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**ZTE CORPORATION**  
**中興通訊股份有限公司**

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

**(Stock Code: 763)**

**2012 FIRST QUARTERLY REPORT**

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

**1. IMPORTANT**

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the “Company”) confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved by the Twenty-ninth Meeting of the Fifth Session of the Board of Directors of the Company. Mr. Chen Naiwei, Independent Director, was unable to attend the Meeting due to work reasons, and has authorized Ms. Qu Xiaohui, Independent Director, to vote on his behalf. Mr. Tan Zhenhui, Independent Director, was unable to attend the Meeting due to work reasons, and has authorized Ms. Qu Xiaohui, Independent Director, to vote on his behalf.
- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).
- 1.5 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial report contained in this quarterly report.

## 2. CORPORATE INFORMATION

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

During the reporting period, investments by carriers were focused on the construction and optimization of mobile broadband and wireline broadband networks, as 3G network deployment reached greater depths while the commercial deployment of 4G was also unfolding. In tandem with ongoing advancement of government-led broadband strategies, there was stable growth in the capital expenditure of carriers. In the domestic market, efforts were focused on the further penetration of broadband with faster transmission speed, as well as the development of the Mobile Internet. The Group consolidated its existing market shares by working closely with carriers to satisfy their requirements in network construction, while also seeking to extend its market share by introducing new technologies, new products and differentiated solutions. Internationally, the Group reported relatively fast growth in operating revenue from international markets, riding on sustained growth in the global telecommunications market to launch co-operations with mainstream global carriers in various products.

During the reporting period, the Group reported operating revenue of RMB18.613 billion, representing a 24.28% growth over the same period last year. Net profit attributable to shareholders of the parent company amounted to RMB151 million, representing an 18.53% growth over the same period last year. Basic earnings per share amounted to RMB0.04.

In terms of products, revenue generated by the segment of carriers’ networks grew by 9.11% as compared to the same period last year, reflecting mainly the increase in revenue generated from the sales of optical and data communications products. Sales revenue of terminal products grew by 22.24% as compared to the same period last year, driven primarily by revenue generated from the sales of 3G handsets. The 97.68% year-on-year increase in the sales revenue of telecommunications software systems, services and other products was mainly attributable to the increase in revenue from services and fixed terminals.

Looking to the next reporting period, the Group will focus on opportunities presented by the capacity expansion and technology upgrade of global wireless networks, national broadband strategies, developments in the smart terminal and ICT sector. With ongoing strong efforts in technological innovations for products, we will continue to pursue transformation from a product-based operation to a solution-based operation. We will reinforce the implementation of our strategy to focus on populous nations and mainstream carriers and vigorously expand to the government enterprise and service segments. In the meantime, we will continue to introduce measures to strengthen cash flow management, optimise process regimes and improve operating efficiency.

## 2.2 Major Accounting Data and Financial Indicators

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

<b>Items</b>	<b>End of the reporting Period (31 March 2012)</b>	<b>End of last year (31 December 2011)</b>	<b>Change as at the end of the reporting period compared with the end of last year (%)</b>
Total assets (RMB in thousands)	<b>103,497,687</b>	105,368,114	-1.78%
Owners' equity attributable to shareholders of the listed company (RMB in thousands)	<b>24,339,738</b>	24,231,717	0.45%
Share capital (thousand shares)	<b>3,440,078</b>	3,440,078	0.00%
Net assets per share attributable to shareholders of the listed company (RMB/share) <i>Note 1</i>	<b>7.09</b>	7.06	0.42%

Items	The reporting period (Three months ended 31 March 2012)	Same period last year (Three months ended 31 March 2011) (Restated)	Change compared with the same period last year (%)
Total operating revenue (RMB in thousands)	<b>18,613,038</b>	14,976,170	24.28%
Net profit attributable to shareholders of the listed company (RMB in thousands)	<b>150,874</b>	127,289	18.53%
Net cash flows from operating activities (RMB in thousands)	<b>-6,363,569</b>	-5,526,386	-15.15%
Net cash flows from operating activities per share (RMB/share) <sup>Note 2</sup>	<b>-1.85</b>	-1.64	-12.80%
Basic earnings per share (RMB/share) <sup>Note 3</sup>	<b>0.04</b>	0.04	0.00%
Diluted earnings per share (RMB/share) <sup>Note 4</sup>	<b>0.04</b>	0.04	0.00%
Weighted average return on net assets (%)	<b>0.62%</b>	0.55%	0.07%
Weighted average return on net assets after extraordinary items (%)	<b>0.37%</b>	0.24%	0.13%

*Note 1:* Net asset per share attributable to shareholders of the listed company as at the end of the first quarter of 2012 and the end of 2011 were calculated on the basis of the number of shares representing the total share capital as at 31 March 2012 and 31 December 2011, respectively, less 9,125,893 restricted shares remaining in lock-up under the share incentive plan.

*Note 2:* Net cash flow from operating activities per share as at the end of the first quarter of 2012 were calculated on the basis of the number of shares representing the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up under the share incentive plan. The corresponding amounts for the same period of 2011 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

*Note 3:* Basic earnings per share for the reporting period was calculated on the basis of the weighted average number of ordinary share capital, namely the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up. Basic earnings per share for the same period of 2011 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

*Note 4:* As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company have given rise to 6,874,194 and 61,864,408 potentially dilutive ordinary shares for the reporting period and the same period of 2011, respectively, therefore diluted earnings per share have been calculated on the basis of basic earnings per share taking into account the said factors, and the diluted earnings per share for the same period of 2011 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

*Extraordinary items*

	<i>RMB in thousands</i>
	<b>Amount from the beginning of the year to the end of the reporting period</b>
<b>Extraordinary items</b>	
Non-operating income	16,365
Gains/(Losses) from changes in fair values	-878
Investment income	68,828
Less: Gains/(Losses) arising from the disposal of non-current assets	1,371
Less: Other non-operating expenses	10,336
Less: Effect of income tax	<u>10,891</u>
Total	<u><u>61,717</u></u>

**2.2.2 The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2012 and as at 31 March 2012 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.**

**2.3 Total number of shareholders and 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 119,503 shareholders in total (of which 119,149 were holders of A shares and 354 were holders of H shares).

*Top ten holders of shares not subject to lock-up*

Name of shareholder	Number of shares not subject to lock-up at the end of the reporting period (shares)	Class
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”)	1,058,191,944	A share
HKSCC Nominees Limited	628,477,190	H Share
China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen	95,011,659	A share
CITIC Trust Co., Ltd. — Wealth Management 06	58,194,000	A share
Hunan Nantian (Group) Co., Ltd	37,450,609	A share
China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	36,021,482	A share
Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange — Traded Fund	30,950,905	A share
China Life Insurance (Group) Company — Traditional — General Insurance Products	25,569,044	A share
Industrial and Commercial Bank of China — Rongtong Shenzhen Stock Exchange 100 Index Securities Investment Fund	20,859,564	A share
Industrial and Commercial Bank of China — Bosera Third Industry Growth Stock Securities Investment Fund	20,000,000	A share

### 3. MATERIAL MATTERS

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

√ Applicable    □ N/A

RMB in thousands

##### Balance Sheet

Item	At 31 March 2012	At 31 December 2011	Change	Analysis of Reasons
Cash	<b>14,706,500</b>	21,471,967	-31.51%	Attributable primarily to higher amount of materials purchase payments for the period
Prepayments	<b>651,634</b>	494,200	31.86%	Attributable primarily to the increase in prepayments to suppliers for materials purchase in accordance with contracts
Short-term loans	<b>14,609,182</b>	11,183,349	30.63%	Attributable primarily to the increase in borrowings to meet the Company's short-term funding requirements
Derivative financial liabilities	<b>13,641</b>	5,305	157.13%	Attributable primarily to losses arising from the revaluation of fair value for certain derivatives at the end of the reporting period
Taxes payable	<b>-1,641,364</b>	-990,041	-65.79%	Representing primarily income tax and business tax actually paid during the period
Deferred income	<b>133,627</b>	74,986	78.20%	Attributable primarily to the increase in asset-related government subsidies
Deferred tax liabilities	<b>15,581</b>	—	100.00%	Representing primarily deferred tax liabilities charged during the period in respect of investment income generated from the IPO of Shenzhen Jufei Optoelectronics Co., Ltd. 深圳市聚飛光電股份有限公司 (“Jufei”)

*Income statement (Three months ended 31 March)*

<b>Item</b>	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>	<b>Change</b>	<b>Analysis of Reasons</b>
Operating costs	<b>13,350,820</b>	9,921,986	34.56%	Attributable primarily to the increase in the Company's sales and the change in its product mix
Taxes and surcharges	<b>166,246</b>	239,045	-30.45%	Attributable primarily to the decrease in income subject to business tax
Finance expenses	<b>99,276</b>	164,586	-39.68%	Attributable primarily to the increase in exchange gains resulting from exchange rate fluctuations during the period
Gains/(Losses) from changes in fair values	<b>-878</b>	-59,993	98.54%	Attributable primarily to the reclassification of certain derivative investments from fair value gains for the same period last year to investment income upon the maturity and closing of such investments
Non-operating income	<b>535,862</b>	221,585	141.83%	Attributable primarily to the increase in VAT rebates for software products
Non-operating expenses	<b>11,707</b>	6,428	82.13%	Attributable primarily to the increase in compensation expenses
Income tax	<b>60,866</b>	118,924	-48.82%	Attributable primarily to the write-back of overseas tax charged in previous years
Minority interests	<b>61,644</b>	35,719	72.58%	Attributable primarily to the increase in profit for the reporting period of certain subsidiaries
Other comprehensive income	<b>-35,886</b>	-13,464	-166.53%	Attributable primarily to changes in the translation differences of financial statements denominated in foreign currencies
Comprehensive income attributable to minority interests	<b>70,429</b>	36,719	91.81%	Attributable primarily to increase in profit for the reporting period of certain subsidiaries



*Cash flow statement*

<b>Item</b>	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>	<b>Change</b>	<b>Analysis of Reasons</b>
Net cash flows from investing activities	<b>-724,392</b>	-1,064,123	31.93%	Attributable primarily to the increase in cash received from disposal of investment
Net cash flows from financing activities	<b>311,009</b>	5,425,241	-94.27%	Attributable primarily to the increase in cash outlay for the repayment of borrowings
Effect of changes in foreign exchange rate on cash	<b>11,485</b>	-30,379	137.81%	Attributable primarily to exchange gains resulting from exchange rate fluctuations during the period versus exchange losses reported for the same period last year

### **3.2 Progress of significant events and analysis of their impacts 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 Company and Qualcomm Incorporated (“Qualcomm”), a U.S. company, entered into the “Framework Agreement of Chipset Procurement for Calendar Years 2012–2015,” pursuant to which the Company proposed procurements from Qualcomm with an aggregate value of no less than USD4 billion in Calendar Years 2012–2015. During the reporting period, the Company and Broadcom Corporation (“Broadcom”), a U.S. company, entered into the “Framework Agreement of Chipset Procurement for Calendar Years 2012–2014,” pursuant to which the Company proposed procurements from Broadcom with an aggregate value of no less than USD1 billion in Calendar Years 2012–2014. For details please refer to the Announcement of the Board of Directors published by the Company on 20 February 2012.

Details of the performance of material contracts entered into prior to and subsisting during the reporting period and new material contracts entered into during the reporting period are set out 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	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	China Securities Journal Securities Times Shanghai Securities News	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012–2015 with Qualcomm	21 February 2012		Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012–2014 with Broadcom	21 February 2012		Under normal progress

### 3.2.4 Others

Applicable    N/A

#### 3.2.4.1 Bonds cum warrants of the Company

On 30 January 2012, 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 16 January 2012.

For details of the bonds cum warrants issued by the Company, please refer to the sections headed “Material Matters” and “Report of the Board of Directors” in the 2011 annual report of the Company.

### *3.2.4.2 Passing of review for the Company's status as a hi-tech enterprise*

As set out in the Notice on the Collection of Certificate for National Hi-tech Enterprise of Shenzhen Passing the 2011 Review (《關於領取深圳市2011年通過覆審國家高新技術企業證書的通知》) (Shen Ke Gong Mao Xin Chan Ye Zi [2012] No. 4) published by the Science, Industry, Trade and Information Technology Commission of Shenzhen announced on its official website (www.szstic.gov.cn) in accordance with the Administrative Measures for the Recognition of Hi-tech Enterprises (《高新技術企業認定管理辦法》) (Guo Ke Fa Huo [2008] No. 172) and the Guidelines for the Administration of Hi-tech Enterprise Recognition (《高新技術企業認定管理工作指引》) (Guo Ke Fa Huo [2008] No. 362), ZTE has passed the review for its status as a national hi-tech enterprise, which status shall be valid for three years. In accordance with the Income Tax Law of the People's Republic of China and national tax regulations applicable to hi-tech enterprises, the Company shall be entitled to a preferential tax policy and subject to a reduced income tax rate of 15% during the valid term of its hi-tech enterprise status.

For details of the Company's passing of the review for its status as a national hi-tech enterprise, please refer to the "Announcement of the Passing of Review on Hi-tech Enterprise Status" of the Company dated 6 February 2012.

### *3.2.4.3 Changes in the Directors and senior management of the Company*

The Board of the Company received a "resignation report" from Non-executive Director Mr. Lei Fanpei on 9 February 2012. Because of the redeployment of his work, Mr. Lei Fanpei wishes to resign from the positions of Non-executive Director, Vice Chairman of the Fifth Session of the Board of Directors and member of the Remuneration and Evaluation Committee under the Board of Directors. Mr. Lei's resignation became effective upon delivery of his "resignation report" to the Board of Directors. Following his resignation, Mr. Lei will not hold any position at the Company. For details please refer to the "Announcement of Resignation of Non-executive Director" of the Company dated 9 February 2012.

At the fourth meeting of the Nomination Committee of the Fifth Session of the Board of Directors of the Company and the Twenty-fifth Meeting of the Fifth Session of the Board of Directors held on 22 February 2012, the "Resolution on the Nomination of Candidate for Non-independent Director" was considered and passed, whereby the Fifth Session of the Board of Directors nominated Mr. Zhang Jianheng as the candidate for Non-independent Director of the Company. The resolution was considered and approved at the First Extraordinary General meeting of 2012 of the Company held on 11 April 2012. Mr. Zhang Jianheng's appointment commenced on the date of consideration and approval at the First Extraordinary General Meeting of 2012 and shall end upon the conclusion of the term of the Fifth Session of the Board of Directors (namely 29 March 2013). At the Twenty-eighth Meeting of the Fifth Session of the Board of Directors held on 11 April 2012, the "Resolution on the Election of the Vice Chairman of the Fifth Session of the Board of Directors" and the "Resolution on the Election of a New Member as Replacement to the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors" were considered and approved, whereby Mr. Zhang Jianheng was elected Vice Chairman of the Fifth Session of the Board of Directors and a new member for replacement to the Remuneration and Evaluation Committee. For details please refer to the Company's "Announcement of Resolutions of the Twenty-fifth Meeting of the Fifth Session of the Board of Directors" dated 22 February 2012 and the "Announcement

of Resolutions of the First Extraordinary General Meeting of 2012” and “Announcement of Resolutions of the Twenty-eighth Meeting of the Fifth Session of the Board of Directors” dated 11 April 2012.

At the fifth meeting of the Nomination Committee of the Fifth Session of the Board of Directors held on 27 March 2012 and the Twenty-seventh Meeting of the Fifth Session of the Board of Directors held on 28 March 2012, the “Resolution of the Company on the Appointment of Senior Management Personnel” was considered and passed, whereby it was approved that Mr. Wang Jiaran, general manager of the Second Sales Division, be appointed as Senior Vice President for a term commencing on the date on which the resolution was considered and passed at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors and ending upon the conclusion of the Fifth Session of the Board of Directors (namely 29 March 2013), and that Mr. Chen Jianzhou, Structure and Process Officer of the Company, be appointed as Senior Vice President for a term commencing on the date on which the resolution was considered and passed at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors and ending upon the conclusion of the Fifth Session of the Board of Directors (namely 29 March 2013). For details please refer to “Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors” of the Company dated 28 March 2012.

#### *3.2.4.4 Proposed bond issue by the Company*

To meet the Company’s working capital requirements, further improve its debt structure and lower its finance costs, the Company has proposed the public issue of corporate bonds of not more than RMB6,000 million (the “Bond Issue”) in accordance with relevant provisions of the Company Law of the People’s Republic of China, Securities Law of the People’s Republic of China, the Trial Measures for Bond Issue and other pertinent laws, regulations and regulatory documents. The Bond Issue and its related matters was considered and passed at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors held on 8 March 2012 and the First Extraordinary General meeting of 2012 of the Company held on 11 April 2012. The Bond Issue is subject to approval of the China Securities Regulatory Commission (“CSRC”).

For details of the Company’s proposed issue of corporate bonds, please refer to the Company’s “Announcement of Resolutions of the Twenty-sixth Meeting of the Fifth Session of the Board of Directors” dated 8 March 2012 and the “Announcement of Resolutions of the First Extraordinary General Meeting of 2012” dated 11 April 2012.

#### *3.2.4.5 Waiver of rights by the Company*

ZTE ITS LTD. (Wuxi) (中興智能交通(無錫)有限公司) (“ZTE ITS ”) is a company in which the Company holds a 19% equity interest.

The other two existing shareholders have proposed to transfer their respective equity interests in ZTE ITS to their domestic natural person shareholder and domestic subsidiary, respectively, so that ZTE ITS may be converted from a Chinese foreign joint venture to a domestic company. The Company intends to waive the aforesaid first right of refusal. Following the completion of the said transfer of equity interests, the percentage of the Company’s equity interests in ZTE ITS will remain unchanged.

Following the aforesaid transfer of equity interests, ZTE ITS has also proposed to introduce new shareholders in two deals to increase the share capital of ZTE ITS by RMB38.13 million (including the transfer of equity interests by an existing shareholder to a new shareholder, in respect of which the Company intends to waive its first right of refusal) and RMB13.80 million, respectively. The Company also intends to waive the aforesaid capital contribution option. Following the completion of the said share capital increase, the percentage of the Company's equity interests in ZTE ITS will be reduced from 19% to 14.4%.

The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Fifth Session of the Board of the Directors convened on 28 March 2012, and will be tabled at the 2011 Annual General Meeting of the Company to be held on 25 May 2012. For details please refer to the "Announcement on the Waiver of Rights" and the "Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors" published by the Company on 28 March 2012.

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

During the reporting period, the Phase I Share Incentive Scheme of the Company was under normal implementation. Details of the impact of the Phase I Share Incentive Scheme of the Company on the financial position and results of operation of the Company has been set out in the section headed "Material Matters" in the 2011 annual report of the Company.

#### *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) of the Group included the purchase of raw materials from, sales of goods to and property leasing from connected parties by the Company and its subsidiaries. Such connected transactions were conducted after arm's length negotiation on the basis of normal commercial terms. The prices at which the Group made purchases from the connected parties were not higher than the prices at which the connected parties sell similar products to other users in similar quantities. The prices at which properties were leased to the Group by connected parties were not higher than market rates for the lease of similar properties in neighbouring areas. In addition, such connected transactions would not have any adverse impact on the Group's profit. The Group is not dependent on the connected party and the connected transactions do not affect the independence of the Group.

Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (for information on the connected parties, their connected relationships with the Group, basic terms of the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2012 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or the general meeting of the Company, please refer to the "Announcement Regarding Ongoing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange", "Announcement Regarding Connected Transactions",

“Announcement Regarding Projected Ongoing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange” and “Announcement Regarding Connected Transactions” published by the Company in China Securities Journal, Securities Times, Shanghai Securities News and www.cninfo.com.cn on 28 October 2009, 28 April 2010, 28 October 2011 and 14 December 2011, respectively.

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for	As a percentage of	Settlement	Whether different from estimated conditions
						January to March 2012 (excluding VAT) (RMB10,000)	transactions in the same classification		
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, soft circuit boards and shelters	Consistent with market price (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; flexible 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.	8,434.34	0.77%	Commercial acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas and radio frequency transmitter	Consistent with market price (as per contract)	Communication antenna: RMB320-RMB2,300 per piece and radio frequency transmitter, RMB350-4,100 per unit, depending on technical parameters and functional features.	4,548.66	0.41%	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 an intended leased area of 32,000 sq.m.	Consistent with market price (as per contract)	Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	974.90	5.21%	Tele-transfer	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 price (as per contract)	Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the cafeteria (property management undertaken by the Company and no management fees are payable)	208.07	1.11%	Tele-transfer	No

### 3.2.4.8 *Material litigation during the reporting period*

There was no material litigation or arbitration of the Group occurring during the reporting period. Details of the progress of immaterial litigation and arbitration proceedings occurring prior to and other litigation and arbitration proceedings occurring during the reporting period are set out in the following:

1. In February 2012, the Company and Telefonaktiebolaget LM Ericsson (publ) (“Ericsson”) entered into an AGREEMENT OF DISPUTE RESOLUTION, pursuant to which the two parties agree to withdraw all patent infringement litigations against each other, including all pending patent disputes between the Parties in Germany, the United Kingdom and China. For details, please refer to the section headed “Material Matters (I) Material Litigation and Arbitration” in the 2011 Annual Report of the Company.
2. On 28 April 2011, the Company and ZTE France SASU (“ZTE France”), a wholly-owned subsidiary of the Company, received a statement of claim from the High Court of Paris, according to which a lawsuit has been filed by Huawei Technologies Co. Ltd. (“Huawei”), claiming that the data card products of the Company and ZTE France have infringed upon its patent and demanding the Company and ZTE France to discontinue such act of infringement and pay damages in the amount of EUR500,000. The Company had submitted a defense according to the required timeline to the court, which had confirmed the date of court trial, being 8 January 2013. As the Company is no longer selling the products involved in this case, the litigation will not have any substantial impact on the local sales of the Company. In respect of the patent which is the subject of Huawei’s litigation and other related patents of the same class, ZTE France has filed a lawsuit with the High Court of Paris to claim the invalidity of the patent, and the case is currently under trial.

On 9 May 2011, ZTE Deutschland GmbH (“ZTE Deutschland”), a wholly-owned subsidiary of the Company, received a provisional injunction order against ZTE Deutschland in respect of “labelled data cards” awarded by the District Court of Hamburg, Germany based on an application by Huawei. For details please refer to the “Announcement on Litigation” of the Company dated 12 May 2011. In response to the aforesaid provisional injunction, ZTE Deutschland had filed a dissent with the District Court of Hamburg. On 1 October 2011, the Company received a ruling of the District Court of Hamburg in favor of Huawei’s application for the said provisional injunction. On 27 October 2011, ZTE Deutschland appealed to the District High Court of Hamburg and the case is currently pending trial. Such provisional injunction order will not have any impact the current business of the Company. On 27 June 2011, ZTE Deutschland received a statement of claim served by the District Court of Hamburg, Germany, pursuant to which Huawei officially filed a lawsuit of trademark infringement in respect of “labelled data cards” with the court. On 25 July 2011, ZTE Deutschland submitted a defense to the court. On 23 November 2011, the court ruled to suspend the litigation procedure for the case of trademark infringement and to arrange hearing after a judgement has been handed down in respect of the appeal against the provisional injunction.

On 13 May 2011, Huawei filed a statement of claim with the court of Dusseldorf, Germany against ZTE Deutschland, a wholly-owned subsidiary of the Company, and the Company for infringement of its patent rights. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 9 January 2012, ZTE Deutschland

submitted a defense to the court. In respect of the patent which is the subject of Huawei's litigation and other related patents of the same class, ZTE Deutschland filed a lawsuit with the Federal Patent Court of Germany to claim the invalidity of the patent, and the case is currently under trial.

On 12 November, 21 November and 2 December 2011, respectively, ZTE Hungary Kft. ("ZTE Hungary"), a wholly-owned subsidiary of the Company, received statements of claim filed by Huawei with the Metropolitan Court of Hungary alleging infringement of 4 of its patents by ZTE Hungary, although no specific amount of compensation was named by Huawei in the statements of claim. ZTE Hungary submitted defenses to the court on 12 January and 1 February 2012, respectively. In respect of the 4 patents which is the subject of Huawei's litigation, ZTE Hungary filed an application to the Patent Bureau of Hungary to claim the invalidity of the patent. As at 28 March 2012, the court had ruled to suspend trial in respect of 3 of the patents under litigation. Court trial has yet to commence for the remaining 1 patent under litigation.

In addition to instituting lawsuits in other countries against the Company and its wholly-owned subsidiaries for infringements of its patent rights or trademarks, Huawei also filed a lawsuit with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court") in 2011 alleging the Company's infringement of 4 of its patent rights and demanding the Company to discontinue such infringement and pay compensations. The Company responded actively by filing a case with Shenzhen Intermediate Court alleging Huawei's infringement of 3 patent rights of the Company, demanding Huawei to discontinue such infringement and pay compensations. As of now, trials of these two domestic cases have yet to commence.

3. On 3 January 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (approximately RMB258 million).

On 20 January 2012, ZTE Brazil submitted an administrative defense to the administrative court of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provides that the agreement shall apply to ICMS tax incurred prior to May 2009, ZTE Brazil is not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the administrative court of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. ZTE Brazil is actively preparing to file an appeal with the administrative court.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.



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

Applicable    N/A

Zhongxingxin, the controlling shareholder of the Company, sold shares in the Company on 13 June 2011 via the securities 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. The aforesaid undertaking expired on 12 December 2011 and Zhongxingxin had honoured its undertaking throughout the relevant period.

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

Applicable    N/A

### 3.5 Other material matters requiring disclosure

#### 3.5.1 Investment in securities

✓ Applicable     N/A

#### 1. Securities Investment by the Company at the end of the reporting period

RMB in ten 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	172.38	312.58	7,642.71	100%	-1,075.29
Other investment in securities held at the end of the period			—	—	—	—	—
Profit and loss from sales of investment in securities in the reporting period			—	—	—	—	—
<b>Total</b>			172.38	312.58	7,642.71	100%	-1,075.29
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 Inc. (“Nationz Technologies”), a 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 held approximately 3,125,800 shares in Nationz Technologies (accounting for approximately 1.15% of the total share capital of Nationz Technologies), all of which are unrestricted circulating shares. As the Company no longer exercises significant influence over the operating activities of Nationz Technologies, the outstanding unsold shares, previously accounted for as long-term equity, have been reclassified as trading financial assets for accounting purposes and investment gains and profit/loss from fair-value changes have been measured at fair value.

Save as aforesaid, the Group did not hold any stakes in financial enterprises such as commercial banks, securities companies, insurances companies, trust companies and futures companies, nor did it deal in the shares of other listed companies or was otherwise engaged in securities investment during the reporting period.

### 3.5.2 Equity interests in other listed companies

Applicable  N/A

On 13 December 2011, the IPO application of Jufei, a company in which the Company held an indirect interest, was approved at the 78th working meeting of 2011 of the GEM Board Issue Approval Committee under CSRC. Jufei was listed on the GEM Board of the Shenzhen Stock Exchange on 19 March 2012.

As at the end of the reporting period, Shenzhen Changfei Investment Company Limited (“Changfei”), a company in which the Company held a 51% interest as controlling shareholder, held 12.87 million shares in Jufei, representing 16.09% of the total share capital of Jufei.

*RMB in ten thousands*

Stock code	Abbreviated name	Initial investment	Percentage of shareholdings in issuer	Nominal value at the end of the period	Profit and loss in the reporting period	Change in owner's equity in the reporting period	Accounting classification	Source of shares
300303	Jufei	450	16.09%	12,016.64	6,326.87	6,326.87	Long-term equity investment	Initial Investment

*Note:* The above data are provided with Changfei as the accounting subject.

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

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
Presentation of the Company	Shenzhen	28 March 2012	Teleconference	Analysts and investors	2011 annual report	Published announcements and regular reports
External meetings	Hong Kong	17 January 2012	Citibank investors' meeting	Citibank customers	Day-to-day operations of the Company	Published announcements and regular reports
Company visits by analysts	Company	January to March 2012	Verbal	<p><b>Overseas investors</b></p> <p>Merrill Lynch Securities, Shenghai Investment, Tokai Tokyo Securities (Asia) Limited, GSI, Neptune Investment Management, KGI, F &amp; C Group, Baillie Gifford &amp; Co Limited, Goldman Sachs, Shenyin Wanguo, BOCI, Havenport, Nomura Securities, Collins Stewart LLC, Sumitomo Mitsui Asset Management, UOB, ING, Core Pacific, Display bank, Schroder Investment Management (Singapore) Ltd., Lansdowne Partners Limited</p> <p><b>Domestic investors</b></p> <p>Hua Chuang Securities, Guotai Junan Group Research, China Merchants Securities, Everbright Securities, E Fund, Great Wall Securities, Huaxia Fund, Boseru Funds, Xiangcai Securities</p>	Day-to-day operations of the Company	Published announcements and regular reports
	Company	January to March 2012	Verbal		Day-to-day operations of the Company	Published announcements and regular reports

### 3.6 Derivative investments

√ Applicable    □ N/A

Principal terms of a derivative investment contract (include but not limited to: the source of funds, parties to the contract, investment shares, investment period, product types, whether litigation is involved, whether there are disguised applications of issue proceeds and review of the investment by competent decision making authorities)	<p>As at the first quarter of 2012, the Company conducted derivative investment using its internal funds through either ZTE, Shenzhen ZTE Kangxun Telecom Company Limited or ZTE (H.K.) Limited (“ZTE HK”). Contract types included fixed income derivatives and value-protection. Fixed income derivatives had an investment term of 1 year or less. Value protection derivatives included USD forwards, Euro forwards and USD interest rate swap. The investment term of USD forwards and Euro forwards was 1 year or less. The investment term of USD interest rate swaps matched the medium- and long-term debts of ZTE HK.</p> <p>The derivative investment quota for the first quarter of 2012 was considered and passed by the Sixteenth Meeting of the Fifth session of the Board of Directors and 2010 annual general meeting of the Company. For details, please refer to the “Announcement of Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors” published by the Company on 17 March 2011 and “Announcement on the Resolutions of the 2010 Annual General Meeting” published by the Company on 17 May 2011. The derivative investments made by the Company have not been involved in litigation or disguised applications of issue proceeds.</p>
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	<p>Derivative investments conducted by the Company during the first quarter of 2012 included fixed income derivatives and value-protection derivatives. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"><li>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.</li></ol>

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 RMB17.52 million, comprising gains from fair-value change of RMB9.88 million and recognized investment gains of RMB7.64 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 Non-executive Directors on the Company's derivative investments and risk control

**Independent Non-executive 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

RMB in thousands

Type of contract <sup>Note 1</sup>	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 as at the end of the period <sup>Note 2</sup>
Fixed-income derivative investment	2,705,863	2,521,502	2,192	10.36%
Value-protection derivative investment	2,669,974	4,449,758	15,323	18.28%
Total	5,375,837	6,971,260	17,515	28.64%

*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 Implementation of internal control development in the first quarter of 2012

1. In connection with the implementation of internal control testing during the reporting period, the internal control development project team conducted a process of sorting, collation, review and reporting in respect of the results of the second and first internal control tests of 2011. The team also continued to track deficiencies in respect of which rectification had not been completed.
2. During the period, the internal control development project team sorted information on implementation of the internal control plan in 2011 and completed the "Report on implementation of the internal control plan in 2011," which was submitted to the Audit Committee at the Seventeenth Meeting of the Audit Committee of the Fifth Session of the Board of Directors held on 17 January 2012.
3. During the reporting period, the Company completed the "2011 Report on Self Assessment of Internal Control," which was posted on [www.cninfo.com.cn](http://www.cninfo.com.cn) and filed with the CSRC Bureau of Shenzhen after consideration and approval at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors held on 28 March 2012.
4. During the reporting period, the internal control development project team provided active support to the internal control audit work carried out by the external auditor. The team also monitored the rectification of internal control deficiencies to ensure the smooth progress of internal control auditing. The external auditor has furnished an unqualified opinion in its 2011 Internal Control Audit Report.



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

#### **4. APPENDICES**

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

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

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

## Balance Sheet

RMB in thousands

Assets	2012.3.31		2011.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	14,706,500	6,610,861	21,471,967	13,575,178
Trading financial assets	99,932	81,275	95,618	87,180
Bills receivable	3,611,311	3,417,090	3,223,529	2,992,133
Trade receivables	26,172,282	32,091,247	23,873,425	33,136,024
Factored trade receivables	3,773,127	3,472,771	3,623,096	3,306,558
Prepayments	651,634	69,690	494,200	22,969
Dividends receivable	—	3,696,751	—	3,696,751
Other receivables	1,949,324	5,308,376	2,118,700	3,477,706
Inventories	16,821,074	7,863,606	14,988,379	8,634,564
Amount due from customers for contract works	<u>14,570,864</u>	<u>10,473,903</u>	<u>14,588,455</u>	<u>12,171,992</u>
<b>Total current assets</b>	<b><u>82,356,048</u></b>	<b><u>73,085,570</u></b>	<b><u>84,477,369</u></b>	<b><u>81,101,055</u></b>
Non-current assets:				
Available-for-sale financial assets	817,826	212,448	819,972	212,448
Long-term trade receivables	814,971	3,525,608	864,274	3,633,751
Factored long-term trade receivables	4,129,279	4,055,532	4,156,083	4,059,772
Long-term equity investments	579,179	4,906,888	514,091	4,750,471
Fixed assets	6,968,705	4,769,347	7,003,824	4,791,141
Construction in progress	1,677,579	750,903	1,580,462	739,549
Intangible assets	1,264,655	710,772	1,194,946	715,716
Deferred development costs	2,133,640	642,722	1,925,610	499,988
Deferred tax assets	1,076,056	546,809	1,128,836	622,619
Long-term deferred assets	58,148	30,044	61,741	30,096
Other non-current assets	<u>1,621,601</u>	<u>1,470,639</u>	<u>1,640,906</u>	<u>1,489,944</u>
<b>Total non-current assets</b>	<b><u>21,141,639</u></b>	<b><u>21,621,712</u></b>	<b><u>20,890,745</u></b>	<b><u>21,545,495</u></b>
<b>Total assets</b>	<b><u>103,497,687</u></b>	<b><u>94,707,282</u></b>	<b><u>105,368,114</u></b>	<b><u>102,646,550</u></b>

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

Liabilities and shareholders' equity	2012.3.31		2011.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	14,609,182	8,837,930	11,183,349	6,536,028
Derivative financial liabilities	13,641	—	5,305	—
Bank advances on factored trade receivables	3,773,127	3,472,771	3,789,731	3,473,193
Bills payable	10,962,496	13,400,439	11,149,367	11,904,593
Trade payables	18,874,871	28,548,739	21,542,885	31,997,323
Amount due to customers for contract works	2,791,493	1,811,640	3,068,804	2,401,582
Advances from customers	2,559,742	1,950,397	2,458,428	1,608,213
Salary and welfare payables	2,164,708	459,937	2,409,032	720,866
Taxes payable	(1,641,364)	(2,034,607)	(990,041)	(1,628,377)
Dividends payable	170,046	128	170,046	128
Other payables	6,502,109	14,619,156	7,526,477	20,133,672
Deferred income	133,627	57,974	74,986	29,483
Provisions	415,443	263,567	393,343	241,134
Long-term loans due within one year	<u>625,886</u>	<u>625,886</u>	<u>693,099</u>	<u>693,099</u>
<b>Total current liabilities</b>	<b><u>61,955,007</u></b>	<b><u>72,013,957</u></b>	<b><u>63,474,811</u></b>	<b><u>78,110,937</u></b>
Non-current liabilities:				
Long-term loans	6,441,313	629,430	6,940,702	1,130,090
Bank advances on factored long-term trade receivables	4,129,279	4,055,532	4,156,083	4,059,772
Bonds cum warrants	3,893,335	3,893,335	3,884,198	3,884,198
Deferred tax liabilities	15,581	—	—	—
Other non-current liabilities	<u>595,947</u>	<u>586,162</u>	<u>623,545</u>	<u>622,297</u>
<b>Total non-current liabilities</b>	<b><u>15,075,455</u></b>	<b><u>9,164,459</u></b>	<b><u>15,604,528</u></b>	<b><u>9,696,357</u></b>
<b>Total liabilities</b>	<b><u>77,030,462</u></b>	<b><u>81,178,416</u></b>	<b><u>79,079,339</u></b>	<b><u>87,807,294</u></b>

RMB in thousands

Liabilities and shareholders' equity	2012.3.31		2011.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Shareholders' equity:				
Share capital	3,440,078	3,440,078	3,440,078	3,440,078
Capital reserves	8,539,723	8,536,510	8,539,807	8,534,677
Restricted shares subject to lock-up	(40,537)	(40,537)	(40,537)	(40,537)
Surplus reserves	1,587,891	925,674	1,587,891	925,674
Retained profits	10,696,858	(2,569)	10,545,984	1,309,523
Proposed final dividends	686,190	686,190	686,190	686,190
Foreign currency translation differences	(570,465)	(16,480)	(527,696)	(16,349)
Total equity attributable to equity holders of the parent	24,339,738	13,528,866	24,231,717	14,839,256
Minority Interests	2,127,487	—	2,057,058	—
<b>Total shareholders' equity</b>	<b>26,467,225</b>	<b>13,528,866</b>	<b>26,288,775</b>	<b>14,839,256</b>
<b>Total liabilities and shareholders' equity</b>	<b>103,497,687</b>	<b>94,707,282</b>	<b>105,368,114</b>	<b>102,646,550</b>

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

## Income Statement

RMB in thousands

Item	Three months ended 31 March 2012		Three months ended 31 March 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
1. Operating revenue*	18,613,038	16,113,598	14,976,170	12,272,789
Less: Operating costs	13,350,820	14,805,371	9,921,986	11,073,576
Taxes and surcharges*	166,246	12,115	239,045	70,518
Selling and distribution costs	2,486,096	1,566,733	2,055,515	1,228,777
Administrative expenses	478,416	285,092	470,060	285,318
Research and development costs	1,989,748	412,043	1,757,732	378,886
Finance expenses	99,276	110,765	164,586	213,642
Impairment losses	365,359	300,345	331,135	259,999
Add: Gains/(Losses) from changes in fair values	(878)	(4,669)	(59,993)	(5,061)
Investment income Including: Share of profits and losses of jointly- controlled entities and associates	73,030	(1,739)	90,657	21,255
	<u>3,722</u>	<u>—</u>	<u>8,425</u>	<u>8,425</u>
2. Operating profit	<u>(250,771)</u>	<u>(1,385,274)</u>	<u>66,775</u>	<u>(1,221,733)</u>
Add: Non-operating income	535,862	15,638	221,585	102,109
Less: Non-operating expenses Including: Gains/ (Losses) arising from the disposal of non-current assets	11,707	4,515	6,428	179
	<u>1,371</u>	<u>1,015</u>	<u>33</u>	<u>—</u>
3. Total profit	<u>273,384</u>	<u>(1,374,151)</u>	<u>281,932</u>	<u>(1,119,803)</u>
Less: Income tax	<u>60,866</u>	<u>(62,059)</u>	<u>118,924</u>	<u>5,284</u>
4. Net profit	<u>212,518</u>	<u>(1,312,092)</u>	<u>163,008</u>	<u>(1,125,087)</u>
Net profit attributable to owners of the parent	150,874	(1,312,092)	127,289	(1,125,087)
Minority interests	61,644	—	35,719	—

Item	Three months ended 31 March 2012		Three months ended 31 March 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited)
5. Earnings per share				
(1) Basic**	<b>RMB0.04</b>		RMB0.04	
(2) Diluted***	<b>RMB0.04</b>		RMB0.04	
6. Other comprehensive income	<u>(35,886)</u>	<u>(131)</u>	<u>(13,464)</u>	<u>(40)</u>
7. Comprehensive income	<u><b>176,632</b></u>	<u><b>(1,312,223)</b></u>	<u>149,544</u>	<u>(1,125,127)</u>
Comprehensive income attributable to owners of the parent	<b>106,203</b>	<b>(1,312,223)</b>	112,825	(1,125,127)
Comprehensive income attributable to minority interests	<b>70,429</b>	—	36,719	—

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

\* Comparative figures for operating revenue and taxes and surcharges amounting to RMB108,599,000 have been restated to comply with the reporting requirement of presenting operating revenue for the current reporting period net of Brazilian industrial commodity tax and ICMS tax.

\*\* Basic earnings per share for the same period of 2011 have been restated as a result of the implementation of the 2010 profit distribution. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up.

\*\*\* 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 6,874,194 shares and 61,864,408 shares for the reporting period and the same period of 2011, respectively, diluted earnings per share have 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 2011 have been restated.

## Cash Flow Statement

*RMB in thousands*

Item	Three months ended 31 March 2012		Three months ended 31 March 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>1. Cash flows from operating activities</b>				
Cash received from sale of goods or rendering of services	17,574,584	13,082,338	13,102,348	10,606,836
Refunds of taxes	1,925,670	1,511,107	1,659,394	1,401,447
Cash received relating to other operating activities	<u>150,363</u>	<u>97,652</u>	<u>177,847</u>	<u>1,695,595</u>
<b>Sub-total of cash inflows</b>	<u>19,650,617</u>	<u>14,691,097</u>	<u>14,939,589</u>	<u>13,703,878</u>
Cash paid for goods and services	19,062,486	17,682,984	13,297,961	14,656,808
Cash paid to and on behalf of employees	3,198,460	1,080,514	2,879,734	1,002,083
Cash paid for all types of taxes	1,524,274	298,515	1,215,166	190,331
Cash paid relating to other operating activities	<u>2,228,966</u>	<u>1,448,912</u>	<u>3,073,114</u>	<u>1,679,397</u>
<b>Sub-total of cash outflows</b>	<u>26,014,186</u>	<u>20,510,925</u>	<u>20,465,975</u>	<u>17,528,619</u>
<b>Net cash flows from operating activities</b>	<u>(6,363,569)</u>	<u>(5,819,828)</u>	<u>(5,526,386)</u>	<u>(3,824,741)</u>
<b>2. Cash flows from investing activities</b>				
Cash received from sale of investments	450,000	—	32,000	32,000
Cash received from return on investments	3,624	—	102,031	16,520
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<u>6,685</u>	<u>3,721</u>	<u>4,565</u>	<u>4,401</u>
<b>Sub-total of cash inflows</b>	<u>460,309</u>	<u>3,721</u>	<u>138,596</u>	<u>52,921</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	601,935	256,883	784,861	425,628
Cash paid for acquisition of investments	<u>582,766</u>	<u>156,920</u>	<u>417,858</u>	<u>183,000</u>
<b>Sub-total of cash outflows</b>	<u>1,184,701</u>	<u>413,803</u>	<u>1,202,719</u>	<u>608,628</u>
<b>Net cash flows from investing activities</b>	<u>(724,392)</u>	<u>(410,082)</u>	<u>(1,064,123)</u>	<u>(555,707)</u>

RMB in thousands

Item	Three months ended 31 March 2012		Three months ended 31 March 2011	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>3. Cash flows from financing activities</b>				
Cash received from capital injection	—	—	—	—
Including: Capital injection into subsidiaries by minority shareholders	—	—	—	—
Cash received from borrowings	<u>7,297,774</u>	<u>4,445,240</u>	<u>8,327,530</u>	<u>4,854,469</u>
<b>Sub-total of cash inflows</b>	<u>7,297,774</u>	<u>4,445,240</u>	<u>8,327,530</u>	<u>4,854,469</u>
Cash repayments of borrowings	<u>6,711,980</u>	<u>4,984,648</u>	<u>2,673,956</u>	<u>823,999</u>
Cash payments for distribution of dividends or interest expenses	<u>274,785</u>	<u>207,015</u>	<u>228,333</u>	<u>155,760</u>
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	—	—	—	—
<b>Sub-total of cash outflows</b>	<u>6,986,765</u>	<u>5,191,663</u>	<u>2,902,289</u>	<u>979,759</u>
<b>Net cash flows from financing activities</b>	<u>311,009</u>	<u>(746,423)</u>	<u>5,425,241</u>	<u>3,874,710</u>
<b>4. Effect of changes in foreign exchange rate on cash</b>	<u>11,485</u>	<u>12,019</u>	<u>(30,379)</u>	<u>(28,690)</u>
<b>5. Net increase in cash and cash equivalents</b>	<u>(6,765,467)</u>	<u>(6,964,314)</u>	<u>(1,195,647)</u>	<u>(534,428)</u>
Add: Cash and cash equivalents at beginning of year	<u>20,662,089</u>	<u>13,276,732</u>	<u>14,905,099</u>	<u>9,505,157</u>
<b>6. Net balance of cash and cash equivalents</b>	<u>13,896,622</u>	<u>6,312,418</u>	<u>13,709,452</u>	<u>8,970,729</u>

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

\* *Restricted items have been excluded from the cash and cash equivalents at beginning of year and net balance of cash and cash equivalents.*

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

Shenzhen, PRC  
25 April 2012



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