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**ZTE CORPORATION**

**中興通訊股份有限公司**

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

**(Stock Code: 763)**

## **2010 THIRD QUARTERLY REPORT**

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

### **§1 IMPORTANT**

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the "Company") confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved at the Twelfth Meeting of the Fifth Session of the Board of Directors of the Company. Mr. Lei Fanpei, Vice Chairman, was unable to attend the meeting due to work reasons, and had authorised in writing Mr. Hou Weigui, Chairman, to vote on his behalf. Mr. Xie Weiliang, Vice Chairman, was unable to attend the meeting due to work reasons, and had authorised in writing Mr. Dong Lianbo, Director, to vote on his behalf. Mr. Yin Yimin, Director, was unable to attend the meeting due to work reasons, and had authorised in writing Mr. Shi Lirong, Director, to vote on his behalf. Mr. Chen Naiwei, Independent Director, was unable to attend the meeting due to work reasons, and had authorised in writing Mr. Wei Wei, Independent Director, to vote on his behalf.
- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs").

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

## **§2 CORPORATE INFORMATION**

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

During the first nine months of 2010, the domestic market saw a large-scale rollout of optical broadband network construction, while carriers remained cautious in their investments in mobile networks. The Group continued to consolidate its existing market shares by working proactively to meet various requirements of the carriers in network construction, while stepping up with research and development as it sought to explore new opportunities in the market. On the international front, global investments in telecommunications equipment resumed growth, although revenues of equipment manufacturers were affected by changes in the trade policies of countries and regions such as India and the European Union (EU). The Group sustained steady growth in sales by leveraging its inherent strengths to focus on customer requirements.

The Group’s operating revenue for the reporting period amounted to RMB46.062 billion, representing a year-on-year growth of 7.51%. Net profit attributable to shareholders of the parent company grew 14.21%, year-on-year, to RMB 1.361 billion. Basic earnings per share amounted to RMB0.49.

In terms of products, the Group reported a year-on-year decline of 2.58% in its revenue from the sales of carriers’ networks, while the decrease in revenue from wireless products was offset by the increase in revenue from wireline products. Revenue from our terminal products grew year-on-year by 30.53%, with the sales of 3G handsets and data card products providing the major driving force. Revenue from our telecommunication software systems, services and other products also grew year-on-year by 23.94%, reflecting primarily growth in the sales of video, network terminals and service products.

Looking to the fourth quarter, the Group will make strong efforts to seize opportunities presented by the popularisation of broadband connection in the markets of developing countries as well as network upgrades and replacements in the developed countries. With an emphasis on meeting customers’ needs, product research and development and service provision will be focused on aspects such as operating cost reduction, the alleviation of network pressure and resource-sharing. Meanwhile, the Group will also direct its efforts towards internal cost control and efficiency enhancement while ensuring that management measures are properly implemented, as it continues to pursue stable and sustainable business development.

## 2.2 Major Accounting Data and Financial Indicators

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

Items	End of the reporting period	End of last year	Change as at the end of the reporting period compared with the end of last year (%)	
	(30 September 2010)	(31 December 2009)		
Total assets ( <i>RMB in thousands</i> )	<b>76,151,709</b>	68,342,322	11.43%	
Owners' equity attributable to shareholders of the listed company ( <i>RMB in thousands</i> )	<b>21,427,905</b>	16,825,267	27.36%	
Share capital ( <i>RMB in thousands</i> ) <sup>Note 1</sup>	<b>2,866,732</b>	1,831,336	56.54%	
Net assets per share attributable to shareholders of the listed company ( <i>RMB</i> ) <sup>Note 2</sup>	<b>7.65</b>	6.37	20.09%	
Items	Three months ended 30 September 2010	Change compared with the same period last year (%)	Nine months ended 30 September 2010	Change compared with the same period last year (%)
Total operating revenue ( <i>RMB in thousands</i> )	<b>15,336,859</b>	1.33%	<b>46,062,279</b>	7.51%
Net profit attributable to shareholders of the listed company ( <i>RMB in thousands</i> )	<b>483,936</b>	18.42%	<b>1,361,425</b>	14.21%
Net cash flow from operating activities ( <i>RMB in thousands</i> )	<b>-2,167,512</b>	8.19%	<b>-5,851,824</b>	-65.49%
Net cash flow from operating activities per share ( <i>RMB/share</i> ) <sup>Note 3</sup>	<b>-0.77</b>	13.48%	<b>-2.09</b>	-55.97%
Basic earnings per share ( <i>RMB/share</i> ) <sup>Note 4, 6</sup>	<b>0.17</b>	13.33%	<b>0.49</b>	8.89%
Diluted earnings per share ( <i>RMB</i> ) <sup>Note 5, 6</sup>	<b>0.17</b>	13.33%	<b>0.48</b>	9.09%
Weighted average return on net assets (%)	<b>2.29%</b>	-0.42%	<b>6.64%</b>	-1.43%
Weighted average return on net assets after extraordinary items (%)	<b>2.42%</b>	-0.33%	<b>6.12%</b>	-1.79%

- Note 1:* The share capital of the Company for the reporting period was increased from 1,831,336,215 to 2,866,731,684 shares as a result of the Company's placing of additional H shares, the exercise of "Zhongxing ZXC1" Warrants and the implementation of the 2009 profit distribution and capitalisation of capital reserves plan.
- Note 2:* Net assets per share attributable to the shareholders of the listed company at the end of the reporting period was calculated on the basis of the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under the share incentive scheme. Net assets per share attributable to the shareholders of the listed company at the end of the previous year was calculated on the basis of the total share capital as at the end of the previous year less 69,737,523 restricted shares remaining in lock-up under the share incentive scheme then and restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.
- Note 3:* Net cash flow from operating activities per share was calculated on the basis of the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under the share incentive scheme. Net cash flow from operating activities per share for the same period of 2009 has been restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.
- Note 4:* Basic earnings per share for the same period of 2009 has been restated as a result of the implementation of the 2009 profit distribution and capitalisation of capital reserves plan during the reporting period. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under the share incentive scheme.
- Note 5:* As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 64,928,143 shares and 31,464,915 shares for the reporting period and the same period of 2009, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and diluted earnings per share for the same period of 2009 has been restated to reflect the implementation of the Company's 2009 profit distribution and capitalisation of capital reserves plan.
- Note 6:* The above figures represent interests attributable to shareholders of the listed company.

*Extraordinary profit or loss items*

	<b>Amount (RMB in thousands)</b>	
	<b>Three months ended</b>	<b>Nine months ended</b>
	<b>30 September 2010</b>	<b>30 September 2010</b>
<b>Extraordinary items</b>		
Government subsidies recognised in profit and loss for the reporting period <i>Note</i>	26,522	121,553
Other non-operating income	1,422	10,904
Fair-value changes	-15,758	62,168
Less: Profit/loss arising from the disposal of non-current assets	2,288	12,510
Other non-operating expenses	42,217	56,833
Effect of income tax	<u>-4,848</u>	<u>18,792</u>
<b>Total</b>	<b><u><u>-27,471</u></u></b>	<b><u><u>106,490</u></u></b>

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



## §3 MATERIAL MATTERS

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

✓ Applicable    □ N/A

*Unit: RMB in thousands*

#### *Balance Sheet*

<b>Item</b>	<b>30 September 2010</b>	<b>31 December 2009</b>	<b>Change</b>	<b>Analysis of reasons</b>
Cash on hand and at bank	<b>9,432,715</b>	14,496,808	-34.93%	Mainly attributable to the increase in net cash outflow from operating activities
Derivative financial assets	<b>71,335</b>	—	—	Mainly attributable to gains from the change in fair value of fixed-income derivative investments
Hedged items	<b>265,955</b>	—	—	Mainly attributable to the designation of hedged items in value-protection hedge activities
Hedging instruments	<b>2,933</b>	—	—	Mainly attributable to the designation of hedging instruments in value-protection hedge activities
Bills receivable	<b>2,444,724</b>	779,112	213.78%	Mainly attributable to more frequent receipts of payments in the form of acceptances
Prepayments	<b>532,616</b>	355,422	49.85%	Mainly attributable to the increase in prepayments for the purchase of equipment and raw materials made to suppliers in accordance with contracts
Inventories	<b>13,656,049</b>	9,324,800	46.45%	Mainly attributable to the increase in dispatched goods delivered at sites designated by customers but yet to be installed and in raw materials
Long-term receivables	<b>944,484</b>	383,749	146.12%	Mainly attributable to the offering of more favourable payment terms to customers
Long-term equity investments	<b>908,903</b>	440,282	106.44%	Mainly attributable to the increase of shareholders' equity in an associate attributable to the Company as a result of proceeds received through the IPO listing of the associate
Development costs	<b>1,294,397</b>	778,375	66.29%	Mainly attributable to the capitalisation of R&D investments in certain communications systems and terminal products during the period
Long-term deferred assets	<b>54,040</b>	10,306	424.35%	Mainly attributable to the increase during the period in telecommunications equipment for which profit-sharing agreements had been entered into with carriers
Other non-current assets	<b>846,304</b>	608,359	39.11%	Mainly attributable to the increase in non-current funds derived from factored trade receivable arrangements
Advanced receipts	<b>3,186,417</b>	2,337,628	36.31%	Mainly attributable to the increase in prepayments for new contracts
Taxes payable	<b>-650,359</b>	77,715	-936.85%	Mainly attributable to the increase in enterprise tax actually paid and VAT credit available for set-off
Dividend payable	<b>127,514</b>	16,966	651.59%	Mainly attributable to the increase in dividend distribution by subsidiaries of the Group and dividend payable to minority shareholders
Long term loans due within 1 year	<b>3,030,875</b>	1,939,965	56.23%	Mainly attributable to the transfer of certain long-term loans to non-current liabilities due within 1 year
Deferred tax liabilities	<b>6,083</b>	3,924	55.02%	Mainly attributable to the increase in deferred income tax liabilities arising from the recognition of intangible assets and the amortisation of development costs



Item	30 September 2010	31 December 2009	Change	Analysis of reasons
Share capital	2,866,732	1,831,336	56.54%	Mainly attributable to the increase in share capital following the implementation of the 2009 profit distribution, the new H share placing and the exercise of A share warrants.
Capital reserves	9,473,807	6,749,899	40.35%	Mainly attributable to share premium arising from the new H share placing and the exercise of A share warrants
Restricted shares remaining in lock-up	290,572	447,235	-35.03%	Mainly attributable to the unlocking of certain Subject Shares under the Phase I Share Incentive Scheme
Proposed final dividend	—	552,425	-100.00%	Mainly attributable to dividend distribution for the period
Foreign currency translation difference	-334,435	-220,043	-51.99%	Mainly attributable to the effect of exchange rate fluctuations

### *Income statement (9 months ended 30 September)*

Item	9 months ended 30 September 2010	9 months ended 30 September 2009	Change	Analysis of reasons
Taxes and surcharges	773,333	533,176	45.04%	Mainly attributable to the increase in revenue subject to business tax
Asset impairment losses	352,703	672,254	-47.53%	Mainly attributable to the decrease in bad debt provision and the write-back of provision for impairment of certain inventories
Gains/losses from change in fair values	56,801	12,648	349.09%	Mainly attributable to gains from fair-value change of fixed-income derivative investments
Investment income	35,096	2,350	1393.45%	Mainly attributable to the increase in gains from long-term equity investments under the equity method
Non-operating income	1,214,030	882,959	37.50%	Mainly attributable to the increase in tax rebates for software products
Other comprehensive income	-114,504	-28,501	-301.75%	Mainly attributable to losses arising from the translation of accounts denominated in foreign currencies

### *Income statement (3 months ended 30 September)*

Item	3 months ended 30 September 2010	3 months ended 30 September 2009	Change	Analysis of reasons
Taxes and surcharges	305,821	233,131	31.18%	Mainly attributable to the increase in revenue subject to business tax
Finance cost	-105,326	170,762	-161.68%	Mainly attributable to exchange gains resulting from exchange rate fluctuations
Gains/losses from change in fair values	-21,125	—	—	Mainly attributable to losses from temporary fair-value change of fixed-income derivative investments
Investment income	11,118	—	—	Mainly attributable to the increase in gains from long-term equity investments under the equity method
Non-operating income	470,219	262,806	78.92%	Mainly attributable to the increase in tax rebates for software products
Non-operating expenses	44,505	11,350	292.11%	Mainly attributable to the increase in expenses relating to delay in works
Minority interests	14,488	42,343	-65.78%	Mainly attributable to the decrease in profit of subsidiaries with a higher percentage of minority interests
Comprehensive income attributable to minority interests	14,470	42,343	-65.83%	Mainly attributable to the decrease in profit of subsidiaries with a higher percentage of minority interests

## Cash flow statement

Item	9 months ended 30 September 2010	9 months ended 30 September 2009	Change	Analysis of reasons
Net cash flow from operating activities	-5,851,824	-3,536,009	-65.49%	Mainly attributable to the increase in cash paid for the purchase of goods and services and other cash paid in relation to operating activities
Net cash flow from investing activities	-2,410,234	-1,037,498	-132.31%	Mainly attributable to the increase in cash paid for the purchase or construction of fixed assets, intangible assets and other long-term assets.
Net cash flow from financing activities	3,384,442	1,161,066	191.49%	Mainly attributable to the increase in proceeds raised from the placing of new H shares and the exercise of A share warrants
Effect of exchange rate differences on cash	-26,305	12,118	-317.07%	Mainly attributable to the increase in exchange losses resulting from exchange rate volatility

## 3.2 Progress of significant events and analysis of their impact 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 provide 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

Applicable  N/A

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



### 3.2.4 Others

Applicable    N/A

#### 3.2.4.1 *Placing and issue of additional H Shares of the Company during the reporting period*

Pursuant to the “Reply of Approval for the Issue of Additional Overseas-listed Foreign Shares by ZTE Corporation” issued to the Company by the China Securities Regulatory Commission (“CSRC”), the Company was granted approval to issue no more than 58,294,978 additional H shares with a par value of RMB1 each, and all of which would be ordinary shares. On 21 January 2010, the Company allotted and issued a total of 58,294,800 new H shares at a placing price of HK\$45.0 per share. The placees and their ultimate beneficial owners were independent third parties. Net proceeds raised from the placing amounted to approximately HK\$2,596 million. For details please refer to the relevant announcements of the Company dated 14 January 2010 and 21 January 2010, respectively.

#### 3.2.4.2 *Bonds cum Warrants of the Company in issue*

On 1 February 2010, the Company made interest payments for bonds cum warrants with a total amount of RMB32,000,000 (before tax).

As at the close of trading on 12 February 2010, the exercise of a total of 23,348,590 “ZXC1” Warrants was completed and the A share capital of the Company was increased by 21,523,441 shares as a result, raising proceeds of approximately RMB912 million.

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

For details, please refer to the relevant announcements of the Company dated 22 January 2010, 23 February 2010 and 24 March 2010.

#### 3.2.4.3 *Progress of the Phase I Share Incentive Scheme of the Company*

During the reporting period, the Phase I Share Incentive Scheme of the Company was under normal implementation. Details of the impact of the Phase I Share Incentive Scheme of the Company on the financial position and results of operation of the Company has been set out in the section headed “Material Matters” in the 2009 annual report and the 2010 interim report of the Company.

#### 3.2.4.4 *Conduct of ongoing connected transactions during the reporting period*

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

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

In addition, such connected transactions would not have any adverse impact on the Group's profit. The Group is not dependent on the connected party and the connected transactions do not affect the independence of the Group.

Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (for information on the connected parties, their connected relationships with the Group, basic terms of the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2010 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or the general meeting of the Company, please refer to the "Announcement Regarding Connected Transactions" and "Announcement Regarding Ongoing Connected Transactions — Lease Agreements" of the Company dated 19 April 2007, 23 October 2008, 23 April 2009, 27 October 2009 and 27 April 2010 respectively.

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of Connected transactions for January to September 2010 (Excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets and accessories: RMB1-RMB31,000 per unit; Cases and accessories: RMB1-RMB17,000 per unit depending on level of sophistication; Distribution frames and accessories: RMB2-RMB150,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB0.3-RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000-RMB100,000 per unit, depending on measurement, materials used and configuration.	39,108.08	1.49%	Commercial acceptance bills	Nil
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas and radio frequency transmitter	Consistent with market prices (as per contract)	Communication antenna: RMB320-RMB2,500 per piece and radio frequency transmitter, RMB350-4,100 per unit, depending on technical parameters and functional features.	15,495.81	0.59%	Commercial acceptance bills	Nil
Property leasing	ZTE Corporation and subsidiary Chengdu Zhongxing Software Company Limited	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 19,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (property management undertaken by ZTE and no management fees are payable)	259 <sup>Note 1</sup>	0.63%	Tele-transfer	Nil
	ZTE Corporation	Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees for park areas)	555 <sup>Note 2</sup>	1.34%	Tele-transfer	Nil
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 31,000 sq. m; with effect from 18 April 2010, the leased area was changed from 31,000 sq. m. to 32,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (property management undertaken by ZTE and no management fees are payable)	2,887	7.00%	Tele-transfer	Nil
		Chongqing Zhongxing Development (lessor)	Property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq. m. (property management undertaken by the Company and no management fees are payable)	361	0.88%	Tele-transfer	Nil

*Note 1:* The original lease agreement for this property expired on 17 April 2010.

*Note 2:* At the Second Meeting of the Fifth Session of the Board of Directors of the Company held on 8 April 2010, the "Resolution of ZTE Corporation on the Asset Acquisition and Connected Transaction of Wholly-owned Subsidiary Xi'an Zhongxingxin Software Company Limited was

considered and passed, whereby approval was given to Xi'an Zhongxingxin Software Company Limited, a wholly-owned subsidiary of the Company, to enter into the Real Estate Transfer Contract with Zhongxingxin, the controlling shareholder of the Company, for the acquisition of the land use rights for a land block situated on the eastern side of Zhangba II Road in Gaoxin Area, Xi'an, Shaanxi and the houses and buildings in progress thereon owned by Zhongxingxin at a purchase price of approximately RMB152,900,400. The aforesaid Real Estate Transfer Contract is effective from the date on which it is approved by the Board of Directors of the Company. The Property Lease Contract between the Company and Zhongxingxin, signed on 18 April 2007, was automatically released on the date on which the Real Estate Transfer Contract between Xi'an Zhongxingxin Software Company Limited and Zhongxingxin became effective. For details, please refer to the "Connected Transaction — Acquisition of Properties" published by the Company and dated 8 April 2010.

#### *3.2.4.5 Updates on the anti-subsidy investigation by the European Commission in respect of data card products of the Company*

The European Commission ("EC") announced on 16 September 2010 that it had commenced an anti-subsidy investigation in respect of data card products (more specifically known as wireless wide area networking (WWAN) modems) imported from China. This represented the third type of investigation by the EC in respect of data card products from China following its investigations relating to anti-dumping and protective measures which were initiated on 30 June 2010. For details, please refer to the Company's announcement "Anti-subsidy Investigation by the European Commission in respect of Data Card Products from China" dated 17 September 2010.

At present, the Company has substantially completed its preparation of responses to the related questionnaires in the investigations of anti-dumping and protective measures and has submitted its defense to the EC through its attorneys. The Company will continue to closely monitor the progress of investigations, cooperate with the EC in its investigations and actively adopt any measures to address the matter.

#### *3.2.4.6 Status of material litigation of the Company during the reporting period*

There was no material litigation or arbitration of the Group occurring during the reporting period. The progress of the dispute with an Indian consultant firm, being a non-material litigation/arbitration occurring in previous years and subsisting during the reporting period, was as follows:

In August 2005, an Indian consultant firm claimed indemnity from the Company by overseas arbitration for a total amount of approximately USD1.714 million in respect of advisory fees, agency fees and related damages. Subsequently, the total amount of claim was increased by such consultant firm to approximately USD2.27 million. Arbitration of the case was conducted during the period from 25 July 2008 to 28 July 2008 at an arbitration tribunal in Singapore formed by the Commission on Arbitration of the International Chamber of Commerce. The Company attended all sessions of the tribunal. During the reporting period, a final award was issued by the arbitration tribunal of the Commission on Arbitration of the International Chamber of Commerce, ordering the payment of compensation in an aggregate amount of USD1.323 million by the Company to the Indian consultant firm.

Save as the above, there was no substantial progress during the reporting period for any non-material litigation or arbitration occurring in previous years.

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

Applicable  N/A

#### 3.3.1 *Undertaking by shareholders interested in more than 30% of the Company's shares in respect of additional share acquisition plans*

Undertakings	Given by:	Details of undertaking	Performance
Other undertaking (including additional undertakings)	Zhongxingxin	On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, acquired additional A shares in the Company through the trading system of Shenzhen Stock Exchange. As at 9 October 2009, the plan of Zhongxingxin to acquire additional shares was completed. Zhongxingxin has received the "Reply of Approval for the Waiver of the Obligation of Shenzhen Zhongxingxin Telecommunications Equipment Company Limited to Make A General Offer for the Shares in ZTE Corporation" (《關於核准豁免深圳市中興新通訊設備有限公司要約收購中興通訊股份有限公司股份義務的批覆》) (Zheng Jian Xu Ke [2010] No. 721) from CSRC. For details, please refer to the announcement of the Company dated 2 June 2010.	Zhongxingxin has been in compliance with its undertaking that it would not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period.

### 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*

Applicable  N/A

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

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of Company	Shenzhen	August 2010	Teleconference	Analysts and investors	2010 interim report	Published announcements and regular reports
External meetings	Qingdao	July 2010	CITIC Securities interim strategy meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Xi'an	July 2010	China Securities interim strategy meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	September 2010	Guosen Securities investors' meeting	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	September 2010	CLSA investors' meeting	Customers of CLSA	Day-to-day operations of the Company	Published announcements and regular reports
Company visits by analysts	Company	July to September 2010	Verbal	<p><b>Overseas investors</b></p> <p>Alliance Bernstein, Capital Research, GIC, Asia Growth Investor AB, Invesco, Morgan Stanley, Deutsche Bank, CLSA, Nomura, Macquarie, Daiwa, Cavalry Asset Management, Waddell &amp; Reed Financial Inc (P), Ontario Teachers' Pension Plan, UBS Global Asset Management (Singapore), Primero Investment Limited, Simplex Asset Management, Sumitomo Trust Bank, Spinner Asset Management, Ameriprise Financial Services Inc, Tuboron Partners, Canadian National, Moon Capital, Cathay Life, Tiger Asia Fund, Tudor Investments Corporation, Genesis Investment Management, LLP, Trilogy Global Advisors, Principal Global Investors Singapore, MEAG Asset Management, BGC Partners, TIAA-CREF Investment Management Inc.</p>	Day-to-day operations of the Company	Published announcements and regular reports
	Company	July to September 2010	Verbal	<p><b>Domestic investors</b></p> <p>BoCom Schroders, CITIC Securities, Sinolink Securities, E Fund, CICC, Huatai United Securities, Rongtong Fund, Changjiang Securities, China Life Insurance Asset Management</p>	Day-to-day operations of the Company	Published announcements and regular reports

### 3.5.3 *Equity interests in other listed companies*

Applicable  N/A

*Unit: RMB in thousands*

Stock code	Abbreviated name	Initial investment	Percentage of shareholdings in issuer	Carrying value at the end of the period	Gain/loss during the reporting period	Change in owner's equity during the reporting period	Accounted for as:	Source of shares
300077	Nationz Technologies	30,000	20%	532,420	28,000	471,292	Long-term equity investment	Initial investment

*Note:* On 30 April 2010, Nationz Technologies Inc. were listed on the Chi Next of Shenzhen by way of an initial public offering of shares.

### 3.6 **Derivative investments**

Applicable  N/A

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

Derivative investments conducted by the Company during the first three quarters included fixed-income derivatives and value-protection derivatives (including value-protection hedging derivative investments <sup>Note 1</sup>). The major risks and control measures are discussed as follows:

1. Market risks: For fixed-income derivatives, gains were recognised at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. Assuming a highly effective hedge, in value-protection hedging derivative investments, the fair-value change in the hedging instruments will offset the fair-value change in the hedged item, such that the fair-value change of the transaction as a whole will not have any material impact on the Company's profit or loss. Gains or losses arising from the difference between the agreed exchange rate for transaction and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date.

2. Liquidity risks: Fixed-income derivative investments are based on the due USD payables of the Company, and USD loans pledged by RMB equivalent deposits were acquired to complete foreign payments, whereby the exchange rate for purchasing foreign currency for loan repayment upon maturity was locked up through forward trading. The product did not effectively require the appropriation of available funds and therefore presented minimal liquidity risks. The value-protection derivatives investments (including value-protection hedging derivative investments) of the Company were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small.

3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks.

4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives may result in operational risks in actual operation; Obscure terms in the trade contract may result in legal risks.

5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "System for Risk Control and Information Disclosure relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments will be duly controlled.



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

The gains from investments in derivatives during the reporting period was recognised by the Company. Total gains recognised for the reporting period amounted to RMB78,294,000, comprising exchange gains of RMB21,493,000 and gains from fair-value change of RMB56,801,000. The calculation of the fair value was based on forward exchange rates quoted by the counterparty bank for a balance sheet date in line with the maturity date of the product.

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

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

Specific opinion of Independent Directors, sponsors or financial advisers on the Company's derivative investments and risk control

**Independent Directors' Opinion:**  
The Company conducted fixed-income derivative investments based on due USD payables to offset exchange losses arising from the appreciation of RMB by obtaining low-risk fixed income. The Company conducted value-protection derivative investments (including value-protection hedging 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 relevant regulatory mechanisms and dedicated staff. The counterparties with which the Company and its subsidiaries enter into contracts for derivative investments are organisations 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.

*Note 1:* Value-protection hedging derivative investments refer to value-protection hedging activities conducted through foreign exchange forward contracts.

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

√ Applicable    □ N/A

*Unit: RMB in thousands*

Type of contract <i>Note 1</i>	Opening balance of contract	Closing balance of contract	Outstanding term <i>Note 2</i>	Gain/loss during the reporting period	Contract amount as a percentage of the Company's net assets as at the end of the period
Fixed-income derivative investment	0	2,434,129	3–12 months	77,341	11.36%
Value-protection derivative investment	0	762,577	3–12 months	-148	3.56%
Value-protection hedging derivative investment	0	265,953	2 months	1,101	1.24%
<b>Total</b>	<b>0</b>	<b>3,462,659</b>	<b>—</b>	<b>78,294</b>	<b>16.16%</b>

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

*Note 2:* Outstanding term means the period between 30 September 2010 and various maturity dates for the investments in the derivative investment portfolio.

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

## §4 APPENDICES

**4.1 Balance Sheet (unaudited). See appendix.**

**4.2 Income Statement (unaudited). See appendix.**

**4.3 Cash Flow Statement (unaudited). See appendix.**

**BALANCE SHEET***Currency: RMB in thousands*

Assets	2010.9.30		2009.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash on hand and at bank	9,432,715	5,402,716	14,496,808	10,096,875
Derivative financial assets	71,335	5,754	—	—
Hedged items	265,955	265,955	—	—
Hedging instruments	2,933	2,933	—	—
Bills receivables	2,444,724	2,261,406	779,112	672,374
Trade receivables	17,178,972	23,183,360	15,319,215	19,557,131
Factored trade receivables	3,108,679	2,540,463	2,870,221	2,727,445
Prepayments	532,616	147,038	355,422	173,408
Dividends receivable	—	27,418	—	1,017,020
Other receivables	1,375,230	2,787,542	1,059,829	3,240,367
Inventories	13,656,049	5,394,427	9,324,800	4,747,278
Amount due from customers for contract works	12,312,866	11,173,471	11,388,496	10,829,088
<b>Total current assets</b>	<b>60,382,074</b>	<b>53,192,483</b>	<b>55,593,903</b>	<b>53,060,986</b>
Non-current assets:				
Available-for-sale financial assets	268,636	244,448	253,760	244,448
Long term trade receivables	944,484	1,846,440	383,749	1,347,932
Factored long term trade receivables	3,287,643	3,412,643	2,968,629	3,093,629
Long-term equity investments	908,903	2,711,779	440,282	2,196,637
Fixed assets	5,314,361	3,648,965	4,714,533	3,195,746
Construction in progress	1,694,391	1,111,921	1,332,735	790,491
Intangible assets	640,697	471,245	613,773	481,171
Development costs	1,294,397	286,420	778,375	151,564
Deferred income tax assets	515,779	268,434	643,918	382,537
Long-term deferred assets	54,040	—	10,306	—
Other non-current assets	846,304	846,304	608,359	608,359
<b>Total non-current assets</b>	<b>15,769,635</b>	<b>14,848,599</b>	<b>12,748,419</b>	<b>12,492,514</b>
<b>Total assets</b>	<b>76,151,709</b>	<b>68,041,082</b>	<b>68,342,322</b>	<b>65,553,500</b>

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

Currency: RMB in thousands

Liabilities and shareholders' equity	2010.9.30		2009.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	5,594,666	4,723,901	4,906,503	3,388,734
Derivative financial liabilities	15,046	5,367	—	—
Bank advances on factored trade receivables	3,108,679	2,540,463	2,870,221	2,727,445
Bills payable	7,494,260	7,923,931	8,484,861	9,473,080
Trade payables	14,364,492	18,004,468	13,046,804	17,834,626
Amount due to customers for contract works	3,081,022	2,356,227	2,519,706	2,153,082
Advances from customers	3,186,417	2,815,641	2,337,628	2,039,175
Salary payables	2,115,378	506,664	2,398,720	878,705
Taxes payable	(650,359)	(732,775)	77,715	(307,988)
Dividends payable	127,514	99	16,966	75
Other payables	2,681,955	3,634,114	2,213,477	5,662,122
Deferred income	104,491	33,774	92,830	33,237
Provision	193,828	105,062	189,664	88,298
Long-term loans due within one year	3,030,875	2,807,077	1,939,965	1,204,846
<b>Total current liabilities</b>	<b>44,448,264</b>	<b>44,724,013</b>	<b>41,095,060</b>	<b>45,175,437</b>
Non-current liabilities:				
Long-term loans	1,810,706	737,121	2,396,393	1,742,512
Bank advances on factored long-term trade receivables	3,287,643	3,412,643	2,968,629	3,093,629
Bonds payable	3,716,906	3,716,906	3,632,681	3,632,681
Deferred income tax liabilities	6,083	4,684	3,924	1,143
Other non-current liabilities	360,590	360,590	296,769	296,769
<b>Total non-current liabilities</b>	<b>9,181,928</b>	<b>8,231,944</b>	<b>9,298,396</b>	<b>8,766,734</b>
<b>Total liabilities</b>	<b>53,630,192</b>	<b>52,955,957</b>	<b>50,393,456</b>	<b>53,942,171</b>
Shareholders' equity:				
Share capital	2,866,732	2,866,732	1,831,336	1,831,336
Capital reserves	9,473,807	9,469,754	6,749,899	6,745,877
Restricted shares remaining in lock-up	(290,572)	(290,572)	(447,235)	(447,235)
Surplus reserves	1,505,203	842,986	1,505,203	842,986
Retained profits	8,207,170	2,211,551	6,853,682	2,100,753
Proposed final dividend	—	—	552,425	552,425
Foreign currency translation differences	(334,435)	(15,326)	(220,043)	(14,813)
Equity attributable to equity holders of the parent	21,427,905	15,085,125	16,825,267	11,611,329
Minority Interests	1,093,612	—	1,123,599	—
<b>Total shareholders' equity</b>	<b>22,521,517</b>	<b>15,085,125</b>	<b>17,948,866</b>	<b>11,611,329</b>
<b>Total liabilities and shareholders' equity</b>	<b>76,151,709</b>	<b>68,041,082</b>	<b>68,342,322</b>	<b>65,553,500</b>

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

# INCOME STATEMENT

Currency: RMB in thousands

Item	Nine months ended 30 September 2010		Nine months ended 30 September 2009	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	46,062,279	41,062,360	42,843,475	39,870,539
Less: Operating costs	30,457,626	34,086,733	28,731,931	32,013,423
Taxes and surcharges	773,333	126,026	533,176	113,483
Selling and distribution costs	6,404,580	4,340,067	5,250,657	3,914,281
Administrative expenses	1,927,256	1,067,011	2,131,576	1,313,357
Research and development costs	4,672,924	998,942	4,015,609	1,250,851
Finance costs	635,309	872,959	538,114	579,392
Impairment losses	352,703	344,006	672,254	517,966
Add: Fair value gains/losses	56,801	388	12,648	12,559
Investment income	35,096	608,410	2,350	53,133
Including: Share of profits and losses of associates and jointly controlled entities	29,073	19,774	10,460	6,952
2. Operating profit	930,445	(164,586)	985,156	233,478
Add: Non-operating income	1,214,030	294,207	882,959	126,063
Less: Non-operating expenses	69,343	27,026	53,962	13,144
Including: Profit/loss on disposal of non-current assets	12,510	3,477	6,598	—
3. Total profit	2,075,132	102,595	1,814,153	346,397
Less: Income tax	583,420	(16,140)	494,423	239,707
4. Net profit	1,491,712	118,735	1,319,730	106,690
Attributable to equity holders of the parent company	1,361,425	118,735	1,192,015	106,690
Minority interests	130,287	—	127,715	—
5. Earnings per share				
(1) Basic*	RMB0.49		RMB0.45	
(2) Diluted**	RMB0.48		RMB0.44	
6. Other comprehensive income	(114,504)	(513)	(28,501)	(1,047)
7. Comprehensive income	1,377,208	118,222	1,291,229	105,643
Comprehensive income attributable to equity holders of the parent	1,247,033	118,222	1,163,514	105,643
Comprehensive income attributable to minority interests	130,175	—	127,715	—

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

\* Basic earnings per share for the same period of 2009 has been restated as a result of the implementation of the 2009 profit distribution. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under the share incentive scheme.

\*\* As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 64,928,143 shares and 31,464,915 shares for the reporting period and the same period of 2009, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and diluted earnings per share for the same period of 2009 has been restated.

Currency: RMB in thousands

Item	Three months ended 30 September 2010		Three months ended 30 September 2009	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	15,336,859	13,820,948	15,135,829	13,992,867
Less: Operating costs	10,010,712	11,199,679	9,907,582	10,964,170
Taxes and surcharges	305,821	43,336	233,131	56,662
Selling and distribution costs	2,404,528	1,498,716	2,073,518	1,382,134
Administrative expenses	776,297	439,796	763,849	499,658
Research and development costs	1,477,647	426,097	1,409,161	595,056
Finance costs	(105,326)	149,902	170,762	186,380
Impairment losses	200,614	164,212	226,325	210,039
Add: Fair value gains/losses	(21,125)	388	—	—
Investment income	11,118	13,848	—	2,550
Including: Share of profits and losses of associates and jointly controlled entities	6,876	6,876	—	—
2. Operating profit	<u>256,559</u>	<u>(86,554)</u>	<u>351,501</u>	<u>101,318</u>
Add: Non-operating income	470,219	175,129	262,806	54,181
Less: Non-operating expenses	44,505	22,254	11,350	2,902
Including: Profit/loss on disposal of non-current assets	2,288	—	—	—
3. Total profit	<u>682,273</u>	<u>66,321</u>	<u>602,957</u>	<u>152,597</u>
Less: Income tax	<u>183,849</u>	<u>2,959</u>	<u>151,966</u>	<u>120,651</u>
4. Net profit	<u>498,424</u>	<u>63,362</u>	<u>450,991</u>	<u>31,946</u>
Attributable to equity holders of the parent company	483,936	63,362	408,648	31,946
Minority interests	14,488	—	42,343	—
5. Earnings per share				
(1) Basic*	RMB0.17	—	RMB0.15	—
(2) Diluted**	RMB0.17	—	RMB0.15	—
6. Other comprehensive income	20,580	(310)	17,870	(476)
7. Comprehensive income	519,004	63,052	468,861	31,470
Comprehensive income attributable to equity holders of the parent	504,534	63,052	426,518	31,470
Comprehensive income attributable to minority interests	14,470	—	42,343	—

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

\* *Basic earnings per share for the same period of 2009 has been restated as a result of the implementation of the 2009 profit distribution. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 64,928,143 restricted shares remaining in lock-up under the share incentive scheme.*

\*\* *As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 64,928,143 shares and 31,464,915 shares for the reporting period and the same period of 2009, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and diluted earnings per share for the same period of 2009 has been restated.*

## CASH FLOW STATEMENT

Item	Nine months ended 30 September 2010		Nine months ended 30 September 2009	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>1. Cash flows from operating activities</b>				
Cash received from sale of goods or rendering services	45,504,432	38,743,671	37,401,325	33,136,001
Cash received from taxes returned	3,062,759	2,347,826	2,510,887	1,776,696
Cash received relating to other operating activities	544,680	319,585	316,219	180,111
<b>Sub-total of cash inflow</b>	<b>49,111,871</b>	<b>41,411,082</b>	<b>40,228,431</b>	<b>35,092,808</b>
Cash paid for goods and services	36,580,897	40,660,927	29,685,509	33,864,149
Cash paid to and on behalf of employees	7,359,448	2,395,290	5,677,936	1,516,822
Payments of taxes and levies	3,648,625	380,619	2,448,170	144,554
Cash paid relating to other operating activities	7,374,725	5,262,256	5,952,825	4,196,446
<b>Sub-total of cash outflow</b>	<b>54,963,695</b>	<b>48,699,092</b>	<b>43,764,440</b>	<b>39,721,971</b>
<b>Net cash flows from operating activities</b>	<b>(5,851,824)</b>	<b>(7,288,010)</b>	<b>(3,536,009)</b>	<b>(4,629,163)</b>
<b>2. Cash flows from investing activities</b>				
Cash received from disposal of investment	—	—	7,558	—
Cash received from gains of investment	7,823	48,239	13,225	50,667
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,619	—	769	—
<b>Sub-total of cash inflow</b>	<b>11,442</b>	<b>48,239</b>	<b>21,552</b>	<b>50,667</b>
Cash paid to acquire fixed asset, intangible assets and other long-term assets	2,401,876	1,448,432	802,056	695,804
Cash paid for investment	19,800	—	256,994	404,175
<b>Sub-total of cash outflow</b>	<b>2,421,676</b>	<b>1,448,432</b>	<b>1,059,050</b>	<b>1,099,979</b>
<b>Net cash flow from investing activities</b>	<b>(2,410,234)</b>	<b>(1,400,193)</b>	<b>(1,037,498)</b>	<b>(1,049,312)</b>
<b>3. Cash flows from financing activities</b>				
Cash received from investment	3,197,918	3,197,918	38,771	29,771
Cash received from borrowings	5,877,727	4,273,656	8,020,466	5,405,015
<b>Sub-total of cash inflow</b>	<b>9,075,645</b>	<b>7,471,574</b>	<b>8,059,237</b>	<b>5,434,786</b>
Cash paid for debt repayments	4,684,341	2,341,649	6,004,426	2,890,796
Cash payments for distribution of dividends or interest expenses	1,006,862	921,990	893,745	803,073
<b>Sub-total of cash outflow</b>	<b>5,691,203</b>	<b>3,263,639</b>	<b>6,898,171</b>	<b>3,693,869</b>
<b>Net cash flow from financing activities</b>	<b>3,384,442</b>	<b>4,207,935</b>	<b>1,161,066</b>	<b>1,740,917</b>



Item	Nine months ended 30 September 2010		Nine months ended 30 September 2009	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
4. Effect of changes in foreign exchange rate on cash	<u>(26,305)</u>	<u>(57,913)</u>	<u>12,118</u>	<u>(57,790)</u>
5. Net increase in cash and cash equivalents	<u>(4,903,921)</u>	<u>(4,538,181)</u>	<u>(3,400,323)</u>	<u>(3,995,348)</u>
Add: Opening balance of cash and cash equivalents	<u>14,075,822</u>	<u>9,808,228</u>	<u>11,344,160</u>	<u>8,323,750</u>
6. Closing balance of cash and cash equivalents	<u>9,171,901</u>	<u>5,270,047</u>	<u>7,943,837</u>	<u>4,328,402</u>

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

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

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

Shenzhen, PRC  
27 October 2010

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