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)

2011 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 The quarterly report has been considered and approved at the Twenty-third meeting of the Fifth Session of the Board of Directors of the Company. Mr. Lei Fanpei, Vice Chairman, was unable to attend the meeting due to work reasons, and had authorised Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work reasons, and had authorised Mr. Wang Zhanchen, Director, to vote on his behalf. Ms. Qu Xiaohui, Independent Director, was unable to attend the meeting due to work reasons, and had authorised Mr. Tan Zhenhui, Independent Director, to vote on her behalf. Mr. Wei Wei, Independent Director, was unable to attend the meeting due to work reasons, and had authorised Mr. Chen Naiwei, Independent Director, to vote on his behalf. Mr. Timothy Alexander Steinert, Independent Director, was unable to attend the meeting due to work reasons, and had authorised 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 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

During the reporting period, the development of mobile Internet provided the driving force for the construction of next-generation mobile broadband networks, while projects to construct new 2G/3G networks and upgrade existing ones to modernised standards were supported by market demands for better network quality. Meanwhile, the development of the market for wireline access was underpinned by the government's broadband strategy, as was the development of the ICT industry by the emerging Internet of Things and Cloud Computing. In the domestic market, the Group consolidated and enlarged its market shares by working diligently to meet the network construction requirements of carriers, whose investments in networks continued to grow at a relatively rapid pace. Meanwhile, the Group also sought to identify new market opportunities with enhanced efforts in the research and development of novel products and solutions. In the international market, the Group was engaged in vigorous expansion initiatives amid the sustained recovery and growth trend of the global telecommunications market, consolidating and enlarging our shares of the emerging markets, signing up with high-end carriers in Europe and America as new customers.

During the reporting period, the Group recorded operating revenue of RMB58.285 billion, representing growth of 26.53% compared to the same period last year. Net profit attributable to shareholders of the parent company amounted to RMB1.069 billion, representing a decline of 21.51%, year-on-year. Basic earnings per share amounted to RMB0.31.

Product-wise, the Group reported year-on-year growth of 14.98% in revenue generated from carriers' networks, reflecting mainly sales growth for wireline products and optical communications systems, GSM/UMTS system equipment in the domestic market and CDMA system equipment in the international market. Revenue from terminals increased by 53.43%, year-on-year, driven mainly by growth in the sales of 3G, CDMA, GSM handsets and data cards. Telecommunications software systems, services and other products reported year-on-year growth of 27.95%, reflecting mainly growth of services and fixed terminals.

Looking forward to the next reporting period, which will be underpinned by macro-economic controls in the PRC and gross uncertainties in the international economy, our Group will focus on opportunities presented by worldwide projects to expand or upgrade wireless networks and the broadband strategy of the government, as well as opportunities in the ICT industry and smart terminals. We will go into greater depth in understanding customer requirements and seek to maintain a positive balance between scale and profit. We will enhance efforts in our transformation into an operating business entity, strengthen control over expenses and strive to improve our operating efficiency.

2.2 Major accounting data and financial indicators

2.2.1 Major accounting data and financial indicators of the Group

Items	End of the reporting period (30 September 2011)	End of last year (31 December 2010)	Change as at the end of the reporting period compared with the end of last year *(%)*
Total assets *(RMB in thousands)*	**100,166,935**	84,152,357	19.03%
Owners' equity attributable to shareholders of the listed company *(RMB in thousands)*	**23,301,165**	23,093,872	0.90%
Share capital *Note 1* *(RMB in thousands)*	**3,440,078**	2,866,732	20.00%
Net asset per share attributable to shareholders of the listed company *(RMB/share)* *Note 2*	**6.80**	6.86	-0.87%

Items	Three months ended 30 September 2011	Change compared with the same period of last year *(%)*	Nine months ended 30 September 2011	Change compared with the same period of last year *(%)*
Total operating revenue *(RMB in thousands)*	**20,948,188**	36.59%	**58,284,783**	26.53%
Net profit attributable to shareholders of the listed company *(RMB in thousands)*	**299,265**	-38.16%	**1,068,536**	-21.51%
Net cashflow from operating activities *(RMB in thousands)*	**-6,364,014**	-193.61%	**-12,535,367**	-114.21%
Net cashflow from operating activities per share *(RMB/share)* *Note 3*	**-1.86**	-190.63%	**-3.66**	-110.34%
Basic earnings per share *(RMB/share)* *Note 4, 6*	**0.09**	-35.71%	**0.31**	-24.39%
Diluted earnings per share *(RMB/share)* *Note 5, 6*	**0.09**	-35.71%	**0.31**	-22.50%
Weighted average return on net assets *(%)*	**1.29%**	-1.00%	**4.61%**	-2.03%
Weighted average return on net assets after extraordinary items *(%)*	**1.39%**	-1.03%	**1.06%**	-5.06%

Note 1: The share capital of the Company for the reporting period was increased from 2,866,731,684 to 3,440,078,020 shares as a result of the Company's implementation of the 2010 profit distribution and capitalisation of capital reserves plan during the reporting period.

Note 2: Net assets per share attributable to the shareholders of the listed company at the end of the reporting period was calculated on the basis of the total share capital as at the end of the period less 14,356,561 restricted shares remaining in lock-up under the share incentive scheme. Net assets per share attributable to the shareholders of the listed company at the end of the previous year was calculated on the basis of the total share capital as at the end of the previous year less 62,407,186 restricted shares then remaining in lock-up under the share incentive scheme, restated to reflect the implementation of the Company's 2010 profit distribution and capitalisation of capital reserves plan.

Note 3: Net cash flow from operating activities per share for the reporting period were calculated on the basis of the total share capital as at the end of the period less 14,356,561 restricted shares remaining in lock-up under the share incentive scheme. Net cash flow from operating activities per share for the same period last year was calculated on the basis of the total share capital as at the end of the period less 64,928,143 restricted shares then remaining in lock-up under the share incentive scheme and has been restated to reflect the implementation of the Company's 2010 profit distribution and capitalisation of capital reserves plan.

Note 4: Basic earnings per share for the reporting period has been calculated on the basis of the weighted average number of ordinary shares representing the total share capital as at the end of the period less 14,356,561 restricted shares remaining in lock-up under the share incentive scheme. Basic earnings per share for the same period last year was calculated on the basis of the total share capital as at the end of the period less 64,928,143 restricted shares then remaining in lock-up under the share incentive scheme and has been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserves plan.

Note 5: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up gave rise to potentially dilutive ordinary shares of 12,220,791 and 64,928,143 shares for the reporting period and the same period last year, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and diluted earnings per share for the same period of 2010 has been restated to reflect the implementation of the Company's 2010 profit distribution and capitalisation of capital reserves plan.

Note 6: The above figures represent interests attributable to shareholders of the listed company.

Extraordinary gains or losses items

Unit: RMB in thousands

Extraordinary items	**Amount**	
	Three months ended 30 September 2011	**Nine months ended 30 September 2011**
Non-operating income	39,368	156,749
Gains/losses arising from fair value change	-54,012	-290,563
Investment gains	-6,724	1,148,098
Less: Gains/losses arising from the disposal of non-current assets	9,523	14,610
Other non-operating expenses	-3,697	31,330
Effect of income tax	-4,079	145,252
Total	-23,115	823,092

2.2.2 ***The amounts of net profit and shareholders' equity of the Group for the nine months ended and as at 30 September 2011 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards ("HKFRSs").***

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

Total number of shareholders as at the end of the reporting period The Company had 121,589 shareholders in total (of which 121,230 were holders of A shares and 359 were holders of H shares).

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

Name of shareholders	Number of shares held not subject to lock-up as at the end of the reporting period *(shares)*	Class of shares
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin")	1,058,191,944	A shares
HKSCC Nominees Limited	628,490,574	H shares
China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen	75,917,369	A shares
CITIC Trust Co., Ltd. — Wealth Management 06	58,194,000	A shares
Hunan Nantian (Group) Co., Ltd	37,450,609	A shares
China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	33,521,577	A shares
BOC — E Fund SZSE 100 ETF	25,561,680	A shares
China Life Insurance (Group) Company Limited — Traditional — General Insurance Products	21,997,598	A shares
ICBC — Rongtong SZSE 100 Index Securities Investment Fund	19,844,310	A shares
China Merchants Bank Co., Ltd — Everbright Pramerica Optimal Mix Stock Investment Fund	18,799,992	A shares

§3 MATERIAL MATTERS

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

√ Applicable ☐ N/A

Unit: RMB in thousands

Balance sheet

Name of items	At 30 September 2011	At 31 December 2010	Percentage Change	Analysis of reasons
Financial assets held for trading	**655,928**	123,365	431.70%	Mainly attributable to the reclassification of long-term equity investment in Nationz Technologies, Inc. ("Nationz Technologies") as financial assets held for trading for accounting purposes
Bills receivable	**3,516,343**	1,289,877	172.61%	Mainly attributable to more frequent receipts of payments in the form of acceptances
Trade receivables	**23,655,733**	17,563,925	34.68%	Mainly attributable to the Company's sales growth
Factored trade receivables	**4,245,190**	3,016,569	40.73%	Mainly attributable to the increase in the Company's factored trade receivables in line with its sales growth
Prepayments	**880,813**	449,664	95.88%	Mainly attributable to the increase in prepayments made to suppliers for the purchase of equipment and raw materials
Other receivables	**2,661,326**	1,389,783	91.49%	Mainly attributable to the increase in the Company's software VAT refund and entrusted loans receivable by the Company
Inventory	**16,691,528**	12,103,670	37.90%	Mainly attributable to the increase in commodities and raw materials which had been dispatched to sites designated by customers but not yet installed
Available-for-sale financial assets	**676,452**	342,706	97.39%	Mainly attributable to the increase in the Company's investment in available for sale financial assets
Long-term trade receivables	**1,034,587**	567,444	82.32%	Mainly attributable to the offering of more favourable payment methods to customers

Name of items	At 30 September 2011	At 31 December 2010	Percentage Change	Analysis of reasons
Long-term equity investments	**449,610**	917,989	-51.02%	Mainly attributable to the reclassification of long-term equity investment in Nationz Technologies as financial assets held for trading fpr accounting purposes
Construction in progress	**1,732,225**	1,146,739	51.06%	Mainly attributable to the increase in the Company's investment in production and the research and development centre
Deferred development costs	**1,973,428**	1,466,504	34.57%	Mainly attributable to the capitalisation of investments in the research and development of certain communications systems and terminal products during the period
Long-term deferred assets	**33,434**	50,032	-33.17%	Mainly attributable to the current period amortization of telecommunications equipment in respect of which profit sharing agreements had been reached with operators
Other non-current assets	**1,587,559**	1,090,086	45.64%	Mainly attributable to the increase in capitalised one-off market development expenses
Short-term loans	**15,750,523**	6,578,413	139.43%	Mainly attributable to the increase of borrowings to meet short-term funding requirements
Derivative financial liability	**7,190**	40,139	-82.09%	Mainly attributable to the settlement of certain derivative investments upon maturity
Bank advances on factored trade receivables	**4,245,190**	3,016,569	40.73%	Mainly attributable to the increase in the Company's factored trade receivables in line with its sales growth
Salary and welfare payable	**1,629,338**	3,097,927	-47.41%	Mainly attributable to the actual payment of staff salary
Tax payable	**-1,104,561**	-321,345	-243.73%	Mainly attributable to the increase in deductible input VAT
Other payables	**4,827,725**	2,976,325	62.20%	Mainly attributable to the increase in factored payments received as an agent
Non-current liabilities due within one year	**828,889**	1,322,817	-37.34%	Mainly attributable to the maturity during the current period of certain non-current liabilities due within one year

Name of items	At 30 September 2011	At 31 December 2010	Percentage Change	Analysis of reasons
Long-term loans	**7,725,163**	1,719,310	349.32%	Mainly attributable to the increase of borrowings to meet long-term funding requirements
Restricted shares remaining in lock-up	**-65,273**	-276,266	76.37%	Mainly attributable to the unlocking of certain Subject Shares under the Phase I Share Incentive Scheme of the Company
Proposed final dividend	—	841,297	-100.00%	Mainly attributable to the declaration of share dividend for the current period
Foreign currency translation differences	**-440,004**	-168,765	-160.72%	Mainly attributable to exchange rate fluctuations

Income statement (Nine months ended 30 September)

Name of items	Nine months ended 30 September 2011	Nine months ended 30 September 2010	Percentage Change	Analysis of reasons
Operating cost	**40,650,190**	30,457,626	33.46%	Mainly attributable to the Company's sales growth and changes in product mix
Taxes and surcharges	**1,310,382**	773,333	69.45%	Mainly attributable to taxable income subject to business tax and the increase in city maintenance and construction tax and education surcharge
Finance expenses	**1,460,352**	635,309	129.86%	Mainly attributable to exchange loss during the period as compared to exchange gains during the same period last year arising from exchange rate volatility
Gains/(losses) from changes in fair value	**-290,563**	56,801	-611.55%	Mainly attributable to the loss arising from changes in fair value as a result of the reclassification of the Company's long-term equity investment in Nationz Technologies to financial assets held for trading for accounting purposes and the transfer to investment gains of gains arising from changes in the fair values of certain derivative investments upon settlement at maturity

Name of items	**Nine months ended 30 September 2011**	Nine months ended 30 September 2010	**Percentage Change**	**Analysis of reasons**
Investment income	**1,166,924**	35,096	3,224.95%	Mainly attributable to investment gains arising from the disposal of equity interests in Nationz Technologies the transfer to investment gains of gains arising from changes in the fair values of certain derivative investments upon settlement at maturity
Non-operating expenses	**45,940**	69,343	-33.75%	Mainly attributable to the decrease in compensation expenses
Income tax	**399,127**	583,420	-31.59%	Mainly attributable to the decrease in taxable profit
Other comprehensive income	**-266,320**	-114,504	-132.59%	Mainly attributable to the increase in foreign currency translation losses

Income statement (Three months ended 30 September)

Name of items	**Three months ended 30 September 2011**	Three months ended 30 September 2010	**Percentage Change**	**Analysis of reasons**
Operating revenue	**20,948,188**	15,336,859	36.59%	Mainly attributable to the Company's sales growth
Operating cost	**14,406,459**	10,010,712	43.91%	Mainly attributable to the Company's sales growth and changes in product mix
Taxes and surcharges	**413,981**	305,821	35.37%	Mainly attributable to the increase in taxable income subject to business tax and the increase in city maintenance and construction tax and education surcharge
Research and development costs	**1,959,156**	1,477,647	32.59%	Mainly attributable to the increase in investment in research and development
Finance expenses	**1,019,867**	-105,326	1,068.30%	Mainly attributable to exchange loss during the period as compared to exchange gains during the same period last year arising from exchange rate volatility

Name of items	**Three months ended 30 September 2011**	Three months ended 30 September 2010	**Percentage Change**	**Analysis of reasons**
Impairment losses	**115,463**	200,614	-42.45%	Mainly attributable to the reversal of trade receivable and bad debt provision for the current period and the increase in trade receivable and bad debt provision for the same period last year
Gains/(losses) from changes in fair value	**-54,012**	-21,125	-155.68%	Mainly attributable to losses attributable to change in fair values as a result of fair-value revaluation of financial assets held for trading
Investment income	**1,635**	11,118	-85.29%	Mainly attributable to the decrease in gains from long-term equity investment under the equity method for the current period as compared to the same period last year
Non-operating income	**915,365**	470,219	94.67%	Mainly attributable to the increase in income derived from software VAT refund
Non-operating expenses	**5,826**	44,505	-86.91%	Mainly attributable to the decrease in compensation expenses
Income tax	**-37,292**	183,849	-120.28%	Mainly attributable to the decrease in taxable profit
Minority interests	**45,363**	14,488	213.11%	Mainly attributable to the increase in quarterly profit of certain subsidiaries
Other comprehensive income	**-264,017**	20,580	-1,382.88%	Mainly attributable to the increase in foreign currency translation losses
Total comprehensive income attributable to minority interests	**47,921**	14,470	231.18%	Mainly attributable to the increase in quarterly profit of certain subsidiaries

Cash flow statement

Name of items	**Nine months ended 30 September 2011**	Nine months ended 30 September 2010	**Percentage Change**	**Analysis of reasons**
Net cash flow from operating activities	**-12,535,367**	-5,851,824	-114.21%	Mainly attributable to the increase in cash paid for the purchase of goods and labour services
Net cash flow from financing activities	**13,043,619**	3,384,442	285.40%	Mainly attributable to the increase of borrowings to meet funding requirements
Effect of changes in foreign exchange rate on cash and cash equivalents	**-266,314**	-26,305	-912.41%	Mainly attributable to the increase in exchange losses as a result of exchange rate fluctuations

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

3.2.1 Statement of qualified opinion

□ Applicable √ N/A

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

□ Applicable √ N/A

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

√ Applicable □ N/A

During the reporting period, the Group did not enter into any material contracts requiring disclosure. Details of the performance of material contracts entered into prior to and subsisting during the reporting period are set out as follows:

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

3.2.4 *Others*

√ Applicable □ N/A

3.2.4.1 *Implementation of the 2010 profit distribution plan of the Company*

The plan of profit distribution and capitalisation of the capital reserve for 2010 was considered and passed at the 2010 Annual General Meeting held on 17 May 2011 and implementation had been completed. The Company made a profit distribution RMB3 for every 10 shares (including tax) in cash based on a share capital of 2,804,324,498 shares, namely total share capital of 2,866,731,684 shares (comprising 2,342,077,146 A shares and 524,654,538 H shares) as at the record date less 62,407,186 restricted shares under the share incentive scheme; and a bonus issue of 2 shares for every 10 shares based on a share capital of 2,866,731,684 shares, namely total share capital of 2,866,731,684 shares (comprising 2,342,077,146 A shares and 524,654,538 H shares) as at the record date. The record date was 6 July 2011 and the ex-rights/ex-dividend date was 7 July 2011, for A shares. In respect of H shares, the record date was 15 April 2011, and the dividend payment date was 7 July 2011. The date on which new A shares not subject to lock-up were listed and the dealing of bonus H shares commenced was 7 July 2011. For details, please refer to the relevant announcement of the Company published by the Company on 30 June 2011.

3.2.4.2 *Bonds Cum Warrants Issued by the Company*

On 31 January 2011, the Company made interest payments in respect of "中興債1", the bond component of the bonds cum warrants ("Bonds cum Warrants"), with a total amount of RMB32,000,000 (before tax). For details, please refer to the relevant announcement of the Company dated 24 January 2011.

For details of the bonds cum warrants issued by the Company, please refer to the sections headed "Material Matters" in the 2011 interim report of the Company.

3.2.4.3 *Progress of the Phase I Share Incentive Scheme of the Company during the reporting period*

At the Twentieth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 July 2011, the "Resolution on the Third Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme" was considered and passed, which confirmed that the conditions for the Third Unlocking of the Subject Shares under the First Award of the Company had been fulfilled and that 3,199 Scheme Participants under the First Award had satisfied conditions for the Third Unlocking of Subject Shares under the Phase I Share Incentive Scheme, and proposed to unlock a total of 60,532,063 shares. For details, please refer to the "Announcement of Resolutions of the Twentieth Meeting of the Fifth Session of the Board of Directors" published by the Company on 8 July 2011.

On 19 July 2011, the Company received a "Reply Slip in Acknowledgment of the Application for Unlocking of Shares under Share Incentive Schemes" (《股權激勵股份解除鎖定申請受理回執》) issued by China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. The Third Unlocking of the Subject Shares in the First Award under the Phase I Share Incentive Scheme was completed, with a total of 60,532,063 Subject Shares being unlocked, accounting for 1.76% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 21 July 2011 (Thursday). For details please refer to the "Announcement of the Completion of the Third Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme" published by the Company on 19 July 2011.

For details of the impact of the Phase I Share Incentive Scheme of the Company on the Company's financial conditions and operating results, please refer to the sections headed "Material Matters" in the 2011 interim report of the Company.

3.2.4.4 *Sell-down by shareholders holding more than 30% of the shares in the Company*

Zhongxingxin, the controlling shareholder of the Company, sold 48,495,000 A shares in the Company (representing 1.69% of the total share capital of the Company) on 13 June 2011 via the securities trading system of Shenzhen Stock Exchange. Following the sell-down, Zhongxingxin was interested in 881,826,620 shares in the Company, accounting for 30.76% of the total share capital of the Company. For details, please refer to the "Announcement on Sell-down by Shareholders" published by the Company on 13 June 2011.

Zhongxingxin has undertaken that any share disposal by it via the securities trading system during the consecutive six-month period starting from the date of the aforesaid sell-down will be no more than 5% of the total number of shares of the Company. Throughout the reporting period, Zhongxingxin had honoured its undertaking.

3.2.4.5 *Execution of syndicate loan agreement*

With a view to further optimising the long-term and short-term debt structure the Company and the subsidiaries included in its consolidated financial statements, minimising its exposure to assets and liabilities denominated in foreign currencies and meeting additional working capital requirements of the Company's medium/long-term development at appropriate finance costs, the Company proposed to seek medium/long-term debt financing with ZTE (H.K.) Limited ("ZTE (H.K.)"), a wholly-owned subsidiary of the Company, as the principal.

On 8 July 2011, ZTE (H.K.) (as borrower) entered into a USD900 million syndicate loan agreement with 10 international banks including Bank of China (Hong Kong) Limited ("BOCHK") (as mandated leading arranger). In view of the current financial conditions and credit rating of ZTE (H.K.), the Company provided guarantee in relation to the aforesaid debt financing of ZTE (H.K.), in order to secure debt financing at favourable costs. The Company (as guarantor) entered into a guarantee agreement with BOCHK on 8 July 2011 to provide guarantee in favour of the loan syndicate to assure proper fulfillment of payments and all duties of ZTE (H.K.) under the syndicate loan agreement. In addition, to avoid interest rate risks associated with the aforesaid debt financing, ZTE (H.K.) proposed to carry out an interest rate swap with a nominal amount of not more than USD900 million at an appropriate timing. The aforesaid matters are approved by the Seventeenth Meeting of the Fifth Session of the Board of Directors and the 2010 Annual General Meeting of the Company. For details, please refer to the relevant announcements of the Company dated 8 April 2011, 17 May and 8 July 2011, respectively.

3.2.4.6 *Establishment of the Group Finance Company*

In order to strengthen the centralised treasury management of ZTE Group and enhance the efficiency of its fund application, it was approved at the Eleventh Meeting of the Fifth Session of the Board of Directors of the Company and the Third Extraordinary General Meeting for 2010 of the Company that the Company would establish ZTE Group Finance Co., Ltd. with a capital contribution of RMB1,000 million (including USD20 million).

On 9 February 2011, the China Banking Regulatory Commission ("CBRC") issued Yin Jian Fu 2011 No. 41 Document "Approval Reply of CBRC Concerning the Establishment of A Group Finance Company by ZTE Corporation" (銀監覆201141號文件《中國銀監會關於中興通訊股份有限公司籌建企業集團財務公司的批覆》), granting approval to the establishment of a group finance company by the Company. On 11 July 2011, CBRC issued the "Approval Reply of CBRC concerning the Commencement of Business of ZTE Group Finance Co., Ltd" (Yin Jian Fu 2011 No. 236) (《中國銀監會關於中興通訊集團財務有限公司開業的批覆》銀監覆2011236號), granting approval to the commencement of business of ZTE Group Finance Co., Ltd.

For details, please refer to the "Announcement of Resolutions of the Eleventh Meeting of the Fifth Session of the Board of Directors", "Announcement of External Investment — the Establishment of ZTE Finance Co., Ltd", "Announcement in respect of the Resolutions of the Third Extraordinary General Meeting of 2010", "Announcement on Approval Received for the Establishment of a Group Finance Company" and "Announcement on the Approval of Business Commencement of ZTE Group Finance Co., Ltd." dated 12 October 2010, 30 November 2010, 15 February 2011 and 13 July 2011, respectively.

3.2.4.7 *Conduct of ongoing connected transactions during the reporting period*

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

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

Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (for information on the connected parties, their connected relationships with the Group, basic terms of the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2011 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 "Continuing Connected Transactions — Tenancy Agreement," "Continuing Connected Transactions," "Continuing Connected Transactions" and Overseas Regulatory Announcement of the Company dated 23 October 2008, 27 October 2009, 27 April 2010 and 30 August 2011 respectively).

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price (RMB)	Amounts of transactions for nine months ended 30 September 2011 (excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchase of raw materials	Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries, Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, flexible circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets and accessories: RMB1–RMB31,000 per unit; Cases and accessories: RMB1–RMB17,000 per unit depending on level of sophistication; Distribution frames and accessories: RMB2–RMB150,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB0.3–RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	39,700.48	1.12%	Commercial 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, RMB350–4,100 per unit, depending on technical parameters and functional features.	18,973.55	0.54%	Commercial acceptance bill	No
Property leasing	ZTE Corporation	Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 32,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (property management undertaken by the Company and no management fees are payable)	3,043.68	7.60%	Teletransfer	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)	364.63	0.91%	Teletransfer	No

3.2.4.8 *Material litigation during the reporting period*

During the reporting period, the Group did not incur any material litigation or arbitration. Progress during the reporting period of immaterial litigation and arbitration proceedings incurred prior to and other litigation and arbitration proceedings incurred during the reporting period under review are as follows:

1. In August 2005, an Indian consultant firm issued an arbitration notice to the Company to claim indemnity for a total amount of approximately USD1.714 million (approximately RMB11.351 million) in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately USD2.27 million (approximately RMB15.034 million).

   The case was heard before an arbitration court formed by ICC in Singapore during 25–28 July 2008. The Company was represented at all arbitration sessions. On 23 July 2010, the arbitration court issued its arbitration award on the arbitration fees, legal fees and travel expenses relating to the case and ruled that the Company should pay a total of USD1.323 million (approximately RMB8.762 million) to the said consultant firm. Subsequent to the consultant firm's application to the High Court of Delhi in India for the enforcement of the arbitration award on 28 September 2010, the Company filed an objection to the enforcement of the arbitration award on the grounds that the said consultant firm no longer carried the status of a corporate. On 23 September 2011, the High Court of Delhi in India ruled to reject the said consultant firm's application for the enforcement of the arbitration award. It also ruled that the said consultant firm may re-submit its application for the enforcement of the arbitration award after its status of a corporate has been restored. Based on the legal opinion furnished by the legal counsel engaged by the Company, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions of the Group for the reporting period.

2. On 7 April 2011, the Company published the "Announcement on Litigation" in relation to the lawsuit filed by Telefonaktiebolaget LM Ericsson (publ) ("Ericsson") against ZTE (UK) LIMITED ("ZTE (UK)"), a wholly-owned subsidiary of the Company, in respect of the alleged infringement on Ericsson's patent technologies by several handset models of ZTE (UK). A demand was made on ZTE (UK) to discontinue such act of infringement and compensate for Ericsson's losses, although no specific amount of compensation was raised by Ericsson in the statement of claim. ZTE (UK) submitted a response on 20 June 2011 and the local court of the U.K. issued a schedule of proceedings on 27 July 2011, confirming that trial of the case will commence in June 2012 at the earliest.

   On 1 April 2011, Ericsson applied to the Court of Rome for provisional injunction procedures against ZTE Italy S.r.l. ("ZTE Italy"), the subsidiary of ZTE in Italy. Such request was rejected by the court on 6 April 2011, which ordered Ericsson to serve a claim on ZTE Italy. The claim was served upon ZTE Italy on 28 April 2011. In response to the aforesaid claim, ZTE Italy submitted its defense to the court in May 2011 and June 2011, requesting the court to reject the litigation claim of the claimant. On 8 July 2011, the Court of Rome officially ruled to reject Ericsson's application for injunction and investigative impounding against ZTE Italy and further ruled that Ericsson should indemnify ZTE Italy for the latter's legal fees. On 8 August 2011, Ericsson served a statement of appeal upon ZTE Italy. On 3 September 2011, the Court of Rome officially ruled to reject the appeal of Ericsson and further ruled that relevant procedural fees relating to the case should be reimbursed by Ericsson.

   On 14 April 2011 and 23 May 2011, Ericsson filed lawsuits against ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, with the district court of Dusseldorf and the district court of Mannheim in Germany, respectively, alleging infringement of Ericsson's patent technologies and demanding ZTE Deutschland to discontinue such act of infringement and compensate for Ericsson's losses. The local courts initially estimated the amount in dispute in this case at EUR10.80 million and EUR2.275 million, respectively. ZTE Deutschland is currently preparing for its defense.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the existing judgements and current progress of the case, it is difficult to ascertain the final outcome of this case at the present stage. The Directors of the Company are of the view that the aforesaid case will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.

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

√ Applicable □ N/A

On 13 June 2011, Zhongxingxin, the controlling shareholder of the Company, disposed of shares in the Company through the trading system of Shenzhen Stock Exchange. Zhongxingxin has undertaken that any share disposal by it via the securities trading system during the consecutive six-month period starting from the date of the aforesaid sell-down will be no more than 5% of the total number of shares of the Company. Throughout the reporting period, Zhongxingxin had honoured its undertaking.

3.4 Warnings of and reasons for any projected accumulated net loss from the beginning of the year to the end of the next reporting period or substantial change in profitability compared to the same period last year

□ Applicable √ N/A

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities

√ Applicable □ N/A

1. *Investment in securities by the Company at the end of the reporting period*

Unit: RMB10 thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the end of the period (10 thousands shares)	Nominal value at the end of the period	Percentage of total investment in securities at the end of the period	Profit and loss in the reporting period
Stock	300077	Nationz Technologies	1,505	2,729	63,117	100%	36,970.62
Other investment in securities held as at the end of the period	—	—	—	—	—	—	—
Profit and loss from sales of investment in securities during the reporting period	—	—	—	—	—	—	44,636.36
Total	—	—	1,505	2,729	63,117	100%	81,606.98
Session of the Board approving investment in securities, announcement date and number					N/A		
Session of the General Meeting approving investment in securities, announcement date and number					N/A		

2. *Details in investment in securities*

Nationz Technologies, the company with our equity investment, issued its shares under initial public offering which was listed on the GEM Board of the Shenzhen Stock Exchange on 30 April 2010. On 28 April 2011, Nationz Technologies announced that a period of 12 months had lapsed since its IPO listing. The 54,400,000 shares in Nationz Technologies held by the Company (after the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of Nationz Technologies) would be available for listing and circulation as from 3 May 2011. Pursuant to the "Resolution on the Proposed Disposal of Shares in Nationz Technologies, Inc." passed at the Nineteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 May 2011, the disposal of shares in Nationz Technologies at an appropriate timing and a reasonable price range was approved.

As at the end of the reporting period, the Company disposed of a total of 27,112,005 shares in Nationz Technologies. As at the end of the reporting period, the Company held 27,287,995 shares in Nationz Technologies (accounting for 10.03% of the total share capital of Nationz Technologies), all of which are unrestricted circulating shares. As the Company no longer exercised significant influence over the operating activities of Nationz Technologies, the outstanding unsold shares, previously accounted for as long-term equity, have been reclassified as financial assets held for trading for accounting purposes. Such shares were measured at fair value and investment gains and gains/losses from changes in fair value were recognised.

For details, please refer to the relevant announcements published by the Company on 27 April, 17 May, 30 May, 14 June, 16 June, 23 June 2011 and 24 August 2011, respectively.

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

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of the Company	Shenzhen	August 2011	Teleconference	Analysts and investors	Interim report 2011	Published announcements and regular reports
External meetings	Hong Kong	September 2011	HSBC investors' meeting	Customers of HSBC	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	September 2011	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	September 2011	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
				Overseas investors		
Company visits by analysts	Headquarters of the Company	July to September 2011	Verbal	Teng Yue Partners, EMIC, Clairvoyance Capital, JP Morgan, Tokio Marine Asset Management, Sparx Group, Daiwa-Cathay Capital Markets, Mitsubishi UFJ Investment Services (HK) Limited, Bogan Science Fund, L.P., Sanford C. Bernstein, Ziff Brothers, Resona Bank, Sloane Robinson, Putnam, APS, CN Investment Division, Lapp Capital, DWS, Credit Suisse, Merrill Lynch Securities	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic investors		
	Headquarters of the Company	July to September 2011	Verbal	Industrial Securities, HuaChuang Securities, Everbright Securities group research, CITIC Securities group research, E Fund, Jiashe Fund, Huaxia Fund	Day-to-day operations of the Company	Published announcements and regular reports

3.6 Derivative investments

√ Applicable ☐ N/A

Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Derivative investments conducted by the Company during the first three quarters of 2011 included fixed income derivatives and value-protection derivatives. The major risks and control measures are discussed as follows: 1. Market risks: For fixed-income derivatives, gains were recognised at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the cumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: Fixed-income derivative investments are based on the foreign exchange payments for imports. The product did not effectively require the appropriation of available funds and therefore presented minimal liquidity risks. The value protection Derivatives investments of the Company were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives may result in operational risks in actual operation; Obscure terms in the trade contract may result in legal risks;

	5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments will be duly controlled.
Market prices or fair value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The gains from investments in derivatives during the reporting period have been recognised by the Company. Total gains recognised for the reporting period amounted to RMB105.78 million, comprising exchange gains of RMB74.84 million, losses from fair-value change of RMB66.26 million and recognized investment gains of RMB97.20 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.
Specific opinion of Independent Directors on the Company's derivative investments and risk control	**Independent Directors' opinion:** The Company conducted fixed-income derivative investments based on due USD payables to offset exchange losses arising from the appreciation of RMB by obtaining low-risk fixed income. The Company conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange-rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms with dedicated staff. The counterparties with which the Company and its subsidiaries enter into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries are closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

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

√ Applicable ☐ N/A

Unit: RMB in thousands

Type of contract *(Note 1)*	Opening balance of contract	Closing balance of contract	Gain/loss during the reporting period	Contract amount as a percentage of the Company's net assets *(Note 2)* as at the end of the reporting period
Fixed income derivatives	4,473,943	3,739,507	96,131	16.05%
Value protection derivatives	1,968,858	2,385,256	9,649	10.24%
Total	6,442,801	6,124,763	105,780	26.29%

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

Note 2: The net asset value of the Company as at the end of the reporting period is based on equity attributable to shareholders of the parent company at the end of the period.

3.7 Progress of the implementation of internal control development during the third quarter of 2011

During the first quarter of 2011, an internal control project team was set up and the scope of implementation of internal control development for 2011 was confirmed. The start-up process for internal control development was completed with the convening of a project start-up meeting and a three-day training session specialising in internal control. During the second quarter of 2011, the Company streamlined its risk classification and compiled a risk checklist. The mirroring relationship between application guidelines and corporate system documents was developed and the responsible departments for various control points were confirmed. Internal control deficiency identification standards were completed and the Company started to carry out self-inspection of internal control. The plan for self-assessment on internal control was also confirmed. For details of implementation of internal control development during the first half of the year, please refer to the in the section headed "Material Matters" of the 2011 interim report of the Company.

Progress during the third quarter of 2011:

(1) Ongoing improvements and tracking of internal control

In August 2011, the internal control development project team completed the acquisition of outstanding walk-through test information of four processes, namely sales, treasury, information system and research and development activities, as well as perfection of the risk control matrix. The internal control project management office formulated a plan for the rectification of design deficiencies and tracked its implementation on a regular basis. The process descriptions and risk control matrix were revised accordingly based on rectifications completed.

Meanwhile, the internal control development project team extended its internal control development to cover the "tax management" and "government subsidy" processes. As at 30 September 2011, certain walk-through test information remained outstanding and was in the process of being acquired.

(2) *Commencement of specialised training on the self-assessment of internal control*

The internal control development project team invited an accounting firm to provide specialised training on internal control tests for the members of the internal control self-assessment team. Aspects of the training included internal control test methods, general determination of samples, options of sampling methods and assessment of deficiencies in internal control execution, etc., preparing the team for the full implementation of the self-assessment of internal control.

(3) *Implementation of the self-assessment of internal control*

In mid-August 2011, the internal control self-assessment team completed the drafting of the internal test plan and began to conduct control tests in the forms of manual tests and IT tests. As at 30 September 2011, all manual tests had been completed and a rectification notice had been issued after confirming operational deficiencies with relevant departments; the IT tests are currently at a closing stage.

(4) *Confirmation of the accounting firm for internal control audit*

The Company has confirmed the accounting firm to be in charge of internal control audit and the internal control audit plan. Internal control audit is expected to generally commence in the fourth quarter.

(5) *Analysis of differences in the progress of internal control development during the third quarter*

While the compilation of the "ZTE Internal Control Manual" had been scheduled for completion during the third quarter of 2011, such completion was postponed to the fourth quarter as a result of adjustments in the internal control plan.

3.8 This quarterly report has been prepared in Chinese and English respectively. In case of any discrepancy, the Chinese version shall prevail.

§4 Appendices

4.1 Balance Sheet (unaudited). Please see the attached.

4.2 Income Statement (unaudited). Please see the attached.

4.3 Cash Flow Statement (unaudited). Please see the attached.

Balance Sheet

Currency: RMB in thousands

Assets	2011.09.30 Consolidated (Unaudited)	2011.09.30 Company (Unaudited)	2010.12.31 Consolidated (Audited)	2010.12.31 Company (Audited)
Current assets:				
Cash	**13,372,300**	**6,740,583**	15,383,207	9,690,867
Financial assets held for trading	**655,928**	**655,928**	123,365	23,984
Bills receivables	**3,516,343**	**3,377,379**	1,289,877	1,199,161
Trade receivables	**23,655,733**	**31,369,688**	17,563,925	24,283,587
Factored trade receivables	**4,245,190**	**3,551,506**	3,016,569	2,864,307
Prepayments	**880,813**	**150,380**	449,664	85,559
Dividends receivable	**—**	**592,246**	—	27,418
Other receivables	**2,661,326**	**2,382,161**	1,389,783	5,678,250
Inventories	**16,691,528**	**7,133,067**	12,103,670	5,501,368
Amount due from customers for contract works	**13,946,546**	**10,742,716**	14,208,039	12,668,254
Total current assets	**79,625,707**	**66,695,654**	65,528,099	62,022,755
Non-current assets:				
Available-for-sale financial assets	**676,452**	**212,448**	342,706	244,448
Long-term trade receivables	**1,034,587**	**3,521,981**	567,444	1,262,311
Factored long-term trade receivables	**4,063,842**	**4,188,842**	4,972,718	5,097,718
Long-term equity investments	**449,610**	**5,903,910**	917,989	3,515,824
Fixed assets	**7,320,345**	**4,529,241**	6,523,505	4,253,887
Construction in progress	**1,732,225**	**1,017,279**	1,146,739	796,916
Intangible assets	**958,104**	**501,969**	891,290	492,918
Deferred development costs	**1,973,428**	**583,685**	1,466,504	350,767
Deferred tax assets	**711,642**	**422,603**	655,245	447,416
Long-term deferred assets	**33,434**	**670**	50,032	—
Other non-current assets	**1,587,559**	**1,587,559**	1,090,086	1,090,086
Total non-current assets	**20,541,228**	**22,470,187**	18,624,258	17,552,291
Total assets	**100,166,935**	**89,165,841**	84,152,357	79,575,046

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

Currency: RMB in thousands

Liabilities and shareholders' equity	**2011.09.30** **Consolidated (Unaudited)**	**Company (Unaudited)**	2010.12.31 Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	**15,750,523**	**9,428,612**	6,578,413	4,165,978
Derivative financial liabilities	**7,190**	**—**	40,139	—
Bank advances on factored trade receivables	**4,245,190**	**3,551,506**	3,016,569	2,864,307
Bills payable	**9,868,607**	**13,431,580**	10,056,477	9,444,653
Trade payables	**16,814,483**	**22,169,553**	15,441,206	25,507,206
Amount due to customers for contract works	**2,514,794**	**1,613,902**	2,772,669	1,703,293
Advances from customers	**2,874,100**	**2,799,254**	2,744,694	2,110,666
Salary and welfare payable	**1,629,338**	**243,912**	3,097,927	504,335
Taxes payable	**(1,104,561)**	**(1,384,731)**	(321,345)	(948,244)
Dividends payable	**118,134**	**128**	136,302	97
Other payables	**4,827,725**	**13,984,139**	2,976,325	8,030,437
Deferred income	**79,423**	**38,376**	91,256	7,805
Provision	**321,253**	**169,648**	260,693	109,493
Long-term loans due within one year	**828,889**	**699,039**	1,322,817	1,087,589
Total current liabilities	**58,775,088**	**66,744,918**	48,214,142	54,587,615
Non-current liabilities:				
Long-term loans	**7,725,163**	**1,135,490**	1,719,310	728,497
Bank advances on factored long-term trade receivables	**4,063,842**	**4,188,842**	4,972,718	5,097,718
Bonds payable	**3,843,985**	**3,843,985**	3,755,790	3,755,790
Deferred tax liabilities	**90,374**	**66,048**	89,167	66,048
Other non-current liabilities	**413,752**	**413,752**	439,232	439,232
Total non-current liabilities	**16,137,116**	**9,648,117**	10,976,217	10,087,285
Total liabilities	**74,912,204**	**76,393,035**	59,190,359	64,674,900

Currency: RMB in thousands

Liabilities and shareholders' equity	**2011.09.30**		2010.12.31	
	Consolidated (Unaudited)	**Company (Unaudited)**	Consolidated (Audited)	Company (Audited)
Shareholders' equity:				
Share capital	**3,440,078**	**3,440,078**	2,866,732	2,866,732
Capital reserves	**8,537,929**	**8,531,101**	9,070,975	9,066,202
Restricted shares subject to lock-up	**(65,273)**	**(65,273)**	(276,266)	(276,266)
Surplus reserves	**1,537,512**	**875,295**	1,537,512	875,295
Retained profits	**10,290,923**	**7,586**	9,222,387	1,542,299
Proposed final dividend	**—**	**—**	841,297	841,297
Foreign currency translation differences	**(440,004)**	**(15,981)**	(168,765)	(15,413)
Total equity attributable to equity holders of the parent	**23,301,165**	**12,772,806**	23,093,872	14,900,146
Minority Interests	**1,953,566**	**—**	1,868,126	—
Total shareholders' equity	**25,254,731**	**12,772,806**	24,961,998	14,900,146
Total liabilities and shareholders' equity	**100,166,935**	**89,165,841**	84,152,357	79,575,046

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

Income Statement

Currency: RMB in thousands

Item	Nine months ended 30 September 2011 Consolidated (Unaudited)	Nine months ended 30 September 2011 Company (Unaudited)	Nine months ended 30 September 2010 Consolidated (Unaudited)	Nine months ended 30 September 2010 Company (Unaudited)
1. Operating revenue	**58,284,783**	**49,418,048**	46,062,279	41,062,360
Less: Operating costs	**40,650,190**	**44,694,913**	30,457,626	34,086,733
Taxes and surcharges	**1,310,382**	**149,124**	773,333	126,026
Selling and distribution costs	**7,869,191**	**5,403,375**	6,404,580	4,340,067
Administrative expenses	**1,763,678**	**1,018,457**	1,927,256	1,067,011
Research and development costs	**5,623,630**	**1,544,929**	4,672,924	998,942
Finance expenses	**1,460,352**	**1,262,252**	635,309	872,959
Impairment losses	**402,180**	**272,015**	352,703	344,006
Add: Gains/(losses) from changes in fair value	**(290,563)**	**(223,535)**	56,801	388
Investment income	**1,166,924**	**3,357,915**	35,096	608,410
Including: Share of profits and losses of jointly-controlled entitles and associates	**9,407**	**(1,942)**	29,073	19,774
2. Operating profit	**81,541**	**(1,792,637)**	930,445	(164,586)
Add: Non-operating income	**1,544,484**	**310,435**	1,214,030	294,207
Less: Non-operating expenses	**45,940**	**37,334**	69,343	27,026
Including: Profit/loss on disposal of non-current assets	**14,610**	**4,664**	12,510	3,477
3. Total profit	**1,580,085**	**(1,519,536)**	2,075,132	102,595
Less: Income tax	**399,127**	**15,177**	583,420	(16,140)
4. Net profit	**1,180,958**	**(1,534,713)**	1,491,712	118,735
Attributable to owners of the parent	**1,068,536**	**(1,534,713)**	1,361,425	118,735
Minority interests	**112,422**	**—**	130,287	—

Currency: RMB in thousands

Item	Nine months ended 30 September 2011 Consolidated (Unaudited)	Company (Unaudited)	Nine months ended 30 September 2010 Consolidated (Unaudited)	Company (Unaudited)
5. Earnings per share				
(1) Basic*	**RMB0.31**	**—**	RMB0.41	—
(2) Diluted**	**RMB0.31**	**—**	RMB0.40	—
6. Other comprehensive income	**(266,320)**	**(568)**	(114,504)	(513)
7. Total comprehensive income	**914,638**	**(1,535,281)**	1,377,208	118,222
Total comprehensive income attributable to owners of the parent	**797,297**	**(1,535,281)**	1,247,033	118,222
Total comprehensive income attributable to minority interests	**117,341**	**—**	130,175	—

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

* *Basic earnings per share for the same period of the previous year has been restated as a result of the implementation of the 2010 profit distribution and capitalisation of capital reserves plan during the reporting period. Basic earnings per share for the reporting period has been calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 14,356,561 restricted shares remaining in lock-up under the share incentive scheme.*

** *Diluted earnings per share has been calculated on the basis of basic earnings per share taking into account 12,220,791 and 64,928,143 potentially dilutive ordinary shares arising from the Subject Share quota under the Phase I Share Incentive Scheme of the Company, a part of which has not been unlocked in the reporting period and the same period of 2010, respectively, and the diluted earnings per share for the same period of 2010 has been restated accordingly.*

Income Statement

Currency: RMB in thousands

Item	Three months ended 30 September 2011 Consolidated (Unaudited)	Three months ended 30 September 2011 Company (Unaudited)	Three months ended 30 September 2010 Consolidated (Unaudited)	Three months ended 30 September 2010 Company (Unaudited)
1. Operating revenue	**20,948,188**	**18,451,446**	15,336,859	13,820,948
Less: Operating costs	**14,406,459**	**17,088,088**	10,010,712	11,199,679
Taxes and surcharges	**413,981**	**33,370**	305,821	43,336
Selling and distribution costs	**2,955,795**	**2,276,580**	2,404,528	1,498,716
Administrative expenses	**627,293**	**379,344**	776,297	439,796
Research and development costs	**1,959,156**	**500,334**	1,477,647	426,097
Finance expenses	**1,019,867**	**660,292**	(105,326)	149,902
Impairment losses	**115,463**	**53,779**	200,614	164,212
Add: Gains/(losses) from changes in fair value	**(54,012)**	**(42,071)**	(21,125)	388
Investment income	**1,635**	**543,050**	11,118	13,848
Including: Share of profits and losses of jointly-controlled entitles and associates	**—**	**—**	6,876	6,876
2. Operating profit	**(602,203)**	**(2,039,362)**	256,559	(86,554)
Add: Non-operating income	**915,365**	**166,437**	470,219	175,129
Less: Non-operating expenses	**5,826**	**6,549**	44,505	22,254
Including: Profit/loss on disposal of non-current assets	**9,523**	**3,076**	2,288	—
3. Total profit	**307,336**	**(1,879,474)**	682,273	66,321
Less: Income tax	**(37,292)**	**(9,001)**	183,849	2,959
4. Net profit	**344,628**	**(1,870,473)**	498,424	63,362
Attributable to owners of the parent	**299,265**	**(1,870,473)**	483,936	63,362
Minority interests	**45,363**	**—**	14,488	—

Currency: RMB in thousands

Item	**Three months ended 30 September 2011** **Consolidated (Unaudited)**	**Company (Unaudited)**	Three months ended 30 September 2010 Consolidated (Unaudited)	Company (Unaudited)
5. Earnings per share				
(1) Basic*	**RMB0.09**	**—**	RMB0.14	—
(2) Diluted **	**RMB0.09**	**—**	RMB0.14	—
6. Other comprehensive income	**(264,017)**	**(359)**	20,580	(310)
7. Total comprehensive income	**80,611**	**(1,870,832)**	519,004	63,052
Total comprehensive income attributable to owners of the parent	**32,690**	**(1,870,832)**	504,534	63,052
Total comprehensive income attributable to minority interests	**47,921**	**—**	14,470	—

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

* *Basic earnings per share for the same period of the previous year has been restated as a result of the implementation of the 2010 profit distribution and capitalisation of capital reserves plan during the reporting period. Basic earnings per share for the reporting period has been calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 14,356,561 restricted shares remaining in lock-up under the share incentive scheme.*

** *Diluted earnings per share has been calculated on the basis of basic earnings per share taking into account 12,220,791 and 64,928,143 potentially dilutive ordinary shares arising from the Subject Share quota under the Phase I Share Incentive Scheme of the Company, a part of which has not been unlocked in the reporting period and the same period of 2010, respectively, and the diluted earnings per share for the same period of 2010 has been restated accordingly.*

Cash Flow Statement

Currency: RMB in thousands

Item	Nine months ended 30 September 2011 Consolidated (Unaudited)	Nine months ended 30 September 2011 Company (Unaudited)	Nine months ended 30 September 2010 Consolidated (Unaudited)	Nine months ended 30 September 2010 Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering services	**52,019,889**	**45,809,723**	45,504,432	38,743,671
Refunds of taxes	**4,165,672**	**3,474,914**	3,062,759	2,347,826
Cash received relating to other operating activities	**3,038,103**	**5,438,750**	544,680	319,585
Sub-total of cash inflows	**59,223,664**	**54,723,387**	49,111,871	41,411,082
Cash paid for goods and services	**48,114,603**	**49,770,234**	36,580,897	40,660,927
Cash paid to and on behalf of employees	**10,291,559**	**3,921,990**	7,359,448	2,395,290
Cash paid for all types of taxes	**4,090,779**	**615,858**	3,648,625	380,619
Cash paid relating to other operating activities	**9,262,090**	**5,166,523**	7,374,725	5,262,256
Sub-total of cash outflows	**71,759,031**	**59,474,605**	54,963,695	48,699,092
Net cash flows from operating activities	**(12,535,367)**	**(4,751,218)**	(5,851,824)	(7,288,010)
2. Cash flows from investing activities				
Cash received from sale of investments	**958,327**	**738,327**	—	—
Cash received from return on investments	**138,158**	**63,973**	7,823	48,239
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**34,587**	**30,367**	3,619	—
Sub-total of cash inflows	**1,131,072**	**832,667**	11,442	48,239
Cash paid to acquire fixed asset, intangible assets and other long-term assets	**2,494,095**	**1,196,565**	2,401,876	1,448,432
Cash paid for acquisition of investments	**1,292,797**	**1,757,700**	19,800	—
Sub-total of cash outflows	**3,786,892**	**2,954,265**	2,421,676	1,448,432
Net cash flows from investing activities	**(2,655,820)**	**(2,121,598)**	(2,410,234)	(1,400,193)

Currency: RMB in thousands

Item	Nine months ended 30 September 2011 Consolidated (Unaudited)	Nine months ended 30 September 2011 Company (Unaudited)	Nine months ended 30 September 2010 Consolidated (Unaudited)	Nine months ended 30 September 2010 Company (Unaudited)
3. Cash flows from financing activities				
Cash received from capital injections	**10,118**	**—**	3,197,918	3,197,918
Including: Capital injection into subsidiaries by minority shareholders	**10,118**	**—**	—	—
Cash received from borrowings	**25,491,878**	**9,644,240**	5,877,727	4,273,656
Sub-total of cash inflows	**25,501,996**	**9,644,240**	9,075,645	7,471,574
Cash repayments of borrowings	**10,807,843**	**4,363,163**	4,684,341	2,341,649
Cash payments for distribution of dividends and for interest expenses	**1,650,534**	**1,382,733**	1,006,862	921,990
Including: dividend and profit distribution paid by subsidiaries to minority shareholders	**34,794**	**—**	—	—
Sub-total of cash outflows	**12,458,377**	**5,745,896**	5,691,203	3,263,639
Net cash flows from financing activities	**13,043,619**	**3,898,344**	3,384,442	4,207,935
4. Effect of changes in foreign exchange rate on cash and cash equivalents	**(266,314)**	**(163,808)**	(26,305)	(57,913)
5. Net increase in cash and cash equivalents	**(2,413,882)**	**(3,138,280)**	(4,903,921)	(4,538,181)
Add: Cash and cash equivalents at beginning of year	**14,905,099**	**9,505,157**	14,075,822	9,808,228
6. Closing balance of cash and cash equivalents	**12,491,217**	**6,366,877**	9,171,901	5,270,047

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

By Order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
27 October 2011

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