing, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Ye Weimin, Mr. Zhu Jinyun, Mr. Zhang Renjun and Mr. Chen Jianzhou as Senior Vice President of the Company; the appointment of Mr. Cheng Lixin as Senior Vice President of the Company and the re-appointment of Mr. Feng Jianxiong as Secretary to the Board of the Company are considered

and approved. The new term of the senior management of the Company shall commence on the date on which the resolution was considered and passed at the said Board meeting and ending upon the conclusion of the Sixth Session of the Board of Directors (namely 29 March 2016).

3.2.4.3 Information on the Bonds cum Warrants issued by the Company

The bond component “中興債1” of the bonds cum warrants (“Bonds cum Warrants”) issued by the Company on 30 January 2008 matured on 30 January 2013 and the total amount of principal and interest payment made was RMB4,032 million.

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 annual report of the Company.

3.2.4.4 Information on the corporate bonds of the Company

To meet the Company’s working capital requirements, further improve its debt structure and lower its finance costs, the Company was given approval to issue corporate bonds with a nominal value of not more than RMB6 billion 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 31 March 2013, there were 150 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%
2	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Securities Investment Fund	5,998,500	10.00%
5	China Merchants Bank — BOC Stable Profit and Dividend Bond Fund	1,880,000	3.13%
6	China Construction Bank — Penghua Harvest Bond Fund	1,800,000	3.00%
7	NSSF Portfolio #204	1,799,821	3.00%
8	Industrial and Commercial Bank of China — BOC Stable Profit Increment Bond Securities Investment Fund	1,700,000	2.83%
9	China Construction Bank — Bosera Stable Earnings Fixed-term Open-ended Bond Securities Investment Fund	1,325,030	2.21%
10	NSSF Portfolio #409	1,000,000	1.67%

3.2.4.5 Progress of the facility agreement

On 8 July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a facility agreement with a total amount of USD900 million with 10 banks including Bank of China (Hong Kong) Limited (“BOCHK”) (the “Facility Agreement”), in respect of which the Company entered into a guarantee letter providing guarantee for this agreement.

Pursuant to the Facility Agreement and the guarantee letter signed by the Company, the lending banks have imposed certain restrictions in relation to certain financial indicators of the Group. If the Group’s financial indicators fail to meet the requirements under the Facility Agreement and the guarantee letter, the lending banks shall have the right to demand early loan repayment from ZTE HK. As at 31 December 2012, the Group failed to comply with the requirement of the Facility Agreement in respect of one financial indicator. ZTE HK has applied to the lending banks for exemption from early loan repayment, and such application for exemption will take effect when the approval of no less than 2/3 of facility amount is granted. As at 27 March 2013, an exemption letter had been obtained from BOCHK and any risk of ZTE HK being required to honour early loan repayment had been removed.

3.2.4.6 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		Market price (RMB)	Domestic announcement date	Domestic announcement index
							(%)	Settlement			
Shenzhen Zhongxingtin Telecommunications Equipment Company Limited and its subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of various products such as cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. 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 areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms.	Cabinets and related accessories: RMB1-RMB30,000 per unit; and cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB5,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	11,727	1.22%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna")	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party	Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features	5,686	0.59%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"	
Huatong Technology Company Limited (華通科技有限公司) ("Huatong")	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	Senior engineer at a price ranging from RMB450-680 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; Technician at a price ranging from RMB190-230 per head/day.	749	0.08%	Tele-transfer	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"	
Zhongxing Software Technology (Nanchang) Company Limited (中興軟件技術(南昌)有限公司) ("Nanchang Software")	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	Senior engineer at a price ranging from RMB450-680 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; Technician at a price ranging from RMB190-230 per head/day.	69	0.01%	Tele-transfer	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"	
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of hotel service	The purchase of hotel services by the Company from the connected party	Single room: RMB340-380/night; Double room: RMB240-380/night; Suite: RMB500-600/night	656	0.07%	Tele-transfer	N/A	27 June 2012	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"	
Zhongxing Development Company Limited ("Zhongxing Development")	A company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m. by the Company from the connected party	Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	1,016.13	7.20%	Tele-transfer	N/A	28 April 2010	Announcement No. 201051 "Announcement on Connected Transactions"	
Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development")	Subsidiary of the Company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. by the Company from the connected party	Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and cafeteria respectively and monthly management fee of RMB2.5/sq.m.	223.24	1.58%	Tele-transfer	N/A	14 December 2011	Announcement No. 201153 "Announcement on Connected Transactions"	
Zhongxing Hetai or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company	Rent: RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of amortization of assets.	971	75.74%	Tele-transfer	N/A	27 June 2012	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"	
Total						21,097.37	N/A				

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to its operations.
Effect of the connected transaction on the independence of the listed company	All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	<p>At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the estimated purchases from Zhongxingxin and its subsidiaries by the Group in 2013 be capped at RMB900 million (before VAT); and the estimated purchases from Mobi Antenna, a connected party, by the Group in 2013 be capped at RMB600 million (before VAT); estimated purchases from Huatong and Nanchang Software, both connected parties, by the Group in 2013 be capped at RMB78 million and RMB33 million, respectively (before VAT);</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, a connected party, for property lease, be capped at RMB44.16 million for a term commencing on 28 April 2010 and ending on 17 April 2013;</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, a connected party, for property lease, be capped at RMB11.40 million for a term commencing on 1 January 2012 and ending on 31 December 2014;</p> <p>At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, or its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2012 and ending on 30 June 2013; and the estimated amount payable by Zhongxing Hetai or its subsidiaries to the Company for the lease of properties and relevant equipment and facilities be capped at RMB46 million for the period commencing on 1 July 2012 and end on 30 June 2013; and</p> <p>Please refer to the above table for details of the execution of the aforesaid connected transactions.</p>
Reason for the substantial difference between transaction prices and referential market prices	N/A

3.2.4.7 *Material litigation and arbitration during the reporting period*

There was no material litigation or arbitration of the Group occurring during the reporting period. Details of the progress of immaterial litigation and arbitration proceedings occurring prior to and other litigation and arbitration proceedings occurring during the reporting period are set out in the following:

1. On 28 April 2011, the Company and ZTE France SASU (“ZTE France”), a wholly-owned subsidiary of the Company, received a statement of claim from the District Court of Paris, France, according to which a lawsuit has been filed by Huawei Technologies Co., Ltd. (“Huawei”), claiming that the data card products of the Company and ZTE France have infringed upon its patent and demanding the Company and ZTE France to discontinue such act of infringement and pay damages in the amount of EUR500,000. In respect of the patent which was the subject of Huawei’s litigation and other related patents of the same class, ZTE France filed a lawsuit with the District Court of Paris, France to claim the invalidity of the patent. The aforesaid two cases have been merged for trial purposes, and on 28 March 2013, the District Court of Paris ruled to reject all litigation claims of Huawei and ordered Huawei to pay a compensation of EUR100,000 to the Company and ZTE France. At the same time, Huawei’s patent which was the subject of the litigation was ruled “invalid” on the grounds of “lack of creativity.”

On 9 May 2011, ZTE Deutschland GmbH (“ZTE Deutschland”), a wholly-owned subsidiary of the Company, received a provisional injunction order against ZTE Deutschland in respect of “labelled data cards” awarded by the District Court of Hamburg, Germany based on an application by Huawei. For details please refer to the “Announcement on Litigation” of the Company dated 12 May 2011. In response to the aforesaid provisional injunction order, ZTE Deutschland had filed a dissent with the District Court of Hamburg, Germany. On 1 October 2011, the Company received a ruling of the District Court of Hamburg, Germany in favor of Huawei’s application for the said provisional injunction order. On 27 October 2011, ZTE Deutschland appealed to the District High Court of Hamburg, Germany and the case is currently pending trial. Such provisional injunction order does not have any impact on the current business of the Company. On 27 June 2011, ZTE Deutschland received a statement of claim served by the District Court of Hamburg, Germany, pursuant to which Huawei officially filed a lawsuit of trademark infringement in respect of “labelled data cards” with the court. On 25 July 2011, ZTE Deutschland submitted a defense to the court. On 23 November 2011, the court ruled to suspend the litigation procedure for the case of trademark infringement and to arrange hearing pending judgement in respect of the appeal against the provisional injunction order.

In May 2011 and May 2012, ZTE Deutschland and the Company respectively received statements of claim filed by Huawei to the court of Dusseldorf, Germany, claiming that ZTE Deutschland and the Company had infringed 4 of its patents. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 21 March 2013, the court rejected all allegations of Huawei in connection with the infringement on its EP 2033335 patent by the Company’s LTE systems and terminals. As of now, the case for the other three patents are pending court trial or judgement.

In May 2012, ZTE Deutschland received statements of claim filed by Huawei to the court of Mannheim, Germany, claiming that ZTE Deutschland had infringed its patent. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 15 March 2013, the court of Mannheim, Germany made a judgement to reject all allegations of Huawei

in connection with the infringement by the LTE terminals of ZTE Deutschland, but ruled that the LTE systems sold by ZTE Deutschland in Germany had infringed on “a derived encryption function” of the said patent. In respect of the infringement ruled by the judgement, the Company is actively preparing to file an appeal with the High Court of Karlsruhe. As such patent is not used in the relevant products currently sold by the Company, the litigation will not have any substantial impact on the local sales of the Company.

On 12 November, 21 November and 2 December 2011, respectively, ZTE Hungary Kft. (“ZTE Hungary”), a wholly-owned subsidiary of the Company, received statements of claim filed by Huawei with the Metropolitan Court of Hungary alleging infringement of 4 of its patents by ZTE Hungary, although no specific amount of compensation was named by Huawei in the statements of claim. ZTE Hungary submitted defenses to the court on 12 January and 1 February 2012, respectively. In respect of the 4 patents which is the subject of Huawei’s litigation, ZTE Hungary filed an application to the Patent Bureau of Hungary to claim the invalidity of the patent. As at the end of the reporting period, the court ruled to suspend trial in respect of all of the 4 patents under litigation.

In addition to instituting lawsuits in other countries against the Company and its wholly-owned subsidiaries for infringements of its patent rights or trademarks, Huawei also filed a lawsuit with Shenzhen Intermediate People’s Court (“Shenzhen Intermediate Court”) in 2011 alleging the Company’s infringement of 4 of its patent rights and demanding the Company to discontinue such infringement and pay an amount of compensation. The Company responded actively by filing a case with Shenzhen Intermediate Court alleging Huawei’s infringement of 3 patent rights of the Company, demanding Huawei to discontinue such infringement and pay an amount of compensation. As of now, trials of the aforesaid domestic cases have commenced. Shenzhen Intermediate Court has ruled to reject one of the aforesaid applications by Huawei for lawsuit on infringements of patent rights and such ruling has taken effect.

Based on the 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.

2. In November 2012, ZTE DO BRAZIL LTDA (“ZTE Brazil”), a wholly-owned subsidiary of the Company, filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB99,391,200). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB263 million). The Company has appointed an external legal counsel to conduct active defense in respect of the said case.

Based on the 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.

Note: The book exchange rate of the Company as at 31 March 2013 was adopted, namely BRL1: RMB3.1700.

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 holding of 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 beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Nominal value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300077	Nationz Technologies	172.38	312.58	1.15%	312.58	1.15%	4,860.70	368.85	Trading financial assets	Initial investment
Convertible bond <i>Note 1</i>	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	16,272.54	271.21	Held-to-maturity investments	Initial investment
Other investment in securities held at the end of the period			—	—	—	—	—	—	—	—	—
Investment gains/losses arising from disposal of securities during the reporting period			—	—	—	—	—	—	—	—	—
Total			16,481.99	N/A	—	N/A	—	21,133.24	640.06	—	—
Announcement date of the Board approving investment in securities							N/A				
Announcement date of the general meeting approving investment in securities							N/A				

Note 1: China All Access is a company listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The initial investment for ZTE HK’s acquisition of convertible bonds of China All Access amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People’s Bank of China on 31 January 2013 (HKD1: RMB0.80941). The book value of the investment as at the end of the reporting period was approximately HKD201.5 million, equivalent to approximately RMB162.7 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People’s Bank of China on 29 March 2013 (HKD1: RMB0.80757).

(2) Details in investment in securities

A. Shareholdings in Nationz Technologies Inc. (“Nationz Technologies”)

Nationz Technologies, a company with the equity investment of the Company, issued its shares under initial public offering (“IPO”) and 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 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 does not exercise significant influence over the operating activities of Nationz Technologies, shares held by the Company have been accounted for as trading financial assets for accounting purposes and investment gains and profit/loss from fair value change have been measured at fair value.

B. Holdings of China All Access convertible bonds

Pursuant to the “Resolution on the subscription for shares and convertible bonds of China All Access (Holdings) Limited by ZTE HK” considered and passed at the Thirty-sixth Meeting of the Fifth Session of the Board of the Company held on 16 November 2012, ZTE HK, a wholly-owned subsidiary of the Company, entered into the Agreement on the Subscription for Shares and Convertible Bonds of CHINA ALL ACCESS (HOLDINGS) LIMITED with China All Access on 16 November 2012. On 15 January 2013, ZTE HK completed subscription for convertible bonds with a principal amount of HKD201.5 million issued by China All Access for a total cash consideration of HKD201.5 million. As at the end of the reporting period, the Company held convertible bonds of China All Access in the amount of HKD201.5 million. The convertible bonds held by the Company have been classified as held-to-maturity investments for accounting purposes and interest income arising from the convertible bonds has been included in current profit and loss.

2. *The holding of equity interests in other listed companies*

(1) Shareholdings in Huizhou Speed Wireless Technology Co., Ltd. (“Speed”)

On 28 February 2012, the IPO application of Speed, a company in which the Company held an indirect equity interest, was approved at the 12th working meeting of 2012 of the GEM Board Issue Approval Committee under CSRC. Speed 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 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.

(2) Shareholdings in China All Access

Pursuant to the Agreement on the Subscription for Shares and Convertible Bonds of CHINA ALL ACCESS (HOLDINGS) LIMITED entered into by ZTE HK, a wholly-owned subsidiary of the Company, with China All Access on 16 November 2012, ZTE HK subscribed for 112 million shares allotted and issued by China All Access on 15 January 2013 for a total cash consideration of HKD201.5 million.

As at the end of the reporting period, the Company held 112 million shares in China All Access, accounting for approximately 8.43% of the total share capital of China All Access. Such shares are subject to a lock-up period of one year (from 15 January 2013 to 15 January 2014).

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Nominal value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300322	Speed <i>Note 1</i>	762.79	200	2.14%	200	2.14%	5,060.00	—	Available-for-sale financial assets	Initial investment
Stock	00633	China All Access <i>Note 2</i>	16,309.61	11,200	8.43%	11,200	8.43%	22,973.75	—	Available-for-sale financial assets	Initial investment
Total			17,072.40	11,400	—	11,400	—	28,033.75	—	—	—

Note 1: Figures corresponding to Speed are provided with Zhonghe Chunsheng Fund as the accounting subject.

Note 2: The initial investment for ZTE HK’s acquisition of China All Access shares amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People’s Bank of China on 31 January 2013 (HKD1: RMB0.80941). The book value of the investment as at the end of the reporting period was approximately HKD284.48 million, equivalent to approximately RMB229.7 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People’s Bank of China on 29 March 2013 (HKD1: RMB0.80757).

3. *Save as aforesaid, the Group did not hold any stakes in non-listed financial enterprises such as commercial banks, securities companies, insurance companies, trusts companies and futures companies, nor did it deal in the shares of other listed companies or was otherwise engaged in securities investment during the reporting period.*

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

Nature	Date	Location	Mode	Audience received	Key contents of discussion	Materials furnished
External meetings	11 January 2013	Hong Kong	Credit Suisse investors' meeting	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	16 January 2013	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
Presentation of the Company	28 March 2013	Hong Kong	Results presentation	Analysts and investors	2012 annual report	Published announcements and regular reports
Company visits by investors	January to March 2013	Company	Verbal	Overseas investors SAC Capital, Central Asset, HIS, Waddell, BOCI, Orient Asset Management, Fuh Hwa Securities Investment Trust, Pine River, Haitong International, New China Asset Management, Ping An Asset Management, PICC, Everbright International, Barclays, Goldman Sachs, GIC, Morgan Stanley Asset Management, Capital, Wellington, Manulife Investments, Jupiter Asset Management	Day-to-day operations of the Company	Published announcements and regular reports
	January to March 2013	Company	Verbal	Domestic investors Zeng Haiyi (曾海藝), Fullgoal Fund, CITIC Asset Management, GF Asset Management, Galaxy Securities, CCB Principal Asset Management, 民生通惠, Vista View Capital, Qianhai Life Insurance	Day-to-day operations of the Company	Published announcements and regular reports

3.6 Derivative Investments

Principal terms of derivative investment contracts (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 utilization of issue proceeds and review of the investment by competent decision making authorities)

For the first quarter of 2013, the Company conducted derivative investment using its internal funds through either ZTE or ZTE HK as the sole signatory. Contract type was value-protection derivatives, including USD forwards, Euro forwards and USD interest rate swaps. The investment term of USD forwards and Euro forwards was 1 year or less. The investment term of USD interest rate swaps matched the medium- and long-term debts of ZTE HK. No investments in fixed-income derivatives were made during the reporting period.

The derivative investment quota for the first quarter of 2013 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.

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

The Company conducted value-protection derivative investments during the first quarter of 2013. The major risks and control measures are discussed as follows:

1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value-protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date.
2. Liquidity risks: The value-protection derivative investments 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 to 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.

<p>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.</p>	<p>Investment gains from derivatives during the reporting period were recognised by the Company. Total gains recognised for the reporting period amounted to RMB22.51 million, comprising gains from fair value change of RMB79.04 million and recognized investment losses of RMB56.53 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.</p>
<p>Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period</p>	<p>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.</p>
<p>Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control</p>	<p>Independent Non-executive Directors' Opinion:</p> <p>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.</p>

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

Unit: RMB in thousands

Type of contract ^{Note 1}	Opening balance of contract	Closing balance of contract	Gain/loss during the reporting period	Closing balance of contract as a percentage of the Company's net assets ^{Note 2} as at the end of the period
Fixed-income derivative investment	—	—	—	—
Value-protection derivative investment	4,179,892	1,682,388	22,507	7.70%
Total	4,179,892	1,682,388	22,507	7.70%

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 Development of internal control in the first quarter of 2013

The work of the internal control development project team during the reporting period was mainly concerned with the review and assessment of the Company's internal control in 2012, rectification of any deficiencies identified and the output of related documentations. Specific tasks completed are set out as follows:

1. The internal control development project team completed the "Report of the Company on the Implementation of the 2012 Internal Control Plan" and presented the same to the Company's Audit Committee on 25 January 2013;
2. The internal control development project team actively collaborated with the independent auditors' work on internal control audit to ensure smooth operation of the Company's internal control audit;
3. The Audit Department of the Company conducted a full assessment of the Company's internal control development in 2012 in accordance with the Rules for Corporate Internal Control and Supplementary Guidelines for Corporate Internal Control, and completed the "Self-assessment Report on 2012 Internal Control of the Company" in association with the internal control development project team;
4. An internal control inspection group for human resources was set up by the internal control development project team to conduct risk assessment and internal control inspection in respect of the systems and process flows of various operational modules, such as human resource strategy and planning, recruitment and selection, personnel appraisal, staff training, performance management, remuneration and reward, and staff resignation, etc.

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	2013.3.31		2012.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	15,926,247	10,237,938	24,126,423	16,010,506
Trading financial assets	132,134	117,327	106,297	54,308
Bills receivable	3,493,636	3,110,038	4,282,220	3,762,831
Trade receivables	24,393,158	30,911,862	22,068,176	34,970,056
Factored trade receivable	4,280,744	4,280,744	4,165,514	3,545,295
Prepayments	806,529	26,193	742,551	44,783
Dividends receivables	—	6,233,816	—	6,242,066
Other receivables	1,588,338	9,541,373	2,019,341	4,551,048
Inventories	11,600,900	5,322,002	11,442,389	5,668,033
Amount due from customers for contract works	12,498,305	7,062,306	13,666,100	8,440,613
Total current assets	74,719,991	76,843,599	82,619,011	83,289,539
Non-current assets				
Available-for-sale financial assets	1,458,620	323,655	1,092,335	323,655
Held-to-maturity investments	162,725	—	—	—
Long-term trade receivables	1,014,377	3,412,659	1,206,642	3,684,501
Factored long-term trade receivables	4,005,488	4,005,488	4,018,484	3,582,669
Long-term equity investments	456,420	6,303,665	455,768	6,492,492
Investment properties	1,686,158	1,381,593	1,686,158	1,381,593
Fixed assets	7,949,215	5,074,675	7,096,624	5,083,046
Construction in progress	327,424	67,552	824,387	54,714
Intangible assets	1,173,318	619,663	1,087,038	529,864
Deferred development costs	2,566,981	626,036	2,446,934	595,205
Deferred tax assets	1,236,515	593,519	1,218,605	581,507
Long-term deferred assets	65,604	52,273	90,017	57,993
Other non-current assets	3,424,559	3,374,559	3,604,303	3,374,559
Total non-current assets	25,527,404	25,835,337	24,827,295	25,741,798
TOTAL ASSETS	100,247,395	102,678,936	107,446,306	109,031,337

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

Unit: RMB in thousands

Liabilities and shareholders' equity	2013.3.31		2012.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	11,414,743	8,700,169	17,923,607	8,803,325
Trading financial liabilities	59,618	46,866	105,739	42,325
Bank advances on factored trade receivables	4,159,211	4,159,211	4,168,932	3,548,713
Bills payable	10,275,136	12,918,473	11,478,102	13,775,960
Trade payables	16,297,540	32,796,108	18,115,877	33,885,695
Amount due to customers for contract works	3,997,251	2,952,646	3,459,545	2,600,053
Advances from customers	3,699,826	2,054,458	3,106,638	1,765,544
Salary and welfare payables	2,707,441	710,477	2,346,526	569,587
Taxes payables	(1,252,918)	(1,291,430)	(1,161,974)	(1,309,327)
Dividends payable	181,112	152	205,783	152
Other payables	7,704,601	16,164,312	8,127,193	16,553,959
Deferred income	361,338	118,436	267,082	133,179
Provisions	251,231	124,451	291,457	159,693
Non-current liabilities due within one year	6,269	—	4,524,420	4,518,134
Total current liabilities	59,862,399	79,454,329	72,958,927	85,046,992
Non-current liabilities:				
Long-term loans	6,559,123	—	989,990	—
Bank advances on factored long-term trade receivables	4,005,488	4,005,488	4,018,484	3,582,669
Bonds payable	6,160,026	6,160,026	6,107,993	6,107,993
Deferred tax liabilities	144,230	138,400	139,900	138,400
Other non-current liabilities	566,493	555,698	592,282	592,282
Total non-current liabilities	17,435,360	10,859,612	11,848,649	10,421,344
Total liabilities	77,297,759	90,313,941	84,807,576	95,468,336
Shareholders' equity:				
Share capital	3,440,078	3,440,078	3,440,078	3,440,078
Capital reserves	9,407,719	9,332,663	9,352,643	9,332,663
Surplus reserves	1,587,430	925,674	1,587,430	925,674
Retained profits	7,910,018	(1,316,166)	7,705,022	(118,276)
Foreign currency translation differences	(491,949)	(17,254)	(582,699)	(17,138)
Total equity attributable to equity holders of the parent	21,853,296	12,364,995	21,502,474	13,563,001
Minority interests	1,096,340	—	1,136,256	—
Total shareholders' equity	22,949,636	12,364,995	22,638,730	13,563,001
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	100,247,395	102,678,936	107,446,306	109,031,337

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

INCOME STATEMENT

RMB in thousands

Item	Three months ended 31 March 2013		Three months ended 31 March 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	18,093,388	15,131,211	18,613,038	16,113,598
Less: Operating costs	13,325,295	14,094,487	13,350,820	14,805,371
Taxes and surcharges	184,461	76,658	166,246	12,115
Selling and distribution costs	2,226,647	1,409,566	2,486,096	1,566,733
Administrative expenses	565,909	383,344	478,416	285,092
Research and development costs	1,811,615	445,515	1,989,748	412,043
Finance expenses	577,673	423,320	99,276	110,765
Impairment losses	509,094	378,876	365,359	300,345
Add: Gains/(Losses) from changes in fair values	77,826	58,477	(878)	(4,669)
Investment income	803,056	756,234	73,030	(1,739)
Including: Share of profits and losses of associates and jointly-controlled entities	—	—	3,722	—
2. Operating profit	(226,424)	(1,265,844)	(250,771)	(1,385,274)
Add: Non-operating income	500,902	59,390	535,862	15,638
Less: Non-operating expenses	7,718	3,448	11,707	4,515
Including: Gains/(Losses) on disposal of non-current assets	4,990	2,218	1,371	1,015
3. Total profit	266,760	(1,209,902)	273,384	(1,374,151)
Less: Income Tax	66,228	(12,012)	60,866	(62,059)
4. Net profit	200,532	(1,197,890)	212,518	(1,312,092)
Net profit attributable to owners of the parent	204,996	(1,197,890)	150,874	(1,312,092)
Minority interests	(4,464)	—	61,644	—

RMB in thousands

Item	Three months ended 31 March 2013		Three months ended 31 March 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
5. Earnings per share				
(1) Basic earnings per share*	RMB0.06		RMB0.04	
(2) Diluted earnings per share**	RMB0.06		RMB0.04	
6. Other comprehensive income	153,320	(116)	(35,886)	(131)
7. Total comprehensive income	353,852	(1,198,006)	176,632	(1,312,223)
Total comprehensive income attributable to owners of the parent	350,823	(1,198,006)	106,203	(1,312,223)
Total comprehensive income attributable to minority interest	3,029	—	70,429	—

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

* *Basic earnings per share for the reporting period was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. The corresponding indicator for the first quarter of 2012 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 9,125,893 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 0 and 6,874,194 potentially dilutive ordinary shares for the reporting period and the first quarter of 2012, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors.*

CASH FLOW STATEMENT

RMB in thousands

Item	Three months ended 31 March 2013		Three months ended 31 March 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	19,465,634	18,618,218	17,574,584	13,082,338
Refunds of taxes	1,881,325	1,515,758	1,925,670	1,511,107
Cash received relating to other operating activities	217,661	151,867	150,363	97,652
Sub-total of cash inflows	21,564,620	20,285,843	19,650,617	14,691,097
Cash paid for goods and services	18,580,748	20,152,762	19,062,486	17,682,984
Cash paid to and on behalf of employees	2,873,353	1,221,723	3,198,460	1,080,514
Cash paid for all types of taxes	1,428,469	400,564	1,524,274	298,515
Cash paid relating to other operating activities	1,855,823	1,264,363	2,228,966	1,448,912
Sub-total of cash outflows	24,738,393	23,039,412	26,014,186	20,510,925
Net cash flows from operating activities	(3,173,773)	(2,753,569)	(6,363,569)	(5,819,828)
2. Cash flows from investing activities				
Cash received from sale of investments	234,098	—	450,000	—
Cash received from return on investments	9,837	—	3,624	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,436	3,106	6,685	3,721
Net cash received from the disposal of subsidiaries and other business units	1,006,367	1,037,401	—	—
Sub-total of cash inflows	1,253,738	1,040,507	460,309	3,721
Cash paid to acquisition of fixed assets, intangible assets and other long-term assets	694,805	333,191	601,935	256,883
Cash paid for acquisition of investments	944,945	84,090	582,766	156,920
Sub-total of cash outflows	1,639,750	417,281	1,184,701	413,803
Net cash flows from investing activities	(386,012)	623,226	(724,392)	(410,082)

RMB in thousands

Item	Three months ended 31 March 2013		Three months ended 31 March 2012	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from capital injection	15,000	—	—	—
Including: Capital injection into subsidiaries by minority shareholders	15,000	—	—	—
Cash received from borrowings	<u>4,996,093</u>	<u>3,613,843</u>	<u>7,297,774</u>	<u>4,445,240</u>
Sub-total of cash inflows	<u>5,011,093</u>	<u>3,613,843</u>	<u>7,297,774</u>	<u>4,445,240</u>
Cash repayments of borrowings	8,984,845	6,766,002	6,711,980	4,984,648
Cash payments for distribution of dividends or for interest expenses	502,683	416,729	274,785	207,015
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	—	—	—	—
Sub-total of cash outflows	<u>9,487,528</u>	<u>7,182,731</u>	<u>6,986,765</u>	<u>5,191,663</u>
Net cash flows from financing activities	<u>(4,476,435)</u>	<u>(3,568,888)</u>	<u>311,009</u>	<u>(746,423)</u>
4. Effect of changes in foreign exchange rate on cash	<u>(163,956)</u>	<u>(73,336)</u>	<u>11,485</u>	<u>12,019</u>
5. Net increase in cash and cash equivalents	<u>(8,200,176)</u>	<u>(5,772,567)</u>	<u>(6,765,467)</u>	<u>(6,964,314)</u>
Add: cash and cash equivalents at the beginning of the period	<u>22,659,635</u>	<u>15,276,437</u>	<u>20,662,089</u>	<u>13,276,732</u>
6. Net balance of cash and cash equivalents at the end of the period	<u>14,459,459</u>	<u>9,503,870</u>	<u>13,896,622</u>	<u>6,312,418</u>

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
26 April 2013

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.