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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)

2009 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 by the thirtieth meeting of the fourth session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. 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. Mi Zhengkun, Independent Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Chen Naiwei, Independent Director, to vote on his behalf.
- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs").
- 1.5 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial report contained in this quarterly report.

2. CORPORATE INFORMATION

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

The first nine months of 2009 saw steady progress in the development of 3G network in China, with network coverage of the big-three carriers basically completed and sound growth in the population of 3G users. There were signs of recovery of the global communications market, spearheaded by swift development in emerging economies such as those in the Asia Pacific region, where growing investments in mobile, broadband access, optical transmission and data communications products were reported as carriers were steadily investing, while a new competitive environment was coming into shape for the equipment-manufacturer market.

During the reporting period, the Group succeeded in gaining further inroads in the market segment comprising multi-national carriers with its LTE, UMTS and GSM products, as it capitalised on opportunities presented by the need for network construction in emerging markets against the backdrop of an improving global economic environment. During the reporting period, the Group reported operating income of RMB42,843 million, representing growth of 41.27% as compared with the same period last year, while net profit attributable to the parent company grew 46.13% to RMB1,192 million. Basic earnings per share amounted to RMB0.68.

In terms of market development, the Group reported substantial growth in operating revenue with the benefit of large-scale 3G network constructions in the domestic market. In tandem with carriers’ requirements for fusion technologies and complementary technologies, we have placed more emphasis on integrated strengths and superior price-performance ratios, laying solid groundwork for ensuring overall business growth and further market share. Internationally, the Group was well-geared for a better competitive position on the back of its cost advantage, financing resources and ability to customise. The changing competitive environment also provided opportunities for breakthroughs in key markets and products.

In terms of the Group’s product, our segment of carriers’ networks reported a year-on-year growth of 47.32%, which was driven mainly by the revenue generated from the sales of the Company’s 3G network equipment, optical transmission and data communications products. Revenue from terminal products also grew by 38.67%, which was mainly in line with sales growth for 3G products. Revenue from the Group’s telecommunications software systems, services and other products grew by 17.85%, reflecting mainly growth in the sales of fixed terminals.

Looking to the fourth quarter of the year, the Group will continue to pursue its strategies in greater depth with a focus on enhancing its capabilities in strategic application and operation. Taking advantage of opportunities presented by the changing competitive environment, we will continue to strengthen cooperation with mainstream international carriers. We will seek to increase our presence in key markets such as Western Europe and North America while reinforcing our position in the 3G market at home, with a view to steady and sustainable business development.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	End of the reporting period (30 September 2009)	End of last year (31 December 2008)	Change as at the end of the reporting period compared with the end of last year (%)
Total assets (<i>RMB in thousands</i>)	59,692,574	50,865,921	17.35%
Shareholders' equity attributable to the shareholders of the listed company (<i>RMB in thousands</i>)	15,363,305	14,249,544	7.82%
Share capital (<i>RMB in thousands</i>)	1,831,336	1,343,330	36.33%
Net assets per share attributable to shareholders of the listed company (<i>RMB</i>) ^{note 1}	8.72	8.16	6.86%

Item	Three months ended 30 September 2009	Change compared with the same period last year (%)	Nine months ended 30 September 2009	Change compared with the same period last year (%)
Total operating income (<i>RMB in thousands</i>)	15,135,829	42.81%	42,843,475	41.27%
Net profit attributable to shareholders of the listed company (<i>RMB in thousands</i>)	408,648	58.18%	1,192,015	46.13%
Net cash flow from operating activities (<i>RMB in thousands</i>)	-2,360,806	-73.51%	-3,536,009	21.63%
Net cash flow from operating activities per share (<i>RMB</i>) ^{Note 1}	-1.34	-71.79%	-2.01	22.09%
Basic earnings per share (<i>RMB</i>) ^{Note 1}	0.23	53.33%	0.68	44.68%
Diluted earnings per share (<i>RMB</i>) ^{Notes 1&2}	0.23	64.29%	0.67	48.89%
Fully diluted return on net assets (%)	2.66%	0.72%	7.76%	1.63%
Fully diluted return on net assets after extraordinary items (%)	2.70%	1.23%	7.61%	2.04%

Note 1: The total share capital of the Company during the reporting period was increased from 1,343,330,310 shares to 1,831,336,215 shares following the implementation of the 2008 plans of profit distribution and capitalization of capital reserve, as well as the Phase I Share Incentive Scheme of the Company, including 69,737,523 restricted shares which have not been unlocked (For details please refer to Section 3.2.2 headed "Progress of the Phase I of Share Incentive Scheme of the Company"). The calculation of net assets per share and net cash flow from operating activities per share in the above table is based on a share capital of 1,761,598,692 shares, being the total share capital less restricted shares which have not been unlocked. The calculation of basic earnings per share is based on the weighted average ordinary share capital after deducting 69,737,523 restricted shares which have not been unlocked.

Note 2: The Subject Share quota under the Phase I of Share Incentive Scheme of the Company which have not been unlocked gave rise to 31,464,915 potentially dilutive ordinary shares during the reporting period.

Extraordinary items

	<i>Amount (Unit: RMB in thousands)</i>	
	Three months ended 30 September 2009	Nine months ended 30 September 2009
Extraordinary items		
Government grants accounted for in current profit and loss ^{Note}	3,988	34,620
Other non-operating income	554	46,189
Less: Gains/losses arising from the disposal of non-current assets	0	6,598
Other non-operating expenses	11,350	47,364
Effect of income tax	<u>-1,021</u>	<u>4,027</u>
Total	<u><u>-5,787</u></u>	<u><u>22,820</u></u>

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

2.2.2 *The amounts of net profit and shareholders' equity of the Group for the nine months from January to September 2009 and as at 30 September 2009 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.*

2.3 **Total number of shareholders and shareholdings of top ten shareholders not subject to lock-up as at the end of the reporting period**

Total number of shareholders as at the end of the reporting period The Company had 32,063 shareholders in total (of which 31,734 were holders of A shares and 329 were holders of H shares).

Shareholdings of top ten shareholders 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
Shenzhen Zhongxing Telecommunication Equipment Company, Limited	620,214,413	A share
HKSCC Nominees Limited	290,942,943	H share
China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen	37,098,550	A share
Guangfa Jufeng Stock Fund	35,521,482	A share
Hunan Nantian (Group) Co., Ltd	20,805,894	A share
BoCom-Schroders Select Stock Fund	16,590,085	A share
Harvest Theme Select Hybrid Fund	15,128,884	A share
BoCom-Schroders Blue-chip Stock Fund	14,947,592	A share
Changsheng Tongqing Separate Trading Stock Fund	14,307,488	A share
Xingye Trend Investment Hybrid Fund	13,864,760	A share

3. MATERIAL MATTERS

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

√ Applicable □ N/A

Currency: RMB in thousands

Balance Sheet

Item	30 September 2009	31 December 2008	Change	Analysis of Reasons
Bills receivable	2,315,032	1,578,473	46.66%	Attributable mainly to increased sales and more favourable payment methods offered to customers
Trade receivables	16,283,185	9,972,495	63.28%	Attributable mainly to increased sales and more favourable payment methods offered to customers
Prepayments	474,667	355,887	33.38%	Mainly as a result of increased prepayments made for the purchase of raw materials
Factored long-term trade receivables	1,026,456	753,568	36.21%	Attributable mainly to the increase in factored long-term receivables with limiting conditions undertaken by the Company
Long-term equity investments	425,857	168,433	152.83%	Attributable mainly increased investment in associates by the Company
Construction in progress	1,426,939	817,086	74.64%	Attributable mainly to increased investment in infrastructure projects such as Liuxiandong Industrial Park Phase I in Shenzhen and projects in Nanjing
Development expenditure	705,989	476,020	48.31%	Attributable mainly to capitalisation of R&D expenses
Long-term deferred assets	12,514	19,138	-34.61%	Attributable mainly to amortisation of long-term deferred assets for the period
Derivative financial liabilities	0	12,560	-100.00%	Attributable mainly to settlement of forward currency transactions falling due
Other payables	2,037,892	1,553,011	31.22%	Attributable mainly to the increase in accrued expenses
Long-term loans	3,252,029	1,292,547	151.60%	Attributable mainly to increased loans to meet medium/long term capital requirements
Bank advances on factored long-term trade receivables	1,026,456	753,568	36.21%	Attributable mainly to the increase in factored long-term receivables with limiting conditions undertaken by the Company
Share capital	1,831,336	1,343,330	36.33%	Attributable mainly to the implementation of the 2008 profit distribution plan and the transfer to share capital of Subject Shares under the Phase I Share Incentive Scheme of the Company
Proposed final dividend	0	402,999	-100.00%	Attributable mainly to the distribution of dividend

Income statement (9 months ended 30 September 2009)

Item	9 months ended 30 September 2009	9 months ended 30 September 2008	Change	Analysis of Reasons
Operating income	42,843,475	30,327,346	41.27%	Attributable mainly to increased sales
Operating costs	28,731,931	19,983,647	43.78%	Attributable mainly to increased sales
Taxes and surcharges	533,176	251,274	112.19%	Attributable mainly to the increase in corresponding business tax in line with increased service revenue
Research and development costs	4,015,609	2,659,582	50.99%	Attributable mainly to the increase in R&D expenses in line with the expansion of operations
Finance costs	538,114	843,118	-36.18%	Reflecting mainly to interest expenses partially offset by exchange gains arising from exchange rate fluctuations
Asset impairment losses	672,254	322,393	108.52%	Attributable mainly to the increase in bad debt provision
Gains/losses from change in fair values	12,648	-125,639	110.07%	Attributable mainly to the transfer to investment income of loss arising from changes in fair-value in forward foreign exchange settlement transactions
Investment income	2,350	98,524	-97.61%	Attributable mainly to the transfer to investment income of loss arising from changes in fair-value in forward foreign exchange settlement transactions
Income tax	494,423	225,782	118.98%	Attributable mainly to the increase in the profit of certain subsidiaries of the Group
Net profit attributable to equity holders of the parent company	1,192,015	815,725	46.13%	Attributable mainly to increased sales and lowered costs during the period

Income statement (3 months ended 30 September 2009)

Item	3 months ended 30 September 2009	3 months ended 30 September 2008	Change	Analysis of Reasons
Operating income	15,135,829	10,598,362	42.81%	Attributable mainly to increased sales
Operating costs	9,907,582	6,881,434	43.98%	Attributable mainly to increased sales
Taxes and surcharges	233,131	102,158	128.21%	Attributable mainly to the increase in corresponding business tax in line with increased service revenue
Selling and distribution costs	2,073,518	1,459,473	42.07%	Attributable mainly to the increase in market expenditure in line with the expansion of operations
Administrative expenses	763,849	537,229	42.18%	Attributable mainly to the expansion of operations
Research and development costs	1,409,161	1,011,684	39.29%	Attributable mainly to the increase in R&D expenses in line with the expansion of operations

Item	3 months ended 30 September 2009	3 months ended 30 September 2008	Change	Analysis of Reasons
Finance costs	170,762	441,240	-61.30%	Reflecting mainly to interest expenses partially offset by exchange gains arising from exchange rate fluctuations
Asset impairment losses	226,325	122,935	84.10%	Attributable mainly to the increase in bad debt provision
Gains/losses from change in fair values	0	-56,006	100.00%	Attributable mainly to the absence of such transactions for the current period
Investment income	0	46,818	-100.00%	Attributable mainly to the absence of such transactions for the current period
Income tax	151,966	26,566	472.03%	Attributable mainly to the increase in the profit of certain subsidiaries of the Group
Net profit attributable to equity holders of the parent company	408,648	258,339	58.18%	Attributable mainly to increased sales and lowered costs during the period

Cash flow statement

Item	9 months ended 30 September 2009	9 months ended 30 September 2008	Change	Analysis of Reasons
Net cash flow from financing activities	1,161,066	4,342,365	-73.26%	Attributable mainly to financing through the issue of Bonds cum Warrants during the comparable period last year

3.2 Progress of material matters and analysis of their impact and solutions

√ Applicable N/A

3.2.1 Progress of issue of the Bonds cum Warrants of the Company

Bond interests with a total amount of RMB32,000,000 were paid by the Company on 2 February 2009. On 5 June 2009, the exercise price of the warrant 中興ZXC1 was adjusted from RMB55.582 to RMB42.394 pursuant to the plans for profit distribution and capitalisation of capital reserve and the exercise ratio was adjusted from 1:0.703 to 1:0.922, respectively. For details, please refer to the “Announcement of Interest Payment for 中興債1” and the “Announcement of adjustments to the exercise price and ratio of 中興ZXC1 warrants” published in China Securities Journal, Securities Times Shanghai Securities News and on <http://www.cninfo.com.cn> on 17 January 2009 and 5 June 2009, respectively.

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

The total share capital of the Company was increased by 85,006,813 shares following the registration of the Subject Shares granted under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Company Limited, Shenzhen Branch. Pursuant to the Phase I Share Incentive Scheme of the Company, the first unlocking of Subject Shares (A shares) was completed on 22 July 2009, whereby a total of 15,269,290 Subject Shares were unlocked. However, a total of 709,582 Subject Shares granted to 19 directors and senior management officers currently in office and 1 former senior management officer who had resigned with effect from 19 March 2009 shall continue to be locked up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on Shenzhen Stock Exchange and Changes in Shareholdings (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份及其變動管理業務指引》). Therefore a total of 14,559,708 Subject Shares were released from sales restrictions under the current unlocking. For details, please refer to the “Announcement of the Resolutions passed at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company” and the “Announcement of the Completion of Release of Lock-up for Subject Shares under the First Unlocking of the Phase I Share Incentive Scheme” published by the Company in the China Securities Journal, Securities Times and Shanghai Securities News and on <http://www.cninfo.com.cn> on 7 July 2009 and 23 July 2009.

As at 30 September 2009, deducting the unlocked shares, 69,737,523 shares among registered Subject Shares under the Phase I Share Incentive Scheme of the Company remained locked up (“Restricted Shares Pending Unlocking”). In accordance with the Phase I Share Incentive Scheme of the Company and relevant documents of statutory undertaking signed between the Company and the Scheme Participants, the Scheme Participants hold the Restricted Shares Pending Unlocking under their names but are not entitled to any cash dividend payable in respect thereof and voting rights attached thereto, until and unless such shares have been unlocked. Therefore, an amount of RMB447,235,067, being subscription monies paid by the Scheme Participants for such Restricted Shares Pending Unlocking, was charged against equity as “Restricted Shares Pending Unlocking” in the balance sheet.

For details of the effects of the Phase I Share Incentive Scheme of the Company on the financial position and operating results of the Company for the reporting period and future periods, please refer to Section 2.2.1 of this report and the section headed “Material Matters” in the 2009 Interim Report of the Company.

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

During the reporting period, the Group has not entered into any discloseable material contracts. The performance status of material contracts entered into prior to and subsisting during the reporting period is as follows:

No	Contents of material contracts	Date of disclosure	Newspaper for publication	Performance
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal	Under normal progress
2	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007	Securities Times Shanghai	Under normal progress
3	Wireless Net Project ZTE Equipment Purchase Contract under China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation	18 November 2008	Securities News	Completed
4	A series of contracts with respect to Business Net under China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation	18 November 2008		Completed
5	Series of contracts in relation to the purchase of core network equipment under China Telecom Mobile Network Construction (Phase 1, 2008) and the purchase of Integrated Service Provision Platform (ISPP) equipment for China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation	4 December 2008		Completed

3.2.4 Implementation of 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 property leasing from connected parties by the Company and its subsidiaries. The prices of such connected transactions were determined by both parties 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, principal terms of the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2009 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or the general meeting of the Company, please refer to the "Announcement Regarding Connected Transactions" and "Announcement Regarding 2009 Ongoing Connected Transactions (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange)" published by the Company on 19 April 2007, 24 October 2008, 20 March 2009 and 24 April 2009 respectively in China Securities Journal, Securities Times and Shanghai Securities News.

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to September 2009 (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	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB1-RMB31,000 per unit; Cases: RMB1-RMB17,000 per unit depending on level of sophistication; Distribution frames: RMB2-RMB300,000 per unit depending on level of sophistication; Soft circuit boards: RMB2-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.	54,874.47	2.18%	Banker's acceptance bill	No
		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-RMB4,100 per unit, depending on technical parameters and functional features.	26,964.13	1.07%	Banker's acceptance bill	No
Property leasing	ZTE Corporation and subsidiary	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)	652.56	2.76%	Banker's acceptance bill	No
	ZTE Corporation	Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq.m. (inclusive of RMB2.5/sq.m. as monthly management fees for garden areas)	1,610.66	6.81%	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.; with effect from 18 April 2009, an additional area of 6,000 sq.m. was leased and the leased area was changed from 25,000 sq.m.; to 31,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	2,614.29	11.06%	Banker's acceptance bill	No
		Chongqing Zhongxing Development Company Limited (lessor)	Property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq.m. (property management undertaken by the Company and no management fees are payable)	322.09	1.36%	Banker's acceptance bill	No

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

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

Zhongxingxin, controlling shareholder of the Company, acquired additional A shares in the Company on 10 October 2008 through the Shenzhen Stock Exchange trading system. For details of the undertaking and implementation of Zhongxingxin's plan to acquire additional shares, please refer to Section 3.5.5 headed "Additional share acquisition plan proposed by shareholders interested in more than 30% of the Company's shares and its implementation".

3.3.2 Voluntary extension of undertakings by shareholders interested in more than 5% of the Company's shares or their de facto controllers in respect of share sale restrictions and its performance

Applicable N/A

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

Applicable N/A

3.5 Other material matters requiring explanation

3.5.1 Investment in securities

Applicable N/A

3.5.2 Equity interests in other listed companies

Applicable N/A

3.5.3 Equity interests in non-listed financial enterprises and companies to be listed

Applicable N/A

3.5.4 Compensation by related parties in respect of guaranteed earnings from share reform and significant asset restructuring

Applicable N/A

3.5.5 Additional share acquisition plan proposed by shareholders interested in more than 30% of the shares of the Company and its implementation

Zhongxingxin, controlling shareholder of the Company, acquired additional A shares in the Company on 10 October 2008 through the Shenzhen Stock Exchange trading system. Zhongxingxin has undertaken not to dispose its shareholdings in the Company during the period of additional acquisition and the statutory period.

As at 9 October 2009, the implementation of the additional share acquisition plan of Zhongxingxin, the controlling shareholder of the Company, was completed. On an accumulative basis, Zhongxingxin has acquired a total of 7,649,116 additional A shares in

the Company (including: 5,883,935 A shares in the Company acquired in the secondary market on an accumulative basis; such additionally acquired A shares in the Company being increased by 1,765,181 shares as a result of the creation of 3 shares for every 10 shares held by way of capitalisation of reserves under the 2008 plans for profit distribution and capitalisation of capital reserve), accounting for approximately 0.42% of the total share capital of the Company as at 30 September 2009. During the period of additional acquisition, Zhongxingxin had been in compliance with its undertaking that it would not dispose any of its shareholdings in the Company.

For details of the above acquisition, please refer to the “Announcement on the Acquisition of Additional Shares in the Company by the Controlling Shareholder” and the “Announcement on Completion of the Plan of the Controlling Shareholder to Increase Shareholdings in the Company” published in China Securities Journal, Securities Times and Shanghai Securities News and posted on website of <http://www.cninfo.com.cn> on 11 October 2008 and 10 October 2009, respectively. The aforesaid additional share acquisition plan of Zhongxingxin, the controlling shareholders, during the reporting period was in compliance with relevant provisions of laws and regulations such as the Securities Laws, departmental rules and operational rules of Shenzhen Stock Exchange.

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

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

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
External meetings	Shenzhen	July 2009	China Jiayin Investment Securities investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Shenzhen	July 2009	Guangfa Securities investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Guilin	July 2009	Sinolink Securities investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Hong Kong	July 2009	Goldman Sachs investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Hong Kong	September 2009	Merrill Lynch investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Dongguan	September 2009	Guotai Jun'an investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Shaoxing	September 2009	Sinolink Securities investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Shenzhen	September 2009	Sinolink Securities investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Shanghai	September 2009	Everbright Securities investors' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Company visits by analysts	Company	July to September 2009	Verbal	Overseas investors Goldman Sachs, Merrill Lynch Securities, Citibank, Blackship Capital Management, Sumitomo Mitsui, BOCI, First Shanghai, Deutsche Bank, CLSA, JP Morgan Asset Management, Mirae Asset Securities, Sansar Capital, Threadneedle Asset UK, Credit Suisse, American Century, ClearBridge US, Stena Investment, Yuanta Securities, HSBC, Mainfirst	Day-to-day operations of the Company	Published announcements and regular reports
	Company	July to September 2009	Verbal	Domestic investors CICC, Guangzhou Securities, Everbright Securities, BoCom-Schroders, Ping An Securities, Qilu Securities, Fortis Haitong Fund, SouthChina Securities, China AMC Fund, UBS SDIC	Day-to-day operations of the Company	Published announcements and regular reports

3.6 Investment in derivatives

Applicable N/A

3.6.1 Balance of derivative investments as at the end of the reporting period

Applicable N/A

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

4. APPENDICES

4.1 Balance Sheet (unaudited) Please see the attached

4.2 Income Statement (unaudited) Please see the attached

4.3 Cash Flow Statement (unaudited) Please see the attached

By order of the Board
Hou Weigui
 Chairman

Shenzhen, China
 27 October 2009

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, Mi Zhengkun, Li Jin, Qu Xiaohui, Wei Wei and Chen Naiwei.

BALANCE SHEET

Currency: RMB in thousands

	2009.9.30		2008.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Assets				
Current assets:				
Cash on hand and at bank	8,295,245	4,361,336	11,480,406	8,331,272
Bills receivables	2,315,032	2,220,074	1,578,473	1,513,358
Trade receivables	16,283,185	19,654,777	9,972,495	13,186,642
Factored trade receivables	1,357,654	1,382,924	1,658,941	1,783,941
Prepayments	474,667	14,886	355,887	18,546
Dividends receivable	—	29,570	—	23,848
Other receivables	831,051	963,451	757,847	1,442,177
Inventories	10,896,054	5,903,844	8,978,036	5,211,017
Amount due from customers for contract works	<u>9,687,261</u>	<u>9,585,233</u>	<u>7,894,010</u>	<u>8,038,449</u>
Total current assets	<u>50,140,149</u>	<u>44,116,095</u>	<u>42,676,095</u>	<u>39,549,250</u>
Non-current assets:				
Available-for-sale financial assets	252,310	243,198	251,148	243,198
Long term trade receivables	563,780	1,551,036	612,008	1,214,038
Factored long term trade receivables	1,026,456	1,151,456	753,568	753,568
Long-term equity investments	425,857	2,148,552	168,433	1,747,760
Fixed assets	4,122,690	2,820,540	4,103,076	2,608,957
Construction in progress	1,426,939	957,067	817,086	402,290
Intangible assets	540,019	445,031	589,084	479,947
Development expenditure	705,989	139,487	476,020	137,915
Deferred income tax assets	475,871	290,503	400,265	231,182
Long-term deferred assets	<u>12,514</u>	<u>—</u>	<u>19,138</u>	<u>—</u>
Total non-current assets	<u>9,552,425</u>	<u>9,746,870</u>	<u>8,189,826</u>	<u>7,818,855</u>
Total assets	<u>59,692,574</u>	<u>53,862,965</u>	<u>50,865,921</u>	<u>47,368,105</u>

Legal representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

Currency: RMB in thousands

	2009.9.30		2008.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Liabilities and shareholders' equity				
Current liabilities:				
Short-term loans	4,145,083	2,065,800	3,882,479	1,273,828
Bank advances on factored trade receivables	1,357,654	1,357,654	1,658,941	1,783,941
Derivative financial liabilities	—	—	12,560	12,560
Bills payable	8,161,627	9,561,661	6,318,059	6,901,568
Trade payables	11,906,564	13,943,574	9,495,946	12,582,726
Amount due to customers for contract works	2,822,680	2,104,025	2,965,582	2,408,455
Advances from customers	1,743,706	1,144,218	1,392,862	1,640,192
Salary payable	1,868,080	1,187,423	1,443,017	596,515
Taxes payable	(562,697)	(665,169)	(765,040)	(993,777)
Dividends payable	19,795	75	22,750	10
Other payables	2,037,892	3,920,599	1,553,011	4,188,152
Deferred income	76,198	52,788	64,281	31,263
Provision	181,071	91,924	170,382	100,724
Long-term loans due within one year	<u>1,575,960</u>	<u>478,030</u>	<u>1,782,006</u>	<u>673,384</u>
Total current liabilities	<u>35,333,613</u>	<u>35,242,602</u>	<u>29,996,836</u>	<u>31,199,541</u>
Non-current liabilities:				
Long-term loans	3,252,029	2,922,640	1,292,547	1,005,039
Bank advances on factored long-term trade receivables	1,026,456	1,151,456	753,568	753,568
Bonds payable	3,595,072	3,595,072	3,514,652	3,514,652
Specific payables	80,000	80,000	80,000	80,000
Deferred income tax liabilities	4,295	7,242	5,019	7,242
Other non-current liabilities	<u>39,752</u>	<u>39,752</u>	<u>39,752</u>	<u>39,752</u>
Total non-current liabilities	<u>7,997,604</u>	<u>7,796,162</u>	<u>5,685,538</u>	<u>5,400,253</u>
Total liabilities	<u>43,331,217</u>	<u>43,038,764</u>	<u>35,682,374</u>	<u>36,599,794</u>
Shareholders' equity:				
Share capital	1,831,336	1,831,336	1,343,330	1,343,330
Capital reserves	6,610,768	6,583,733	6,298,172	6,271,137
Less: restricted shares pending unlocking	447,235	447,235	—	—
Surplus reserves	1,431,827	769,482	1,431,820	769,603
Retained profits	6,213,256	2,099,425	5,021,369	1,992,735
Proposed final dividend	—	—	402,999	402,999
Foreign currency translation differences	(276,647)	(12,540)	(248,146)	(11,493)
Equity attributable to equity holders of the parent	15,363,305	10,824,201	14,249,544	10,768,311
Minority Interests	<u>998,052</u>	<u>—</u>	<u>934,003</u>	<u>—</u>
Total shareholders' equity	<u>16,361,357</u>	<u>10,824,201</u>	<u>15,183,547</u>	<u>10,768,311</u>
Total liabilities and shareholders' equity	<u>59,692,574</u>	<u>53,862,965</u>	<u>50,865,921</u>	<u>47,368,105</u>

Legal representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

* For details of restricted shares which have not been unlocked, please refer to Section 3.2.2 of the text of the Third Quarterly Report headed "Progress of the Phase I Share Incentive Scheme of the Company".

INCOME STATEMENT

Currency: RMB in thousands

Item	Nine months ended 30 September 2009		Nine months ended 30 September 2008	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating income	42,843,475	39,870,539	30,327,346	28,375,815
Less: Operating costs	28,731,931	32,013,423	19,983,647	23,291,352
Business taxes and surcharges	533,176	113,483	251,274	29,183
Selling and distribution costs	5,250,657	3,914,281	4,076,312	3,091,833
Administrative expenses	2,131,576	1,313,357	1,667,962	974,711
Research and development costs	4,015,609	1,250,851	2,659,582	680,654
Finance costs	538,114	579,392	843,118	877,670
Asset impairment losses	672,254	517,966	322,393	205,246
Add: Fair value gains/losses	12,648	12,559	(125,639)	(133,514)
Investment income	2,350	53,133	98,524	1,273,283
Including: Share of profits and losses of associates and jointly controlled entities	<u>10,460</u>	<u>6,952</u>	<u>9,874</u>	<u>2,652</u>
2. Operating profit	<u>985,156</u>	<u>233,478</u>	<u>495,943</u>	<u>364,935</u>
Add: Non-operating income	882,959	126,063	745,652	64,571
Less: Non-operating expenses	53,962	13,144	42,654	20,335
Including: Profit/loss on disposal of non-current assets	<u>6,598</u>	<u>—</u>	<u>8,097</u>	<u>2,152</u>
3. Total profit	<u>1,814,153</u>	<u>346,397</u>	<u>1,198,941</u>	<u>409,171</u>
Less: Income tax	<u>494,423</u>	<u>239,707</u>	<u>225,782</u>	<u>45,075</u>
4. Net profit	<u>1,319,730</u>	<u>106,690</u>	<u>973,159</u>	<u>364,096</u>
Attributable to equity holders of the parent company	1,192,015	106,690	815,725	364,096
Minority interests	127,715	—	157,434	—
5. Earnings per share				
(1) Basic*	0.68	0.06	0.47	0.21
(2) Diluted**	0.67	0.06	0.45	0.20
6. Other comprehensive income	<u>(28,501)</u>	<u>(1,047)</u>	<u>(91,426)</u>	<u>(7,624)</u>
7. Comprehensive income	<u>1,291,229</u>	<u>105,643</u>	<u>881,733</u>	<u>356,472</u>
Comprehensive income attributable to equity holders of the parent company	1,163,514	105,643	724,299	356,472
Comprehensive income attributable to minority interests	127,715	—	157,434	—

Legal representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

* Basic earnings per share for the same period of 2008 has been restated to reflect the increase in the Company's total issued share capital from 1,343,330,310 shares to 1,746,329,402 shares as a result of the implementation of the profit distribution for 2008. The calculation of basic earnings per share for the period is based on the weighted average ordinary share capital representing the total share capital as at the end of the period less 69,737,523 restricted shares which have not been unlocked.

** Basic earnings per share have been diluted to take into account the 31,464,915 and 46,753,747 potentially dilutive ordinary shares for the current period and the same period of 2008, respectively, arising from the Subject Share quota under the Phase I Share Incentive Scheme of the Company, a part of which has not been unlocked. Diluted earnings per share for the same period of 2008 has been restated accordingly.

Currency: RMB in thousands

Item	Three months ended 30 September 2009		Three months ended 30 September 2008	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating income	15,135,829	13,992,867	10,598,362	11,086,908
Less: Operating costs	9,907,582	10,964,170	6,881,434	8,496,331
Business taxes and surcharges	233,131	56,662	102,158	7,397
Selling and distribution costs	2,073,518	1,382,134	1,459,473	1,163,359
Administrative expenses	763,849	499,658	537,229	356,350
Research and development costs	1,409,161	595,056	1,011,684	328,440
Finance costs	170,762	186,380	441,240	312,477
Asset impairment losses	226,325	210,039	122,935	95,544
Add: Fair value gains/losses	—	—	(56,006)	(56,006)
Investment income	—	2,550	46,818	48,930
Including: Share of profits and losses of associates and jointly controlled entities	—	—	—	—
2. Operating profit	<u>351,501</u>	<u>101,318</u>	<u>33,021</u>	<u>319,934</u>
Add: Non-operating income	262,806	54,181	310,108	22,436
Less: Non-operating expenses	11,350	2,902	12,830	420
Including: Profit/loss on disposal of non-current assets	—	—	4,638	—
3. Total profit	<u>602,957</u>	<u>152,597</u>	<u>330,299</u>	<u>341,950</u>
Less: Income tax	<u>151,966</u>	<u>120,651</u>	<u>26,566</u>	<u>5,230</u>
4. Net profit	<u>450,991</u>	<u>31,946</u>	<u>303,733</u>	<u>336,720</u>
Attributable to equity holders of the parent company	408,648	31,946	258,339	336,720
Minority interests	42,343	—	45,394	—
5. Earnings per share				
(1) Basic*	0.23	0.02	0.15	0.19
(2) Diluted**	0.23	0.02	0.14	0.18
6. Other comprehensive income	17,870	(476)	(70,684)	(3,162)
7. Comprehensive income	468,861	31,470	233,049	333,558
Comprehensive income attributable to equity holders of the parent company	426,518	31,470	187,655	333,558
Comprehensive income attributable to minority interests	42,343	—	45,394	—

Legal representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

* Basic earnings per share for the same period of 2008 has been restated to reflect the increase in the Company's total issued share capital from 1,343,330,310 shares to 1,746,329,402 shares as a result of the implementation of the profit distribution for 2008. The calculation of basic earnings per share for the period is based on the weighted average ordinary share capital representing the total share capital as at the end of the period less 69,737,523 restricted shares which have not been unlocked.

** Basic earnings per share have been diluted to take into account the 31,464,915 and 46,753,747 potentially dilutive ordinary shares for the current period and the same period of 2008, respectively, arising from the Subject Share quota under the Phase I Share Incentive Scheme of the Company, a part of which has not been unlocked. Diluted earnings per share for the same period of 2008 has been restated accordingly.

CASH FLOW STATEMENT

Item	Nine months ended 30 September 2009		Nine months ended 30 September 2008	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering services	37,401,325	33,136,001	26,412,846	23,095,992
Cash received from taxes returned	2,510,887	1,776,696	2,212,089	1,674,943
Cash received relating to other operating activities	316,219	180,111	150,728	98,532
Sub-total of cash inflow	40,228,431	35,092,808	28,775,663	24,869,467
Cash paid for goods and services	29,685,509	33,864,149	21,135,293	23,177,892
Cash paid to and on behalf of employees	5,677,936	1,516,822	4,511,631	1,203,201
Payments of taxes and levies	2,448,170	144,554	1,543,126	116,955
Cash paid relating to other operating activities	5,952,825	4,196,446	6,097,397	4,497,181
Sub-total of cash outflow	43,764,440	39,721,971	33,287,447	28,995,229
Net cash flows from operating activities	(3,536,009)	(4,629,163)	(4,511,784)	(4,125,762)
2. Cash flows from investing activities				
Cash received from sale of investments	7,558	—	—	—
Cash received from gains of investment	13,225	50,667	118,572	99,590
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	769	—	4,166	—
Sub-total of cash inflow	21,552	50,667	122,738	99,590
Cash paid to acquire fixed asset, intangible assets and other long-term assets	802,056	695,804	1,290,400	1,004,523
Cash paid for investment	256,994	404,175	5,290	—
Sub-total of cash outflow	1,059,050	1,099,979	1,295,690	1,004,523
Net cash flow from investing activities	(1,037,498)	(1,049,312)	(1,172,952)	(904,933)
3. Cash flows from financing activities				
Cash received from investment	38,771	29,771	—	—
Cash received from borrowings	8,020,466	5,405,015	5,434,944	4,255,704
Cash received from the issue of Bonds cum Warrants	—	—	3,961,444	3,961,444
Sub-total of cash inflow	8,059,237	5,434,786	9,396,388	8,217,148
Cash paid for debt repayments	6,004,426	2,890,796	4,394,980	4,145,052
Cash payments for distribution of dividends and interest expenses	893,745	803,073	659,043	584,464
Sub-total of cash outflow	6,898,171	3,693,869	5,054,023	4,729,516
Net cash flow from financing activities	1,161,066	1,740,917	4,342,365	3,487,632

Currency: RMB in thousands

Item	Nine months ended 30 September 2009		Nine months ended 30 September 2008	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
4. Effect of changes in foreign exchange rate on cash	<u>12,118</u>	<u>(57,790)</u>	<u>93,550</u>	<u>175,245</u>
5. Net increase in cash and cash equivalents	<u>(3,400,323)</u>	<u>(3,995,348)</u>	<u>(1,248,821)</u>	<u>(1,367,818)</u>
Add: Opening balance of cash and cash equivalents	<u>11,344,160</u>	<u>8,323,750</u>	<u>6,309,749</u>	<u>4,604,365</u>
6. Closing balance of cash and cash equivalents	<u>7,943,837</u>	<u>4,328,402</u>	<u>5,060,928</u>	<u>3,236,547</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.*