

ZTE中兴

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)

2007 THIRD QUARTERLY REPORT

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

§1 IMPORTANT

- 1.1 The Board of Directors and Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the “Company”) confirm that this quarterly report does not contain any false or 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 or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of the quarterly report.
- 1.3 This quarterly report has been considered and approved by the ninth meeting of the fourth session of the Board of Directors of the Company. Mr. Wang Zongyin, Vice Chairman, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Li Juping, Director, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work reasons, and has authorized in writing Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. Mr. He shiyou, Director, was unable to attend the meeting due to working reasons, and has authorized in writing Mr. Yin Yimin, Director, to vote on his behalf. Mr. Zhu Wuxiang, Independent Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Chen Xiaohua, Independent Director, to vote on his behalf. Mr. Qiao Wenjun, Independent Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Mi Zhengkun, 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 report has been prepared in accordance with generally accepted accounting principles in the People's Republic of China (“PRC GAAP”).

- 1.5 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial report contained in this quarterly report.

§2 CORPORATE INFORMATION

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

The domestic telecommunications market enjoyed stable growth during the nine months ended 30 September 2007. Growth in investments was underpinned by expenditure in the three main areas of TD-SCDMA network building, core network revamping and upgrading by carriers and informatisation projects, while investments in mobile telecommunication network equipment further increased as a percentage of total investments in the telecommunications sector. The international market for telecommunications equipment also sustained stable growth as a result of technological innovations and market demands which has been an increasing driving force for growth. Technological advancements and rapid growth in emerging markets such as Asia and Africa have become key factors for continued growth as well as the focus of competition within the telecommunications industry.

The Group’s business recorded growth for the period in tandem with development in the global telecommunications market following active moves to explore the overseas market. For the nine months ended 30 September 2007, revenue from the Group’s operations amounted to RMB23.448 billion, representing an increase of 46.95% compared to the same period last year. Net profit amounted to RMB603 million, representing an increase of 45.92% compared to the same period last year. Earnings per shares was RMB0.63.

On the market front, the Group enhanced cooperation with mainstream carriers. In the domestic market, the Group had reached a stage of closer cooperation with major domestic carriers such as China Mobile and China Unicom. Internationally, we continued to enjoy rapid business growth while making further progress in cooperation with leading international carriers.

By product segment, sales revenue from the Group’s wireless communications products registered year-on-year growth of 84% primarily as a result of significant growth in revenue generated from the sales of TD-SCDMA, CDMA and GSM products. Sales revenue from wireline switch and access products declined 47% on a year-on-year basis mainly as a result of the increasingly dominant trend of opting for mobile communication network at the expense of traditional fixed line networks, while sales revenue from optical and data communications products increased by 54%, driven mainly by the growth in revenue from the Group’s international sales of optical communications systems. Revenue from handsets grew 67% mainly in tandem with substantial growth in the international sales of the Group’s GSM handsets.

Looking to the final quarter, the Group intends to achieve continuous growth by strengthening its ties with leading international carriers, enhancing resource integration and improving operational efficiency, enlarging market shares in prestigious products such as GSM and CDMA and increasing investments in TD-SCDMA, WCDMA, CDMA2000 and other products.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	End of the current reporting period (30 September 2007)	End of the previous year (31 December 2006)	Increase/ decrease as at the end of the reporting period compared with the end of the previous year (%)
Total assets (RMB in thousands)	35,095,644	25,760,695	36.24
Shareholders' equity* (excluding minority interests) (RMB in thousands)	11,417,999	10,763,946	6.08
Net assets per share (excluding minority interests) (RMB)	11.90	11.22	6.06
Item	From the start of the year to the end of the reporting period (Nine months ended 30 September 2007)	Increase/decrease compared with the corresponding period of the previous year (%)	
Net cash flow from operating activities (RMB in thousands)	-2,454,757	12.73	
Net cash flow from operating activities per share (RMB)	-2.56	12.63	

Item	The current reporting period (Three months ended 30 September 2007)	From the start of the year to the end of the reporting period (Nine months ended 30 September 2007)	Increase/decrease
			for the reporting period compared with the corresponding period of the previous year (%)
Net profit ^{Note 1} (RMB in thousands)	143,005	602,845	116.46
Earnings per share, basic (RMB) ^{Note 1,2}	0.15	0.63	114.29
Earnings per share (basic) after extraordinary gains or losses ^{Note 1,2} (RMB)	—	0.65	—
Earnings per share, diluted ^{Note 1,2} (RMB)	0.15	0.63	114.29
Return on net assets ^{Note 1} (%)	1.25	5.28	Increase by 0.62 percentage points
Return on net assets after extraordinary gains or losses ^{Note 1} (%)	1.19	5.44	Increase by 0.55 percentage points

Note 1: The above figures represent interests attribute to ordinary shareholders of the Company.

Note 2: The share capital of the Company remained unchanged at 959,521,650 shares during the period commencing 1 January 2006 and ending 30 September 2007.

Extraordinary gains or losses	Amount (RMB in thousands)	
	Three months ended 30 September 2007	Nine months ended 30 September 2007
Non-operating income (non-recurrent portion)	24,196	41,953
Less: Non-operating expenses	15,264	63,475
Effect of income tax	1,340	-3,228
Total	7,592	-18,294

2.2.2 *The amounts of net profit and owners' equity of the Group for nine months ended and as at 30 September 2007 calculated in accordance with PRC GAAP are entirely consistent with those calculated under Hong Kong Financial Reporting Standards ("HKFRSs").*

2.3 Total number of shareholders and shareholdings of 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 75,807 shareholders (of which 75,446 were holders of A shares and 361 were holders of H shares).

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

Name of shareholder	Number of shares not subject to lock-up at the end of the reporting period (shares)	Class
HKSCC Nominees Limited	159,800,039	H shares
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited (“Zhong Xingxin”)	25,591,598	A shares
Hunan Nantian (Group), Co., Ltd	11,431,810	A shares
Fortune SGAM Select Industry Stock Fund (華寶興業行業精選股票型證券投資基金)	9,600,000	A shares
China AMC Core Blue Chip Fund (LOF) (華夏藍籌核心混合型證券投資基金(LOF))	8,926,750	A shares
Bosera Value Growth Fund (博時價值增長證 券投資基金)	8,899,655	A shares
Everbright Pramerica Quantified Core Fund (光大保德信量化核心證券投資基金)	8,512,422	A shares
BOC International Sustaining Growth Stock Fund (中銀國際持續增長股票型證券投資 基金)	7,087,991	A shares
Penghua Outstanding Corporate Governance Stock Fund (LOF) (鵬華優質治理股票型證 券投資基金(LOF))	7,029,122	A shares
Industrial Trend Investment Mixed Type Fund (興業趨勢投資混合型證券投資基金)	7,003,877	A shares

§3 MATERIAL MATTERS

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

Applicable Not applicable

Unit: RMB in thousands

Balance Sheet

Item	At 30 September 2007	At 31 December 2006	Change	Reason
Tradable financial assets	17,690	33,288	-46.86%	Disposal of tradable financial assets
Prepayments	308,565	51,757	496.18%	Increase in the purchase of raw materials and fixed assets by prepayment
Inventory	5,136,225	2,481,155	107.01%	Increase in purchases as a result of increased sales and increase in contracts under performance
Amount due from customers for contract work	10,167,496	5,833,480	74.30%	Completion of contract construction works ahead of payment schedules stipulated in contracts
Factored long-term receivables	2,216,464	1,399,206	58.41%	Increase in factored financing to ensure collection of revenues following expansion of business
Work in progress	886,599	469,636	88.78%	Increase in the construction costs for ZTE Industrial Park, Nanjing R&D Centre and Shanghai R&D Centre
Short-term loans	1,867,220	945,726	97.44%	Increase in USD loans to meet cash flow requirements and avoid foreign exchange risks
Bills payable	4,088,438	2,242,566	82.31%	Increase of payments using notes
Trade payables	7,918,807	4,749,099	66.74%	Increase in purchases as a result of increased sales
Amount due to customers for contract work	1,304,032	996,275	30.89%	Increase in contract prepayments by customer as a result of increase in construction contracts
Advances from customers	1,209,588	635,875	90.22%	Increase in advances from customers in tandem with increased sales
Tax payable	-1,418,589	-690,767	-105.36%	Increase in VAT tax pending deduction
Dividend payable	32,798	83,941	-60.93%	Dividend payment by subsidiaries
Other payables	1,021,652	708,190	44.26%	Employee payments for share incentive scheme
Provisions	164,009	291,832	-43.80%	Change in events in connection with which liabilities are anticipated
Long-term loans	2,808,110	1,679,242	67.22%	Increase in loans to meet requirements of working capital and work in progress
Bank advances on factored trade receivables	2,216,464	1,399,206	58.41%	Increase in factored financing to ensure collection of revenues following expansion of business
Exchange differences	-60,996	-32,880	-85.51%	Fluctuations in exchange rates

Income Statement (nine months ended 30 September)

Item	Nine months ended 30 September 2007	Nine months ended 30 September 2006	Change	Reason
Revenue	23,447,884	15,956,497	46.95%	Increase in sales and faster progress for construction projects
Cost of sales	15,539,458	10,178,905	52.66%	Increase in sales and slight rise in cost ratios
Taxes and surcharges	152,972	72,270	111.67%	Increase in sales tax in tandem with increase in service income
Selling and distribution expenses	3,428,726	2,392,094	43.34%	Increase in sales
General and administrative expenses	1,460,588	1,122,157	30.16%	Increase in business
Finance costs	255,982	125,396	104.14%	Increase in interest expense in tandem with increased loans and increased factoring and guarantee letters
Loss arising from asset impairment	160,222	-23,358	785.94%	Increase in bad debt provision
Investment gains	13,814	763	1710.48%	Increase in gains from the settlement of forward exchange contracts
Operating profit	370,076	267,110	38.55%	Increase in sales
Non-operating income	563,593	354,403	59.03%	Increase in software VAT tax rebate
Non-operating expenses	63,475	13,549	368.48%	Increase in loss arising from loss of disposal of fixed assets by the Group and increase in penalty expenses
Total profit	870,194	607,964	43.13%	Increase in sales and increase in software VAT tax rebate
Income tax expenses	134,001	85,934	55.93%	Increase in overseas tax
Net profit (including minority interests)	736,193	522,030	41.03%	Increase in sales and increase in software VAT tax rebate
Net profit attributable to owners of the parent	602,845	413,124	45.92%	Increase in sales and increase in software VAT tax rebate

Income Statement (three months ended 30 September)

Item	Three months ended 30 September 2007	Three months ended 30 September 2006	Change	Reason
Revenue	8,215,952	5,367,597	53.07%	Increase in sales and faster progress for construction projects
Cost of sales	5,861,076	3,367,311	74.06%	Increase in sales and slight rise in cost ratios
Loss arising from asset impairment	64,302	42,233	52.26%	Increase in bad debt provision
Investment gains	5,048	69	7215.94%	Increase in gains from settlement of forward exchange contracts
Operating profit	85,758	34,260	150.32%	Increase in sales
Non-operating income	188,849	127,404	48.23%	Increase in software VAT tax rebate
Non-operating expenses	15,264	7,015	117.59%	Increase in expenses relating to loss of disposal of fixed assets
Total profit	259,343	154,649	67.70%	Increase in sales and increase in software VAT tax rebate
Income tax expenses	78,557	33,917	131.62%	Increase in overseas tax
Net profit (including minority interests)	180,786	120,732	49.74%	Increase in sales and increase in software VAT tax rebate
Net profit attributable to owners of the parent	143,005	66,066	116.46%	Increase in sales and increase in software VAT tax rebate
Minority interests	37,781	54,666	-30.89%	Decrease in the percentage of profit contribution from non-wholly owned subsidiaries

Cash Flow Statement

Item	Nine months ended 30 September 2007	Nine months ended 30 September 2006	Change	Reason
Net cash flow from investing activities	-1,234,798	-570,638	-116.39%	Increase in the purchase of fixed assets and work in progress
Net cash flow from financing activities	2,759,938	945,668	191.85%	Increase in bank loans

3.2 Updates on significant events and analysis of their impact and solutions

✓ Applicable Not applicable

3.2.1 Updates on the proposed offering and issue of Bonds cum Warrant by the Company

The “Resolution of the Company on the proposals for the offering and issue of the Bonds cum Warrants” was considered and approved at the Seventh Meeting of the Fourth Session of the Board of Directors of the Company held on 16 August 2007 and at the third extraordinary general meeting for 2007 of the Company on 16 October 2007, the details of which have been set out in the “Announcement of the Resolutions of the Seventh Meeting of the Fourth Session of the Board of Directors” and the “Announcement in Respect of Resolutions of the Third Extraordinary

General Meeting for 2007” published in China Securities Journal, Securities Times and Shanghai Securities News on 17 August 2007 and 17 October 2007, respectively.

The proposal for the offering and issue of Bonds cum Warrant by the Company is pending submission to and approval by the China Securities Regulatory Commission.

3.2.2 Updates on the Company’s contract in the Philippines

The Company received a temporary restraining order issued by the Supreme Court of the Philippines on 11 September 2007 that prohibited the implementation of the recently signed contract for the supply of equipment and services for the national broadband network project between the Company and the Department of Transportation and Communications of the Philippines by any relevant parties pending further decisions on the matter by the Supreme Court. For details please refer to the announcement on material matters published by the Company in the China Securities Journal, Securities Times and Shanghai Securities News on 15 September 2007.

As of the date of this announcement, there has been no further progress on this matter. The Company will make timely announcements on any relevant updates on this matter.

3.2.3 Updates on Phase I Share Incentive Scheme during the reporting period

A no-comment letter was issued from the CSRC in respect of Phase I Share Incentive Scheme (Version dated 5 February 2007) and the scheme was reviewed and approved at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007. The relevant Scheme Participants paid the subscription amounts for the Subject Shares between 14 March 2007 and 18 March 2007. Please refer to the notes to the financial statements of the 2007 interim report of the Company for details of the impact of Phase I Share Incentive Scheme of the Company on its financial conditions and operating results.

There was no further progress in this matter during the reporting period.

3.2.4 Execution and performance of material contracts during the period from the beginning of the year to the end of the reporting period

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		
2	Commercial contract for the construction of trial network for TD-SCDMA scale network technology application with China Mobile		China Securities Journal, Securities Times. Shanghai Securities News	In normal progress
3	Amendment of the 2006 — 2007 Chip Purchase Framework Agreement signed in April 2006 with QUALCOMM	11 June 2007		
4	GSM phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		

3.2.5 Ongoing connected transactions during the reporting period

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

Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (for basic information on the connected parties, their connected relationships with the Group, basic terms of the connected transaction agreements between the Group and the connected parties, estimated transaction amounts for 2007 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the board of directors or the general meeting of the Company, please refer to the ongoing connected transactions for 2007 announcement, the connected transactions announcement and the ongoing connected transactions announcement published by the Company on 26 October 2006, 19 April 2007 and 27 September 2007 in China Securities Journal, Securities Times and Shanghai Securities News.

Classification	Member of the Group (party to connected transaction)	Connected party (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions from January to September	As a	Settlement	Whether different from estimated status
						2007 (excluding VAT) (RMB in 10,000)	percentage of transactions in the same classification		
Purchase of raw materials	ZTE Kangxun Telecom Company Limited.	Zhongxingxin and subsidiary Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution equipment, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB2,000–RMB15,000 per unit; cases: RMB40–RMB4,000 per unit depending on level of sophistication; distribution frames and accessories: RMB2–RMB600 per unit depending on level of sophistication; Flexible printed and shelters circuit boards (FPC): Two-sided: RMB0.15–RMB0.18 per sq. m. One-sided: RMB0.1–RMB0.15 per sq. m.; Shelter, RMB30,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	48,764	2.8%	Banker's acceptance bill	No
		Shenzhen Zhongxing WXT Equipment Company, Ltd. and its investee company Shenzhen Gaodonghua Communication Technology Co., Ltd.	IC, connector assemblies, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	IC (built-in): RMB100–RMB1,000 per unit depending on brand, capacity and technical parameters; plugs and connectors: RMB1–RMB50 per unit depending on the structure and raw materials; Optical components: RMB120–RMB17,500 per unit depending on materials performance	8,412	0.5%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Communications antennas and radio frequency transmission devices	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2500 per piece depending on technical parameters and functional features; radio frequency transmitter, RMB350–RMB4100 per unit, depending on technical parameters and functional features.	19,908	1.1%	Banker's acceptance bill	No
Property leasing	ZTE Corporation	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 15,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (ZTE will be responsible for property management and management fees are not payable)	276	1.23%	Banker's acceptance bill	No
		Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees)	941	4.19%	Banker's acceptance bill	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 25,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (ZTE will be responsible for property management and management fees are not payable)	1,301	5.79%	Banker's acceptance bill	No

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

Applicable Not applicable

Special undertaking given by holders of original non-circulating shares in respect of the share reform and its performance

Name of shareholder	Special undertakings	Performance of agreement	Performance of undertaking
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited (“Zhongxingxin”, largest shareholder of the Company)	<p>Where Zhongxingxin sells its shares during the period from the 13th month to the 24th month after such shares have been granted the right of listing and circulation on the Shenzhen Stock Exchange, the price at which the shares are sold shall not be less than RMB30.76 per share, which is 115% of the mathematical average of the closing prices of it’s A shares for the 60 trading days prior to the initial announcement made by the directors of the Company regarding the Share Reform Plan, that is, RMB26.75 per share (such price to be calculated on an ex-rights basis and net of any dividends, bonus issues and capitalisation of capital reserve during the period from the implementation date of the Share Reform Plan to the date of sale). The proceeds from any sale by Zhongxingxin in breach of such undertaking shall be reverted to the Company’s account for the benefit of all shareholders of the Company.</p> <p>The price of “RMB30.76” specified in the special undertaking by Zhongxingxin set out above has been adjusted to “RMB30.36” following the implementation of the 2005 and 2006 profit distribution plans of the Company on 14 July 2006 and 27 July 2007, respectively.</p>	In progress	Undertaking strictly complied with

Note: The other eight holders of original non-circulating shares other than Zhongxingxin have not entered into any special undertaking in respect of the share reform.

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

Applicable Not applicable

3.5 Other material matters required to disclose

3.5.1 *Investment in securities*

Applicable Not applicable

3.5.2 *Equity interests in other listed companies*

Applicable Not applicable

3.5.3 *Equity interests in non-listed financial enterprises and candidates for listing*

Applicable Not applicable

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

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of the Company	Company	August 2007	Teleconference	Analysts and investors	2007 interim report	Published announcement and regular reports
External meetings	Hong Kong	August 2007	Citibank presentation	Customers of Citibank	Day-to-day operations of the Company	Published announcement and regular reports
	Shenzhen	September 2007	Credit Suisse presentation	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcement and regular reports
	Shenzhen	September 2007	CM Securities presentation	Customers of CM Securities	Day-to-day operations of the Company	Published announcement and regular reports
	Shanghai	September 2007	Guotai Junan Securities presentation	Customers of Guotai Junan	Day-to-day operations of the Company	Published announcement and regular reports

Overseas investors

Company visits by analysts	Company	Third quarter 2007	Verbal	Merrill Lynch Securities, Goldman Sachs, CLSA, Citibank, UBS, Deutsche Bank, Credit Suisse	Day-to-day operations of the Company	Published announcement and regular reports
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Domestic investors

	Company	Third quarter 2007	Verbal	China AMC Fund, Southern Fund, New China Life, Harvest Fund, Guotai Junan, CM Securities, CICC, Everbright Securities, CM Fund, Lombarda China Fund	Day-to-day operations of the Company	Published announcement and regular reports
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3.6 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)

Unit: RMB in thousands

Assets	30 September 2007		31 December 2006	
	Consolidated	Company	Consolidated	Company
Current assets:				
Cash in banks and on hand	3,352,903	1,687,663	4,311,060	2,957,920
Tradable financial assets	17,690	17,690	33,288	—
Bills receivable	1,783,880	1,687,704	1,658,406	1,617,133
Trade receivables	6,590,203	7,837,432	5,329,628	5,753,208
Factored trade receivables	154,022	279,022	152,848	275,830
Prepayments	308,565	100,435	51,757	20,619
Dividends receivable	1,136	817,631	1,136	817,631
Other receivables	541,103	1,356,839	439,904	1,220,098
Inventories	5,136,225	1,759,248	2,481,155	1,179,106
Amounts due from customers for contract work	10,167,496	9,727,131	5,833,480	5,809,647
Total current assets	28,053,223	25,270,795	20,292,662	19,651,192
Non-current assets:				
Available-for-sale investments	43,488	41,488	43,488	41,488
Long term trade receivables	328,166	328,166	372,703	328,166
Factored long-term trade receivables	2,216,464	2,216,464	1,399,206	1,394,970
Long-term equity investments	51,265	2,597,683	57,193	2,599,677
Fixed assets	2,753,746	1,714,916	2,591,858	1,611,968
Construction in progress	886,599	802,372	469,636	402,430
Intangible assets	184,529	81,321	152,859	78,456
Development costs	286,413	286,413	129,751	129,751
Deferred tax assets	252,076	235,479	210,923	194,547
Long-term deferred assets	39,675	—	40,416	—
Total non-current assets	7,042,421	8,304,302	5,468,033	6,781,453
Total assets	35,095,644	33,575,097	25,760,695	26,432,645

*Legal representative of the
Company:*
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

4.1 Balance Sheet (Unaudited) (Cont'd)

Unit: RMB in thousands

Liabilities and owner's equity	30 September 2007		31 December 2006	
	Consolidated	Company	Consolidated	Company
Current liabilities:				
Short-term loans	1,867,220	1,739,714	945,726	741,827
Bank advances on factored trade receivables	154,022	279,022	152,848	275,830
Tradable financial liabilities	3,689	3,689	3,689	3,689
Bills payable	4,088,438	2,922,962	2,242,566	2,187,595
Accounts payable	7,918,807	10,012,714	4,749,099	6,704,325
Amount due to customers for contract work	1,304,032	689,451	996,275	991,612
Advances from customers	1,209,588	1,147,812	635,875	513,954
Accrued payroll	906,785	560,309	1,090,862	760,039
Taxes payable	(1,418,589)	(1,076,529)	(690,767)	(615,741)
Dividends payable	32,798	500	83,941	378
Other payables	1,021,652	1,343,942	708,190	701,721
Deferred income	55,499	6,903	66,273	14,404
Provisions	164,009	97,757	291,832	243,417
Long-term loans due within one year	580,000	580,000	—	—
Total current liabilities	17,887,950	18,308,246	11,276,409	12,523,050
Non-current liabilities:				
Long-term loans	2,808,110	1,758,418	1,679,242	1,329,478
Bank advances on factored long-term trade receivables	2,216,464	2,216,464	1,399,206	1,394,970
Specific payables	80,000	80,000	80,000	80,000
Total long-term liabilities	5,104,574	4,054,882	3,158,448	2,804,448
Total liabilities	22,992,524	22,363,128	14,434,857	15,327,498
Owner's equity:				
Share capital	959,522	959,522	959,522	959,522
Capital surplus	5,732,774	5,759,245	5,509,666	5,535,994
Surplus reserve	1,331,059	769,603	1,331,059	769,603
Undistributed profits	3,455,640	3,728,237	2,996,579	3,843,606
Exchange differences	(60,996)	(4,638)	(32,880)	(3,578)
Total equity attributable to owners of parent	11,417,999	11,211,969	10,763,946	11,105,147
Minority interests	685,121	—	561,892	—
Total owner's equity	12,103,120	11,211,969	11,325,838	11,105,147
Total liabilities and owner's equity	35,095,644	33,575,097	25,760,695	26,432,645

Legal representative of the
Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

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4.2 Income Statement (Unaudited)

Unit: RMB in thousands

	Three months ended 30 September 2007		Three months ended 30 September 2006	
	Consolidated	Company	Consolidated	Company
I. Revenue	8,215,952	7,269,843	5,367,597	5,041,450
Less: Cost of sales	5,861,076	6,753,132	3,367,311	4,648,453
Taxes and surcharges	35,718	8,759	28,326	10,985
Selling and distribution expenses	1,009,849	747,410	824,098	653,553
General and administrative expenses	501,687	327,596	432,894	201,683
Research and development costs	589,875	168,908	567,212	290,120
Finance costs	65,614	107,137	71,332	67,546
Loss arising from asset impairment	64,302	50,612	42,233	25,853
Add: Gains/losses arising from change in fair value	-7,121	-7,121	—	—
Investment gains	5,048	916,582	69	—
Including: gains from investments in associates and joint ventures	510	510	69	—
II. Operating profit	85,758	15,750	34,260	(856,743)
Add: Non-operating income	188,849	29,571	127,404	9,983
Less: Non-operating expenses	15,264	7,335	7,015	2,820
Including: gains/losses arising from disposal of non-current assets	9,380	6,975	3,885	2,400
III. Total profit	259,343	37,986	154,649	(849,580)
Less: Income tax	78,557	25,573	33,917	3,217
IV. Net profit	180,786	12,413	120,732	(852,797)
Net profit attributable to owners of parent	143,005	12,413	66,066	(852,797)
Minority interests	37,781	—	54,666	—
V. Earnings per share				
(1) Earnings per share, basic	0.15		0.07	
(2) Earnings per share, diluted	0.15		0.07	

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Head of Finance Division:
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Unit: RMB in thousands

	Nine months ended 30 September 2007		Nine months ended 30 September 2006	
	Consolidated	Company	Consolidated	Company
I. Revenue	23,447,884	21,874,685	15,956,497	15,008,796
Less: Cost of sales	15,539,458	18,963,141	10,178,905	12,532,223
Taxes and surcharges	152,972	25,948	72,270	29,380
Selling and distribution expenses	3,428,726	2,379,210	2,392,094	1,563,178
General and administrative expenses	1,460,588	917,416	1,122,157	735,167
Research and development costs	2,111,364	739,451	1,822,686	677,843
Finance costs	255,982	343,570	125,396	140,539
Loss arising from asset impairment	160,222	81,397	(23,358)	(49,245)
Add: Gains/losses arising from change in fair value	17,690	17,690	—	—
Investment gains	13,814	1,595,262	763	—
Including: gains from investments in associates and joint ventures	1,528	1,528	763	—
II. Operating profit	<u>370,076</u>	<u>37,504</u>	<u>267,110</u>	<u>(620,289)</u>
Add: Non-operating income	563,593	66,682	354,403	47,411
Less: Non-operating expenses	63,475	50,054	13,549	6,454
Including: gains/losses arising from disposal of non-current assets	15,063	9,126	7,650	6,034
III. Total profit	<u>870,194</u>	<u>54,132</u>	<u>607,964</u>	<u>(579,332)</u>
Less: Income tax	134,001	25,573	85,934	26,000
IV. Net profit	<u>736,193</u>	<u>28,559</u>	<u>522,030</u>	<u>(605,332)</u>
Net profit attributable to owners of parent	602,845	28,559	413,124	(605,332)
Minority interests	133,348	—	108,906	—
V. Earnings per share				
(1) Earnings per share, basic	0.63		0.43	
(2) Earnings per share, diluted	<u>0.63</u>		<u>0.43</u>	

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4.3 Cash Flow Statement (Unaudited)

Unit: RMB in thousands

	Nine months ended 30 September 2007		Nine months ended 30 September 2006	
	Consolidated	Company	Consolidated	Company
I. Cash flow from operating activities				
Cash received from sale of goods or provision of services	21,017,891	18,402,200	13,506,821	12,707,193
Tax refund received	1,522,897	1,143,465	906,387	594,260
Cash received from other operating activities	103,573	77,046	80,026	44,412
Sub-total of cash inflow	<u>22,644,361</u>	<u>19,622,711</u>	<u>14,493,234</u>	<u>13,345,865</u>
Cash paid for goods and services	16,711,218	18,483,057	12,155,528	13,202,568
Cash paid to and on behalf of employees	3,624,685	1,455,673	2,750,821	1,229,625
Cash paid for all types of taxes	1,287,422	154,955	878,425	95,004
Cash paid in other operating activities	3,475,793	1,936,545	1,521,213	1,403,657
Sub-total of cash outflow	<u>25,099,118</u>	<u>22,030,230</u>	<u>17,305,987</u>	<u>15,930,854</u>
Net cash flow from operating activities	<u>(2,454,757)</u>	<u>(2,407,519)</u>	<u>(2,812,753)</u>	<u>(2,584,989)</u>
II. Cash flow from investing activities				
Cash received from sales of investments	18,067	1,844	10,470	9,470
Cash received from investment gains	38,631	12,577	141	7,896
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	1,867	—	3,848	3,007
Sub-total of cash inflow	<u>58,565</u>	<u>14,421</u>	<u>14,459</u>	<u>20,373</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	1,282,634	1,060,886	578,254	518,182
Cash paid for acquisition of investments	10,729	1,551	6,843	—
Sub-total of cash outflow	<u>1,293,363</u>	<u>1,062,437</u>	<u>585,097</u>	<u>518,182</u>
Net cash flow from investing activities	<u>(1,234,798)</u>	<u>(1,048,016)</u>	<u>(570,638)</u>	<u>(497,809)</u>

4.3 Cash Flow Statement (Unaudited) (Cont'd)

Unit: RMB in thousands

	Nine months ended 30 September 2007		Nine months ended 30 September 2006	
	Consolidated	Company	Consolidated	Company
III. Cash flow from financing activities				
Cash received from investments	506,083	493,718	—	—
Cash received from borrowings	3,624,717	2,898,747	1,446,111	1,235,032
Sub-total of cash inflow	4,130,800	3,392,465	1,446,111	1,235,032
Cash paid for debt repayments	994,354	891,920	178,475	100,000
Cash paid for dividend distributions or interest expenses	376,508	309,973	321,968	297,360
Sub-total of cash outflow	1,370,862	1,201,893	500,443	397,360
Net cash flow from financing activities	2,759,938	2,190,572	945,668	837,672
IV. Effect of foreign exchange rate changes on cash	(28,540)	(5,294)	(11,130)	(5,117)
V. Net increase in cash and cash equivalents	(958,157)	(1,270,257)	(2,448,853)	(2,250,243)
Add: Cash and cash equivalents at beginning of period	4,311,060	2,957,920	5,573,132	4,258,936
VI. Cash and cash equivalents at end of period	3,352,903	1,687,663	3,124,279	2,008,693

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By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
26 October, 2007

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyong; six non-executive directors, Hou Weigui, Wang Zongyin, Xie Weiliang, Zhang Junchao, Li Juping and Dong Lianbo; and five independent non-executive directors, Zhu Wuxiang, Chen Shaohua, Qiao Wenjun, Mi Zhengkun and Li Jin.