

ZTE中兴

ZTE CORPORATION

中兴通讯股份有限公司

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

(Stock Code: 763)

2008 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 quarterly report does not contain any false information, misleading statement or material omission, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents herein.
- 1.2 There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of the quarterly report.
- 1.3 The quarterly report has been considered and approved at the nineteenth 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 related reasons, and has authorised in writing Mr. Yin Yimin, Director, to vote on his behalf. Mr. Wang Zongyin, Vice Chairman, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. He Shiyou, Director, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. Mr. Li Juping, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. He Shiyou, Director, to vote on his behalf. Mr. Shi Lirong, Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Yin Yimin, Director, to vote on his behalf. Mr. Zhu Wuxiang, Independent Director, was unable to attend the meeting due to work related reasons, and has authorised in writing Mr. Chen Shaohua, Independent Director, to vote on his behalf.
- 1.4 The financial statements in this quarterly report, prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”), were unaudited.
- 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 the 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

China’s telecommunications market embraced a new stage of development during the nine months ended 30 September 2008 as the Ministry of Industry and Information Technology was formed while the restructuring of telecommunications operators was well underway. Internationally, changes emerged in the market scenario as competition became more intense among equipment makers given operators’ increasing focus on cost control, while Chinese manufacturers benefited from the trend to deliver stronger performance. Within the telecommunications industry, the fast-growing businesses of mobile voice, mobile broadband and fixed-line broadband formed a new niche where market shares were hotly contested for.

The Group continued to report stable business growth amid the global economic turmoil and fierce industry competition. Sales revenue of the Group for the nine months ended 30 September 2008 amounted RMB30,327 million, representing a year-on-year growth of 29.34%. Net profit attributable to the parent company grew 35.31% to RMB816 million. Basic earnings per share amounted to RMB0.61.

Market-wise, the Group capitalised on opportunities presented by the changing global economic scene to embark on full-scale development of its business both in China and overseas. The Group achieved sustainable development at home on the back of a solid product structure and strengths in technological innovation. Meanwhile, we enjoyed rising prominence as an international market player as we continued to strike major deals with international carriers.

Analysed by product segment, revenue from the sales of the Group’s wireless communications system products grew 13.25% compared to the same period last year, driven mainly by the substantial growth in sales of the Group’s GSM products. Revenue from the sales of wireline switch and access products surged by 154.78% compared to the same period last year, reflecting mainly increased international sales of wireline switch and access products. Revenue from the sales of optical and data communications products increased by 35.30% compared to the same period last year, attributable mainly to growth in the international sales of optical and data communications products. Sales of handset products grew by 26.06% compared to the same period last year, reflecting mainly the substantial growth in revenue from the sales of the Group’s 3G and GSM handsets.

Looking to the final quarter, we will supply CDMA and TD-SCDMA products in China following the announcement of tender results while tender construction for WCDMA will also begin. Implementation of certain major overseas projects will commence during the period. The Group will capitalise on its inherent strengths and focus on its core businesses by better serving the carriers and identifying new growth niche in various segments. With due regard to risk control in overseas businesses, we will continue to enhance cooperation with top-flight international carriers. Ongoing quality improvement will remain a priority for our projects. To ensure balanced development, we will seek opportunities in the domestic market for significant growth in our wireless, terminal and optical communications products while procuring steady development of our overseas operations.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major accounting data and financial indicators of the Group

Item	End of the current reporting period (30 September 2008)	End of the previous year (31 December 2007)	Increase/decrease as at end of reporting period compared with end of the previous year (%)
Total assets (<i>RMB in thousands</i>)	47,189,076	39,173,096	20.46
Shareholders' equity attributable to the parent company (<i>RMB in thousands</i>)	13,313,664	12,137,161	9.69
Net assets per share attributable to shareholders of the parent company (<i>RMB</i>) ^{Note 1}	9.91	9.04	9.62
Item	From the start of the year to the end of the reporting period (Nine months ended 30 September 2008)		Increase/decrease compared with the corresponding period of the previous year (%)
Net cash flow from operating activities (<i>RMB in thousands</i>)	-4,511,784		-87.74
Net cash flow from operating activities per share (<i>RMB</i>) ^{Note 1}	-3.36		-87.71
Item	Reporting period (Three months ended 30 September 2008)	From the start of the year to the end of the reporting period (Nine months ended 30 September 2008)	Increase/decrease for the reporting period compared with the corresponding period of the previous year (%)
Net profit attributable to shareholders of the parent company (<i>RMB in thousands</i>)	258,339	815,725	80.65
Basic earnings per share (<i>RMB</i>) ^{Note 1}	0.19	0.61	72.73
Basic earnings per share after extraordinary gains or losses (<i>RMB</i>) ^{Note 1}	—	0.55	—
Diluted earnings per share (<i>RMB</i>) ^{Note 1 & Note 2}	0.19	0.60	72.73
Fully diluted return on net assets (%)	1.94%	6.13%	Increase by 0.69 percentage points
Fully diluted return on net assets after extraordinary gains or losses (%)	1.47%	5.57%	Increase by 0.28 percentage points

Note 1: The Company's plan to increase its capital by way of capitalisation of capital reserves was implemented on 10 July 2008 and the actual number of the Company's total issued share capital was increased from 959,521,650 shares to 1,343,330,310 shares during the period between 1 January 2008 and the date of publication of this report. The indicator set out above is based on the total share capital of 1,343,330,310 shares following the increase of capital by way of capitalisation of capital reserves.

Note 2: Diluted earnings per share for the reporting period under PRC ASBEs is arrived at by dividing net profit attributable to the parent company by the effective total share capital of the Company of 1,343,330,310 shares plus 20% of the 67.172 million potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company.

Extraordinary gains or losses

	Amount (RMB in thousands)	
	Three months ended 30 September 2008	Nine months ended 30 September 2008
Extraordinary gains or losses		
Non-operating income (non-recurrent portion)	86,668	130,232
Less: Non-operating expenses	12,830	42,654
Effect of income tax	<u>11,076</u>	<u>13,137</u>
Total	<u><u>62,762</u></u>	<u><u>74,441</u></u>

2.2.2 The amounts of net profit and owners' equity of the Group for nine months ended and as at 30 September 2008 calculated in accordance with PRC ASBEs are entirely consistent with those calculated under Hong Kong Financial Reporting Standards.

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

Total number of shareholders as at the end of the reporting period Total number of shareholders as at the end of the reporting period was 28,680 shareholders (of which 28,350 were holders of A shares and 330 were holders of H shares).

Shareholdings of top ten holders of shares not subject to lock-up as at the end of the reporting period

Name of shareholder	Number of shares not subject to lock-up at the end of the reporting period (shares)	Class
HKSCC Nominees Limited	223,791,255	H shares
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	102,994,754	A shares
Boshi Value Growth Fund	24,695,761	A shares
China AMC Dividend Fund	19,842,465	A shares
China International Fund Management Alpha Stock Fund	19,576,879	A shares
China International Domestic Demand Dynamic Stock Fund	18,191,471	A shares
Hunan Nantian (Group) Co., Ltd	16,004,534	A shares
Southern Longyuan Sector Theme Fund	12,640,347	A shares
Rongtong New Large-cap Stock Fund	12,067,975	A shares
China Post Core Growth Fund	11,650,473	A shares

3. MATERIAL MATTERS

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

Applicable N/A

Unit: RMB in thousands

Balance sheet

Item	30 September 2008	31 December 2007	Change	Reason
Tradable financial assets	516	123,644	-99.58%	Mainly attributable to the settlement of forward exchange contracts
Trade receivables	10,808,521	7,098,949	52.26%	Mainly attributable to the increase in sales and the offer of favourable payment terms to customers

Unit: RMB in thousands

Balance sheet

Item	30 September 2008	31 December 2007	Change	Reason
Factored trade receivables	9,354	153,668	-93.91%	Mainly attributable to the decrease in factoring with limiting conditions undertaken by the Company
Other receivables	1,329,597	689,889	92.73%	Mainly attributable to the increase in export tax rebate receivable
Inventory	7,249,234	5,363,430	35.16%	Mainly attributable to the increase in purchases as a result of increased sales and increase in contracts under performance
Amount due from customers for contract work	11,883,426	8,606,291	38.08%	Mainly attributable to the completion of contract construction works ahead of payment schedules stipulated in contracts
Long-term factored trade receivables	1,681,133	3,142,709	-46.51%	Mainly attributable to the decrease in long-term factored trade receivables with limiting conditions undertaken by the Company
Work in progress	1,508,799	931,090	62.05%	Mainly attributable to the increase in equipment installation costs for ZTE Industrial Park and certain subsidiaries
Development expenses	459,351	258,991	77.36%	Mainly attributable to the increase in capitalisation of research and development costs
Short-term loans	4,360,006	2,893,855	50.66%	Mainly attributable to the increase in loans to meet cash flow requirements and avert exchange risks

Unit: RMB in thousands

Balance sheet

Item	30 September 2008	31 December 2007	Change	Reason
Bank advances on factored trade receivables	9,354	153,668	-93.91%	Mainly attributable to the decrease in factoring with limiting conditions undertaken by the Company
Tradable financial liabilities	10,387	7,876	31.88%	Mainly attributable to the decrease in fair value of forward exchange contracts
Bills payable	5,376,056	3,946,429	36.23%	Mainly attributable to the increase in payments using notes
Amount due to customers for contract work	816,487	1,597,314	-48.88%	Mainly attributable to faster progress for construction projects
Advances from customers	2,521,978	1,491,219	69.12%	Mainly attributable to the increase in advances from customers in tandem with increased sales
Deferred income	63,418	101,695	-37.64%	Mainly attributable to the decrease in deferred government subsidies
Provision	168,335	126,042	33.55%	Mainly attributable to changes in events in connection with which liabilities are anticipated
Bank advances on long-term factored trade receivables	1,681,133	3,142,709	-46.51%	Mainly attributable to the decrease in long-term factored trade receivables with limiting conditions undertaken by the Company
Bonds payable	3,456,932	—	—	Mainly attributable to the issue of the bonds cum warrant

Unit: RMB in thousands

Balance sheet

Item	30 September 2008	31 December 2007	Change	Reason
Share capital	1,343,330	959,522	40.00%	Mainly attributable to the conversion of capital reserve into share capital
Proposed final dividend	—	239,880	-100.00%	Mainly attributable to the distribution of dividend for the current period
Exchange differences	-156,988	-65,562	-139.45%	Mainly attributable to exchange rate movements

Unit: RMB in thousands

Income statement (nine months ended 30 September)

Item	Nine months ended 30 September 2008	Nine months ended 30 September 2007	Change	Reason
Taxes and surcharges	251,274	152,972	64.26%	Mainly attributable to the increase in taxes corresponding to increased service income
Finance costs	843,118	255,982	229.37%	Mainly attributable to the increase in interest expenses as a result of increased loans and the increase in exchange losses as a result of exchange rate movements
Loss arising from asset impairment	322,393	160,222	101.22%	Mainly attributable to increase in bad debt provision
Fair value gains/losses	-125,639	17,690	-810.23%	Mainly attributable to the recognition of fair value gains/losses corresponding to forward exchange contracts in investment gains

Unit: RMB in thousands

Income statement (nine months ended 30 September)

Item	Nine months ended 30 September 2008	Nine months ended 30 September 2007	Change	Reason
Investment income	98,524	13,814	613.22%	Mainly attributable to the disposal of subsidiaries and the increase in gains from the settlement of forward exchange contracts
Operating profit	495,943	370,076	34.01%	Mainly attributable to the increase in sales
Non-operating income	745,652	563,593	32.30%	Mainly attributable to the increase in software VAT tax rebate
Non-operating expenses	42,654	63,475	-32.80%	Mainly attributable to the decrease in loss arising from the disposal of fixed assets and retired materials
Total profit	1,198,941	870,194	37.78%	Mainly attributable to the increase in sales and increase in software VAT tax rebate
Income tax	225,782	134,001	68.49%	Mainly reflecting the expiry of tax concessions for certain subsidiaries
Net profit (including minority interests)	973,159	736,193	32.19%	Mainly attributable to the increase in sales
Net profit attributable to equity holders of the parent company	815,725	602,845	35.31%	Mainly attributable to the increase in sales

Unit: RMB in thousands

Income statement (three months ended 30 September)

Item	Three months ended 30 September 2008	Three months ended 30 September 2007	Change	Reason
Taxes and surcharges	102,158	35,718	186.01%	Mainly attributable to the increase in taxes in tandem with increased service income
Selling and distribution costs	1,459,473	1,009,849	44.52%	Mainly attributable to the increase in sales
Research and development costs	1,011,684	589,875	71.51%	Mainly attributable to business expansion
Finance costs	441,240	65,614	572.48%	Mainly attributable to the increase in interest expenses as a result of increased loans and the increase in exchange losses as a result of exchange rate movements
Loss arising from asset impairment	122,935	64,302	91.18%	Mainly attributable to the increase in bad debt provision
Fair value gains/losses	-56,006	-7,121	-686.49%	Mainly attributable to the recognition of fair value gains/losses corresponding to forward exchange contracts in investment gains
Investment income	46,818	5,048	827.46%	Mainly attributable to the increase in gains from the settlement of forward exchange contracts
Operating profit	33,021	85,758	-61.50%	Mainly attributable to the increase in expenses for the period
Non-operating income	310,108	188,849	64.21%	Mainly attributable to the increase in software VAT tax rebate

Unit: RMB in thousands

Income statement (three months ended 30 September)

Item	Three months ended 30 September 2008	Three months ended 30 September 2007	Change	Reason
Income tax	26,566	78,557	-66.18%	Mainly attributable to movements in profit of subsidiaries under the Group
Net profit (including minority interests)	303,733	180,786	68.01%	Mainly attributable to the increase in sales
Net profit attributable to equity holders of the parent company	258,339	143,005	80.65%	Mainly attributable to the increase in sales

Unit: RMB in thousands

Cash flow statement

Item	Nine months ended 30 September 2008	Nine months ended 30 September 2007	Change	Reason
Net cash flow from operating activities	-4,511,784	-2,403,235	-87.74%	Mainly attributable to the increase in the purchase of materials and other operating expenses in tandem with increased sales
Net cash flow from financing activities	4,342,365	2,759,938	57.34%	Mainly reflecting cash received from the issue of bonds cum warrant

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

✓ Applicable N/A

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

The “Resolution on the Proposal for the Issue of the Bonds cum Warrants of the Company” was considered and approved at the seventh meeting of the fourth session of the Board of Directors of the Company held on 16 August 2007 and subsequently considered and approved at the third extraordinary general meeting for 2007 of the Company convened on 16 October 2007.

With the approval of the China Securities Regulatory Commission by virtue of the document Zhen Jian Xu Ke [2008] No. 132, the Company issued 40,000,000 bonds with warrants (the “Bonds cum Warrants”) with a total amount of RMB4 billion. On 22 February 2008, Bonds and Warrants were respectively listed on the Shenzhen Stock Exchange for trading with the respective codes of “中興債1” and “中興ZXC1”. On 27 February 2008, the Company entered into an “Agreement for Tripartite Supervision of Fund Raised” with China National Development Bank, Shenzhen Branch and Guotai Junan Securities Co., Ltd.

The ‘Resolution on the Replacement of self-raised Funds Previously Invested in Fund Raised Investment Projects with Fund from the Issue of Bonds cum Warrants of the Company’ was considered and approved at the twelfth meeting of the fourth session of the Board of Directors of the Company held on 13 March 2008. On 10 July 2008, the Company’s plans for profit distribution and capitalisation from capital reserve for 2007 were implemented and the exercise price and ratio of the warrant 中興ZXC1 were adjusted to RMB55.582 and 1:0.703, respectively. On 14 July 2008, the Company received a “Notification on the Replacement of Sponsor Representative” from Guotai Junan Securities Co., Ltd., the sponsor for the Company’s issue of bonds cum warrant, the details of which have been disclosed in announcements published in China Securities Journal, Securities Times, Shanghai Securities News and on the website of <http://www.cninfo.com.cn>.

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

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period. For 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, please refer to the section headed “Material Matters” in the 2008 interim report. There was no other progress pertaining to the matter during the reporting period.

3.2.3 Execution and performance of material contracts during the period from the 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. Details of the performance of material contracts entered into prior to and subsisting during the reporting period are 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		Under normal progress
2	Commercial contract for the construction of trial network for TD-SCDMA scale network technology application with China Mobile	11 June 2007	China Securities Journal Securities Times Shanghai Securities News	Completed
3	Amendment of the 2006–2007 Chip Purchase Framework Agreement signed in April 2006 with QUALCOMM			Completed
4	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		Under normal progress

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 from and property leasing from connected parties by the Company and its subsidiaries. The prices of such connected transactions were determined after arm's length negotiation between the parties on the basis of normal commercial terms. The prices at which the Group made purchases from the connected parties were no 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 no 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 profits. The Group is not dependent on the connected parties and the connected transactions conducted 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 2008 under each agreement, impact of the connected

transactions on the Group and review of the connected transactions by the Board of Directors or General Meeting of the Company, etc, please refer to the announcement on ongoing connected transactions and announcement on ongoing connected transactions of 2008 under the Listing Rules of the Shenzhen Stock Exchange published respectively by the Company on 19 April 2007 and 20 March 2008 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	As a	Settlement Method	Whether different from estimated conditions
						January to September 2008 (Excluding VAT) (RMB10,000)	percentage of transactions in the same classification		
Purchase of raw materials	ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited (“Zhongxingxin”) and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited and Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, flexible printed circuit boards and shelters, etc.	market prices (as per contract)	Cabinets: RMB1,000–31,000 per unit; cases: RMB1–17,000 per unit depending on level of sophistication; distribution frames and accessories: RMB2–300,000 per unit depending on level of sophistication; flexible printed circuit boards (FPC): RMB2–50 per unit, depending on measurement, technical parameters and functional features; Shelter: RMB20,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	63,301.08	3.23%	Banker’s acceptance bill	No
		Zhongxing WXT Equipment Company, Ltd.	Various products such as IC, plugs and connectors, optical devices, modules and other ancillary equipment	market prices (as per contract)	IC (built-in): RMB100–RMB1,000 per unit depending on brand, capacity and technical parameters; plugs and connectors: RMB2–120 per unit depending on the structure and raw materials; Optical devices: RMB120–RMB17,500 per unit depending on materials performance	6,979.68	0.36%	Banker’s acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd	Various communications antennas, radio frequency components	market prices (as per contract)	Communication antenna: RMB320–RMB2,500 per piece depending on technical parameters and functional features	16,262.13	0.83%	Banker’s acceptance bill	No

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	As a	Settlement Method	Whether different from estimated conditions
						January to September 2008 (Excluding VAT) (RMB10,000)	percentage of transactions in the same classification		
Property leasing	ZTE Corporation	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 15,000 sq. m.	market prices (as per contract)	Monthly rent of RMB40/sq. m. (ZTE will be responsible for property management and management fees are not payable)	469.44	1.58%	Banker's acceptance bill	No
		Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees for the park zone)	1,642.87	5.52%	Banker's acceptance bill	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at No.19 Huayuan East Road, Haidian District, Beijing with a leased area of 25,000 sq. m.	market prices (as per contract)	Monthly rent of RMB115/sq. m. (ZTE will be responsible for property management and management fees are not payable)	2,463.77	8.28%	Banker's acceptance bill	No

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

3.3.1 Performance of special undertaking by holders of original non-circulating shares in respect of the share reform

Name of shareholder	Special undertaking	Performance of agreement	Performance of undertaking
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited (largest shareholder of the Company)	<p>Where Zhongxingxin sells the non-circulating shares of the Company held by it during the period from the 13th month to the 24th month after such shares have been granted the right of listing and circulation on the Shenzhen Stock Exchange, the price at which the shares are sold shall not be less than RMB30.76 per share, which is 115% of the mathematical average of the closing prices of its A shares for the 60 trading days prior to the initial announcement made by the directors of the Company regarding the Share Reform Plan, that is, RMB26.75 per share (such price to be calculated on an ex-rights basis and net of any dividends, bonus issues and capitalisation of capital reserve during the period from the implementation date of the Share Reform Plan to the date of sale). The proceeds from any sale by Zhongxingxin in breach of such undertaking shall be reverted to the Company's account for the benefit of all shareholders of the Company.</p> <p>The price of "RMB30.76" specified in the special undertaking by Zhongxingxin set out above has been adjusted to "RMB30.36" following the implementation of the 2005 and 2006 profit distribution plans of the Company on 14 July 2006 and 27 July 2007.</p>	As at 29 December 2007, the special undertaking had been full performed.	Under strict compliance

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

3.3.2 Voluntary additional undertakings in respect of shares subject to lock-up given by shareholders of the Company holding more than 5% or their de facto controllers and their 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 significant events requiring disclosure

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 Plans of shareholders holding 30% or above of the Company's shares to increase shareholdings and their implementation

On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, increased its shareholdings in the Company by purchasing 2,272,874 shares (representing 0.17% of the total number of shares in the Company) through the securities trading system of Shenzhen Stock Exchange at an average price of RMB21.99 per share. Zhongxingxin had previously held 471,204,075 shares in the Company (representing 35.08% of the total number of shares in the Company). After the purchase of additional shares, Zhongxingxin was interested in 473,476,949 shares in the Company, representing 35.25% the total number of shares in the Company. It is the intention of Zhongxingxin that any increase in its shareholding in the Company within the next 12 months (including the current increase) will be no more than 2% of the issued shares of the Company.

Undertaking of Zhongxingxin: It will not reduce its shareholdings in the Company during the period of consecutive purchase and the statutory period.

For details, please refer to the "Announcement on Increased Shareholdings by the Controller Shareholder" published by the Company in China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> on 11 October 2008.

3.5.5 The Company had not provided any funding to the controlling shareholder or its connected parties or provided guarantees to third parties in violation of stipulated procedures.

3.5.6 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	September 2008	Teleconference	Analysts and investors	2008 interim report	Published announcements and regular reports
	Shenzhen	September 2008	Roadshow	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	September 2008	Roadshow	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	September 2008	Roadshow	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	September 2008	Roadshow	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
External meetings	Hong Kong	September 2008	Citibank presentation	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	September 2008	SYWG presentation	Customers of SYWG	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Company visits by analysts				Overseas investors		
	Company	July to September 2008	Verbal	Citadel Investment Group, Amoeba Capital, UOB Kay Hian, Piperjaffray, Mirae Asset, Citigroup Investment Research, Industrivarden, Goldman Sachs, Nomura Securities, ING Investment Management, BOC International, CICC, SYWG, William Blain & Company, American Century, Asian Century, Janus Capital Management	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic investors		
	Company	July to September 2008	Verbal	Invesco Great Wall, China Jianyin Investment Securities, New China Assets Management, United Securities, SYWG BNP Paribas, Hua An Fund, Ping An Assets Management, Sinolink Securities, Chang Xin Asset Management, China Merchants Fund, PICC Asset Management, Zhongtian Securities, ABC-CA Fund, HSBC Jintrust, China Life Insurance Asset Management, Yimin Asset Management, Lombarda China, Bank of Communications Schroder, Everbright Pramerica, CITIC Funds, Industrial Fund Management, CCB Principal Asset Management	Day-to-day operations of the Company	Published announcements and regular reports

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

4. APPENDICES

4.1 Balance Sheet (unaudited)

4.2 Income Statement (unaudited)

4.3 Cash Flow Statement (unaudited)

BALANCE SHEET

	2008.09.30		Currency: RMB'000 2007.12.31	
	Group (unaudited)	Company (unaudited)	Group (audited)	Company (audited)
Assets				
Current assets:				
Cash in bank and on hand	5,186,826	3,239,129	6,483,170	4,640,149
Tradable financial assets	516	516	123,644	123,644
Notes receivable	2,016,122	1,835,800	1,656,258	1,599,250
Trade receivables	10,808,521	13,329,624	7,098,949	8,945,606
Factored trade receivables	9,354	134,354	153,668	278,668
Prepayments	359,439	25,451	311,362	85,165
Dividend receivable	—	17,045	—	184,589
Other receivables	1,329,597	2,193,680	689,889	1,489,362
Inventory	7,249,234	2,102,273	5,363,430	1,443,814
Amounts due from customers for contract work	11,883,426	11,749,278	8,606,291	8,216,361
Total current assets	38,843,035	34,627,150	30,486,661	27,006,608
Non-current assets:				
Available-for-sale financial assets	43,464	41,464	43,464	41,464
Long-term receivables	521,087	342,678	581,007	401,715
Long-term factored trade receivables	1,681,133	2,057,503	3,142,709	3,142,709
Long-term equity investment	155,431	550,622	137,019	547,970
Fixed assets	3,493,497	2,329,250	3,038,063	1,878,330
Construction in progress	1,508,799	953,935	931,090	817,787
Intangible assets	188,075	59,692	224,848	78,398
Development expenses	459,351	140,745	258,991	127,624
Deferred income tax assets	266,660	202,007	295,750	256,407
Long-term deferred assets	28,544	—	33,494	—
Total non-current assets	8,346,041	6,677,896	8,686,435	7,292,404
Total assets	47,189,076	41,305,046	39,173,096	34,299,012

*Legal Representative
of the Company:*
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Financial Division:
Shi Chunmao

	2008.09.30		Currency: RMB'000 2007.12.31	
	Group (unaudited)	Company (unaudited)	Group (audited)	Company (audited)
Liabilities and shareholders' equity				
Current liabilities:				
Short-term loans	4,360,006	3,287,660	2,893,855	2,535,673
Bank advances on factored trade receivables	9,354	134,354	153,668	278,668
Tradable financial liabilities	10,387	10,387	7,876	—
Notes payable	5,376,056	5,262,653	3,946,429	3,818,010
Trade payables	10,101,846	11,240,565	7,856,240	8,616,400
Amount due to customers for contract work	816,487	653,711	1,597,314	472,653
Advances from customers	2,521,978	1,891,699	1,491,219	1,502,276
Remuneration payable to staff	1,222,017	696,000	1,241,839	551,215
Tax payable	(1,469,989)	(1,448,805)	(1,342,330)	(1,056,962)
Dividend payable	48,856	10	41,180	500
Other payables	1,361,788	2,103,565	1,314,057	2,643,437
Deferred income	63,418	10,309	101,695	21,695
Provision	168,335	86,888	126,042	78,463
Non-current liabilities due within one year	<u>1,302,704</u>	<u>1,302,275</u>	<u>1,509,569</u>	<u>1,509,569</u>
Total current liabilities	<u>25,893,243</u>	<u>25,231,271</u>	<u>20,938,653</u>	<u>20,971,597</u>
Non-current liabilities:				
Long-term loans	1,865,907	477,281	2,085,229	911,322
Bank advances on factored long-term trade receivables	1,681,133	2,057,503	3,142,709	3,142,709
Financial guarantee contracts	3,689	3,689	3,689	3,689
Provision for retirement benefits	34,408	34,408	34,408	34,408
Bonds payable	3,456,932	3,456,932	—	—
Specific payables	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
Total non-current liabilities	<u>7,122,069</u>	<u>6,109,813</u>	<u>5,346,035</u>	<u>4,172,128</u>
Total liabilities	<u>33,015,312</u>	<u>31,341,084</u>	<u>26,284,688</u>	<u>25,143,725</u>

	2008.09.30		Currency: RMB'000 2007.12.31	
	Group (unaudited)	Company (unaudited)	Group (audited)	Company (audited)
Shareholders' equity:				
Share capital	1,343,330	1,343,330	959,522	959,522
Capital reserve	6,115,608	6,080,336	5,807,332	5,772,061
Surplus reserve	1,413,313	769,603	1,364,758	769,603
Undistributed profit	4,598,401	1,781,968	3,831,231	1,417,872
Proposed final dividend	—	—	239,880	239,880
Exchange differences	(156,988)	(11,275)	(65,562)	(3,651)
Total shareholders' equity				
attributable to the parent company	13,313,664	9,963,962	12,137,161	9,155,287
Minority interests	860,100	—	751,247	—
Total shareholders' equity	<u>14,173,764</u>	<u>9,963,962</u>	<u>12,888,408</u>	<u>9,155,287</u>
Total liabilities and shareholders' equity	<u>47,189,076</u>	<u>41,305,046</u>	<u>39,173,096</u>	<u>34,299,012</u>

*Legal Representative
of the Company:*
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Financial Division:
Shi Chunmao

INCOME STATEMENT

Item	<i>Currency: RMB'000</i>			
	Three months ended 30 September 2008		Three months ended 30 September 2007	
	Group (<i>unaudited</i>)	Company (<i>unaudited</i>)	Group (<i>unaudited</i>) (<i>restated</i>)	Company (<i>unaudited</i>) (<i>restated</i>)
I. Revenue	10,598,362	11,086,908	8,215,952	7,269,843
Less: Cost of sales	6,881,434	8,496,331	5,861,076	6,753,132
Taxes and surcharges	102,158	7,397	35,718	8,759
Selling and distribution costs	1,459,473	1,163,359	1,009,849	747,410
Administrative expenses	537,229	356,350	501,687	327,596
Research and development costs	1,011,684	328,440	589,875	168,908
Finance costs	441,240	312,477	65,614	107,137
Assets impairment losses	122,935	95,544	64,302	50,612
Add: Fair value gains/losses	(56,006)	(56,006)	(7,121)	(7,121)
Investment income	46,818	48,930	5,048	916,582
Including: investment gain from associates and jointly-controlled entities	—	—	510	510
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II. Operating profit	<u>33,021</u>	<u>319,934</u>	<u>85,758</u>	<u>15,750</u>
Add: Non-operating income	310,108	22,436	188,849	29,571
Less: Non-operating expenses	12,830	420	15,264	7,335
Including: Profit/loss on disposal of non-current assets	4,638	—	9,380	6,975
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III. Total profit	<u>330,299</u>	<u>341,950</u>	<u>259,343</u>	<u>37,986</u>
Less: Income tax expenses	26,566	5,230	78,557	25,573
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IV. Net profit:	<u><u>303,733</u></u>	<u><u>336,720</u></u>	<u><u>180,786</u></u>	<u><u>12,413</u></u>
Net profit attributable to equity holders of the parent company	258,339	336,720	143,005	12,413
Minority interests	45,394	—	37,781	—
V. Earnings per share				
(I) Basic	0.19		0.11	
(II) Diluted	0.19		0.11	

*Legal Representative
of the Company:*
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Financial Division:
Shi Chunmao

Item	<i>Currency: RMB'000</i>			
	Nine months ended 30 September 2008		Nine months ended 30 September 2007	
	Group (<i>unaudited</i>)	Company (<i>unaudited</i>)	Group (<i>unaudited</i>) (<i>restated</i>)	Company (<i>unaudited</i>) (<i>restated</i>)
I. Revenue	30,327,346	28,375,815	23,447,884	21,874,685
Less: Cost of sales	19,983,647	23,291,352	15,539,458	18,963,141
Taxes and surcharges	251,274	29,183	152,972	25,948
Selling and distribution costs	4,076,312	3,091,833	3,428,726	2,379,210
Administrative expenses	1,667,962	974,711	1,460,588	917,416
Research and development costs	2,659,582	680,654	2,111,364	739,451
Finance costs	843,118	877,670	255,982	343,570
Assets impairment losses	322,393	205,246	160,222	81,397
Add: Fair value gains/losses	(125,639)	(133,514)	17,690	17,690
Investment income	98,524	1,273,283	13,814	1,595,262
Including: investment gain from associates and jointly-controlled entities	9,874	2,652	1,528	1,528
II. Operating profit	495,943	364,935	370,076	37,504
Add: Non-operating income	745,652	64,571	563,593	66,682
Less: Non-operating expenses	42,654	20,335	63,475	50,054
Including: Profit/loss on disposal of non-current assets	8,097	2,152	15,063	9,126
III. Total profit	1,198,941	409,171	870,194	54,132
Less: Income tax expenses	225,782	45,075	134,001	25,573
IV. Net profit:	973,159	364,096	736,193	28,559
Net profit attributable to equity holders of the parent company	815,725	364,096	602,845	28,559
Minority interests	157,434	—	133,348	—
V. Earnings per share				
(I) Basic	0.61		0.45	
(II) Diluted	0.60		0.45	

*Legal Representative
of the Company:*
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Financial Division:
Shi Chunmao

CASH FLOW STATEMENT

Item	Currency: RMB'000			
	Nine months ended 30 September 2008		Nine months ended 30 September 2007	
	Group (<i>unaudited</i>)	Company (<i>unaudited</i>)	Group (<i>unaudited</i>) (<i>restated</i>)	Company (<i>unaudited</i>) (<i>restated</i>)
I. Cash flow from operating activities				
Cash received from sales of goods or rendering of services	26,412,846	23,095,992	21,017,891	18,402,200
Cash received from taxes returned	2,212,089	1,674,943	1,522,897	1,143,465
Cash received relating to other operating activities	<u>150,728</u>	<u>98,532</u>	<u>103,573</u>	<u>77,046</u>
Sub-total of cash inflow	<u>28,775,663</u>	<u>24,869,467</u>	<u>22,644,361</u>	<u>19,622,711</u>
Cash paid for goods and services	21,135,293	23,177,892	16,711,218	18,483,057
Cash paid to and on behalf of employees	4,511,631	1,203,201	3,624,685	1,455,673
Payments of taxes and levies	1,543,126	116,955	1,287,422	154,955
Cash paid relating to other operating activities	<u>6,097,397</u>	<u>4,497,181</u>	<u>3,424,271</u>	<u>1,906,898</u>
Sub-total of cash outflow	<u>33,287,447</u>	<u>28,995,229</u>	<u>25,047,596</u>	<u>22,000,583</u>
Net cash flows from operating activities	<u>(4,511,784)</u>	<u>(4,125,762)</u>	<u>(2,403,235)</u>	<u>(2,377,872)</u>
II. Cash flows from investing activities				
Cash received from sale of investments	—	—	18,067	1,844
Cash received from gains of investment	118,572	99,590	38,631	12,577
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	<u>4,166</u>	<u>—</u>	<u>1,867</u>	<u>—</u>
Sub-total of cash inflow	<u>122,738</u>	<u>99,590</u>	<u>58,565</u>	<u>14,421</u>
Cash paid for the acquisition of fixed assets, intangible assets and other long-term assets	1,290,400	1,004,523	1,282,634	1,060,886
Cash paid for investments	<u>5,290</u>	<u>—</u>	<u>10,729</u>	<u>1,551</u>
Sub-total of cash outflow	<u>1,295,690</u>	<u>1,004,523</u>	<u>1,293,363</u>	<u>1,062,437</u>
Net cash flow from investing activities	<u>(1,172,952)</u>	<u>(904,933)</u>	<u>(1,234,798)</u>	<u>(1,048,016)</u>

Item	Nine months ended 30 September 2008		Currency: RMB'000 Nine months ended 30 September 2007	
	Group (<i>unaudited</i>)	Company (<i>unaudited</i>)	Group (<i>unaudited</i>) (<i>restated</i>)	Company (<i>unaudited</i>) (<i>restated</i>)
III. Cash flows from financing activities				
Cash received from investments	—	—	506,083	493,718
Cash received from borrowings	5,434,944	4,255,704	3,624,717	2,898,747
Cash received from the issue of bonds cum warrants	3,961,444	3,961,444	—	—
Sub-total of cash inflow	9,396,388	8,217,148	4,130,800	3,392,465
Cash paid for debt repayment	4,394,980	4,145,052	994,354	891,920
Cash paid in dividend distribution or interest repayment	659,043	584,464	376,508	309,973
Sub-total of cash outflow	5,054,023	4,729,516	1,370,862	1,201,893
Net cash flow from financing activities	4,342,365	3,487,632	2,759,938	2,190,572
IV. Effect of foreign exchange rate changes on cash	93,550	175,245	(28,540)	(5,294)
V. Net increase in cash and cash equivalents	(1,248,821)	(1,367,818)	(906,635)	(1,240,610)
Add: Opening balance of cash and cash equivalents	6,309,749	4,604,365	4,142,063	2,922,719
VI. Closing balance of cash and cash equivalents	5,060,928	3,236,547	3,235,428	1,682,109

*Legal Representative
of the Company:*

Hou Weigui

Chief Financial Officer:

Wei Zaisheng

Head of Financial Division:

Shi Chunmao

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

By order of the board of Directors

Hou Weigui

Chairman

Shenzhen, China
23 October 2008

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