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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)**

## **2011 FIRST QUARTERLY REPORT**

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

### **1. IMPORTANT**

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (the "Company") confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved by the Eighteenth 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 has authorised in writing Mr. Hou Weigui, Chairman, to vote on his behalf. Mr. Wang Zhanchen, Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Zhang Junchao, 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 in respect of the domestic market, the Group consolidated and enlarged its market share, by pro-actively meeting various network construction requirements of carriers, who showed caution in network investments. In the meantime, we stepped up with our efforts in the research and development of new products and technologies and continued to explore new market opportunities. Internationally, the Group sustained strong sales growth in developed countries and regions, as the European and U.S. markets continued to register stable growth in investments.

During the reporting period, the Group reported operating revenue of RMB15,085 million, representing a 13.80% growth over the same period last year. Net profit attributable to shareholders of the parent company amounted to RMB127 million, representing a 15.86% growth over the same period last year. Basic earnings per share was RMB0.05.

In terms of products, revenue generated by the segment of carriers’ networks grew by 1.57% as compared to the same period last year, reflecting mainly the increase in revenue generated from the sales of wireless systems, wireline switch and access systems. Sales revenue of terminal products grew by 51.04% as compared to the same period last year. Such growth was primarily driven by revenue generated from the sales of 3G handsets, GSM handsets, CDMA handsets and data card products. There was a slight decline of 0.26%, year-on-year, in the sales revenue of telecommunications software systems, services and other products.

Looking to the next reporting period, the Group intends to capitalise on opportunities presented by the popularisation of broadband connection, as well as upgrades of wireless network equipment and demands for smart terminals in the world market. With a strong focus on customers’ requirements, we will develop products and provide services that would help our customers to reduce operating costs, alleviate network pressure and realise resource sharing.

## 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 2011)</b>	<b>End of last year (31 December 2010)</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>90,001,736</b>	84,152,357	6.95%
Owners' equity attributable to shareholders of the listed company (RMB in thousands)	<b>23,223,495</b>	23,093,872	0.56%
Share capital (RMB in thousands)	<b>2,866,732</b>	2,866,732	0.00%
Net assets per share attributable to shareholders of the listed company <sup>Note 1</sup> (RMB/share)	<b>8.28</b>	8.24	0.49%

Items	The reporting period (Three months ended 31 March 2011)	Same period last year (Three months ended 31 March 2010)	Change compared with the same period last year (%)
Total operating revenue (RMB in thousands)	15,084,769	13,255,783	13.80%
Net profit attributable to shareholders of the listed company (RMB in thousands)	127,289	109,864	15.86%
Net cash flow from operating activities (RMB in thousands)	(5,526,386)	(7,115,538)	22.33%
Net cash flow from operating activities per share (RMB/share) <sup>Note 2</sup>	-1.97	-2.58	23.64%
Basic earnings per share <sup>Note 3</sup> (RMB/share)	0.05	0.04	25.00%
Basic earnings per share after extraordinary items <sup>Note 3</sup> (RMB/share)	0.02	0.02	0.00%
Diluted earnings per share <sup>Note 4</sup> (RMB/share)	0.04	0.04	0.00%
Weighted average return on net assets (%)	0.55%	0.59%	-0.04%
Weighted average return on net assets after extraordinary items (%)	0.24%	0.32%	-0.08%

*Note 1:* Net asset per share attributable to shareholders of the listed company as at the end of the first quarter of 2011 and the end of 2010 was calculated on the basis of the number of shares representing the total share capital as at 31 March 2011 and 31 December 2010 less 62,407,186 restricted shares remaining in lock-up under the share incentive plan.

*Note 2:* Net cash flow from operating activities per share for the first quarter of 2011 was calculated on the basis of the number of shares representing the total share capital at the end of the period less 62,407,186 restricted shares remaining in lock-up under the share incentive plan. The corresponding amounts for the same period of 2010 have been restated to reflect the implementation of the 2009 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 ordinary share capital representing the total share capital at the end of the period less 62,407,186 restricted shares remaining in lock-up. The corresponding amounts for the same period of 2010 have been restated to reflect the implementation of the 2009 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 61,864,408 and 69,737,523 potentially dilutive ordinary shares for the reporting period and the same period of 2010, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors. The diluted earnings per share for the same period of 2010 have been restated to reflect the implementation of the 2009 profit distribution and capitalisation of capital reserve plans of the Company.

*Extraordinary items*

<b>Extraordinary items</b>	<b>Amount</b> <i>(RMB in thousands)</i>
Non-operating revenue	68,558
Gains/losses arising from the change in fair value	(59,993)
Investment income	81,872
Less: Gains/losses arising from the disposal of non-current assets	33
Other non-operating expenses	6,395
Effect of income tax	<u>12,601</u>
<b>Total</b>	<u><u>71,408</u></u>

**2.2.2** *The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2011 and as at 31 March 2011 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 85,140 shareholders in total (of which 84,791 were holders of A shares and 349 were holders of H shares).

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

<b>Name of shareholder</b>	<b>Number of shares not subject to lock-up at the end of the reporting period (shares)</b>	<b>Class</b>
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”)	930,321,620	A share
HKSCC Nominees Limited	523,732,316	H Share
China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen	58,937,811	A share
Hunan Nantian (Group) Co., Ltd	31,208,841	A share
China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	27,268,030	A share
ICBC — Guangfa Jufeng Stock Fund	23,246,798	A share
CCB — Changsheng Tongqing Separate Trading Stock Fund	20,000,000	A share
Agricultural Bank of China — China Post Core Growth Stock Securities Investment Fund	19,553,190	A share
BOC — E Fund SZSE 100 ETF	18,424,192	A share
China Life Insurance Company Limited — Traditional — General Insurance Products	17,282,992	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

*Currency: RMB in thousands*

##### *Balance sheet*

Item	At 31 March 2011	At 31 December 2010	Change	Analysis of Reasons
Derivative financial assets	<b>32,248</b>	123,365	-73.86%	Mainly attributable to settlement of certain derivative financial investment upon maturity during the period
Bills receivable	<b>3,214,665</b>	1,289,877	149.22%	Mainly attributable to the increase in payments received in the form of acceptance bills
Prepayments	<b>600,820</b>	449,664	33.62%	Mainly attributable to the increase in prepayments to suppliers for the purchases of equipment and materials made pursuant to relevant contracts
Short-term loans	<b>12,399,566</b>	6,578,413	88.49%	Mainly attributable to the increase in borrowings for meeting short-term fund requirements
Derivative financial liabilities	<b>8,694</b>	40,139	-78.34%	Mainly attributable to settlement of certain derivative financial investment upon maturity during the period
Advanced receipts	<b>4,141,436</b>	2,744,694	50.89%	Mainly attributable to the increase in advanced receipts from new contracts as a result of sales growth
Taxes payable	<b>(684,844)</b>	(321,345)	-113.12%	Mainly attributable to the increase in deductible input VAT
Deferred income	<b>58,982</b>	91,256	-35.37%	Mainly attributable to the transfer of certain qualifying deferred income to non-operating revenue
Non-current liabilities due within one year	<b>864,776</b>	1,322,817	-34.63%	Mainly attributable to the maturity of certain non-current liabilities due within one year during the period

*Income statement (Three months ended 31 March)*

Item	Three months ended 31 March 2011	Three months ended 31 March 2010	Change	Analysis of Reasons
Taxes and surcharges	347,644	163,357	112.81%	Mainly attributable to the increase in income subject to business tax
Research and development costs	1,757,732	1,184,616	48.38%	Mainly attributable to increased investments in research and development
Finance expenses	164,586	308,672	-46.68%	Mainly attributable to exchange gains arising from exchange rate volatility during the period as compared to exchange losses arising from exchange rate volatility during the same period last year
Asset impairment losses	331,135	237,263	39.56%	Mainly attributable to the increase in provision for trade receivables and bad debts
Gains/losses from change in fair values	(59,993)	39,447	-252.09%	Mainly attributable to the transfer to investment income of gains arising from changes in the fair value of certain derivative financial investments upon maturity and settlement during the period
Investment income	90,657	—	100%	Mainly attributable to the transfer to investment income of gains arising from changes in the fair value of certain derivative financial investments upon maturity and settlement during the period
Non-operating expenses	6,428	17,461	-63.19%	Mainly attributable to the decrease in compensation amounts during the period
Income tax	118,924	57,702	106.10%	Mainly attributable to the increase in profit of certain subsidiaries
Minority interests	35,719	84,388	-57.67%	Mainly attributable to the decrease in profit for subsidiaries with a higher percentage of minority interests
Other comprehensive income	(13,464)	10,364	-229.91%	Mainly attributable to the increase in losses arising from the translation of financial statements expressed in foreign currency
Comprehensive income attributable to minority interests	36,719	65,077	-43.58%	Mainly attributable to decrease in profit for subsidiaries with a higher percentage of minority interests



## Cash flow statement

Item	Three months ended 31 March 2011	Three months ended 31 March 2010	Change	Analysis of Reasons
Net cash flow from investing activities	(1,064,123)	(635,794)	-67.37%	Mainly attributable to the increase in cash paid for investments
Net cash flow from financing activities	5,425,241	2,808,756	93.15%	Mainly attributable to the increase in cash received for additional borrowings to meeting funding requirements
Effect of exchange rate differences on cash	(30,379)	(52,431)	42.06%	Mainly attributable to the decrease in exchange losses caused by exchange rate volatility

### 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 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	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 *The 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” and “Report of the Board of Directors” in the 2010 annual report of the Company.

#### 3.2.4.2 *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 2010 annual report of the Company.

#### 3.2.4.3 *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 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 year 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 “Announcement Regarding Ongoing Connected Transactions — Leasing Agreement”, “Announcement Regarding Ongoing Connected Transactions” and “Announcement Regarding Ongoing Connected Transactions” of the Company dated 23 October 2008, 27 October 2009 and 27 April 2010 respectively).

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for	As a percentage	Settlement	Whether different from estimated conditions
						January to March 2011 (excluding VAT) (RMB10,000)	of transactions in the same classification		
Purchase of raw materials	ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market 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.	9,699.14	0.88%	Commercial acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna") <sup>Note</sup>	Various products such as communications antennas and radio frequency transmitter	Consistent with market price (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.	6,618.66	0.60%	Commercial acceptance bill	No
Property leasing	ZTE Corporation	Zhongxingxin (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a 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)	1,014.56	6.70%	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 RMB30/sq. m. (property management undertaken by the Company and no management fees are payable)	119.10	0.79%	Tele-transfer	No

*Note:* Mr. Qu Deqian ("Mr. Qu"), Supervisor of the Company, was a director of Mobi Antenna. In accordance with Paragraph (III) of Rule 10.1.3 of the Shenzhen Stock Exchange Listing Rules, Mobi Antenna was a connected party of the Company. Mr. Qu left office upon the expiry of his appointment in March 2010. In accordance with Paragraph (II) of the Rule 10.1.6 of Shenzhen Stock Exchange Listing Rules, Mr. Qu ceases to be a connected person of the Company after a period of 12 months have lapsed following his departure. With effect from April 2011, transactions between the Company and Mobi Antenna no longer constitute connected transactions.

#### *3.2.4.4 Establishment of the Group Finance Company*

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” (銀監復[2011]41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複》), granting approval to the establishment of a group finance company by the Company. The Company is required to complete the establishment within 6 months from the date of approval reply, namely 31 January 2011. During the period of establishment, the capital amount, staffing and place of business of the proposed finance company should be confirmed, while the formulation of the articles of association, rules and regulations for its intended businesses and internal risk control system should also be completed. After completion of the establishment, the Company will submit the application materials for commencement of business to CBRC in accordance with relevant provisions of the “Rules for the Administration of Group Finance Companies” (《企業集團財務公司管理辦法》) and the “Implementation Rules for Administrative Permissions of Non-bank Financial Institutions” (《非銀行金融機構行政許可事項實施辦法》). For details, please refer to the “Announcement on Approval Received for the Establishment of A Group Finance Company” dated 15 February 2011.

For details of the establishment of the group finance company by the Company, please refer to the section headed “Report of the Board of Directors” in the 2010 annual report of the Company.

#### *3.2.4.5 Investment in a R&D base in Yuhuatai, Nanjing*

The “Resolution of the Company on the Investment in a Research and Development Base Project in Yuhuatai District of Nanjing and the Proposed Execution of an Investment Agreement” was considered and passed at the Sixteenth Meeting of the Fifth Session of the Board of Meeting of the Company held on 17 March 2011, granting approval for the investment and construction of establishment of the “ZTE (Nanjing) Area No. 3 R&D Base” project in Yuhuatai District, Nanjing. As the estimated total investment in the project of RMB16 billion exceeded the approving authority of the Board of Directors, the investment was subject to approval of the general meeting of the Company. The Board of Directors of the Company proposes to table such resolution at the 2010 Annual General Meeting to be held on 17 May 2011 for consideration. Applications to relevant government authorities for project establishment and approvals, as well as the acquisition of project land use according to procedures stipulated by national laws are required for the actual implementation of the project. Therefore, the project is subject to uncertainties in respect of project deliberations, approval, land acquisition and construction work. The Company will make further announcements on the progress of the project in a timely manner, in fulfillment of its obligations to disclose information under pertinent regulations. For further details of the matter, please refer to the announcement of the Company dated 17 March 2011.

### 3.2.4.6 *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. An administrative penalty notice had been served upon Zhongxing Telecom Pakistan (Pvt) Ltd, a subsidiary of the Company (the “Pakistanis Subsidiary”), by the Rawalpindi Collectorate of Customs (“Rawalpindi Customs”) in respect of a claim of additional custom duties of approximately RMB23.9 million for the misdeclaration of the imported goods by the Pakistanis Subsidiary and a fine of approximately RMB324 million.

Following negotiations between the Group and the Rawalpindi Customs, the Rawalpindi Customs agreed in June 2007 that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of PKR177 million (approximately RMB13,620,200) before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Subsequently, the Rawalpindi Customs issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately PKR62 million (approximately RMB4,770,900). The Pakistanis Subsidiary appealed to the Customs Appellate Court against such demand.

On 15 March 2011, the court ruled that the Pakistanis Subsidiary should not be required to pay the tax amount in dispute of approximately PKR62 million (approximately RMB4,770,900). Currently the case is subject to a period of appeal, after which the aforesaid verdict shall prevail if no appeal has been filed by the Rawalpindi Customs.

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.

On 14 April 2011, ZTE Deutschland GmbH (“ZTE Deutschland”), a wholly-owned subsidiary of the Company, received a statement of claim from the district court of Düsseldorf in Germany, pursuant to which a lawsuit had been filed by Ericsson against ZTE Deutschland, alleging infringement of Ericsson’s patent technologies by UMTS base station products supplied by ZTE Deutschland to a certain carrier and demanding ZTE Deutschland 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.

Currently, legal counsels appointed by the Company in connection with the said litigations are actively preparing for the lawsuit to defend the Company’s interests. Based on relevant data recorded in the 2010 audited Group consolidated financial statements of the Company, operating revenue derived from the United Kingdom and

Germany accounted for a very small share of the Group's overall operating revenue, therefore the litigations will not have any material and adverse impact on the financial conditions and results of operation of the Group for the current period.

According to relevant overseas reports, Ericsson will also file patent infringement lawsuits against the Company in Italy. As at the date of this report, the Company has not yet received any official documents from Italy pertaining to lawsuits on the Company's alleged infringement of patent rights.

3. A lawsuit on breach of agreement and infringement was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between Universal Telephone Exchange, Inc. (UTE) and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company's attorney filed a written response to the court generally denying UTE's charges against the Company and ZTE (USA). Meanwhile, the Company's attorney also disputed the jurisdiction of the said U.S. court over the Company. On 8 February 2011, UTE filed a Discovery Request in respect of the Company and ZTE (USA) in response to the dissent on jurisdiction raised by the Company, and the court gave permission to UTE to require the Company to comply with investigations relating to the issue of legal jurisdiction.

Upon due enquiries, it came to the knowledge of our attorney that UTE's business license in Texas was terminated on 21 May 2010. On this basis, our attorney disputed the Discovery Request filed by UTE and applied to the court for the lawsuit to be dismissed on the grounds that UTE's business license in Texas was terminated on 21 May 2010 and, therefore, according to Texan laws, UTE had no right to institute lawsuits in Texas or to require the Company to disclose any relevant information. The aforesaid legal documents were served on UTE on 21 March 2011. On 29 March 2011, UTE filed a written response to the dissent of ZTE (USA), pleading the court to reject ZTE (USA)'s dissent and to rule in favour of UTE's rights to institute relevant legal actions. In accordance with local laws and practices, the court will hold a hearing session shortly.

The Company will publish timely announcements to disclose any substantial progress of the aforesaid arbitration and litigation.

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

Applicable     N/A

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

Applicable     N/A

**3.5 Other material matters requiring disclosure**

**3.5.1 *Investment in securities***

Applicable     N/A

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

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
Presentation of the Company	Hong Kong	March 2011	2010 annual results presentation	Analysts and investors	2010 annual report	Published announcements and regular reports
	Shenzhen	March 2011	Teleconference	Analysts and investors	2010 annual report	Published announcements and regular reports
External meetings	Shanghai	January 2011	UBS investors' conference	UBS customers	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	January 2011	Deutsche Bank investors' conference	Deutsche Bank customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	March 2011	Orient Securities investors' conference	Orient Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
<b>Overseas investors</b>						
Company visits by analysts	Company	January to March 2011	Verbal	Samsung Securities, Mitsui Sumitomo, Lansdowne, AllianceBernstein, F&C Asset Management, Mitsubishi USA, UBS Asset Management, Mirae Asset, First State Investment Management, Fortress Investment Group, Cathay Life, Matrix Group, AVIVA, UOB, UBS, AMP Capital, JP Morgan Asset Management, SPOMA Asset Management, JP Morgan, Barclays Capital	Day-to-day operations of the Company	Published announcements and regular reports
<b>Domestic investors</b>						
	Company	January to March 2011	Verbal	CITIC Securities, Chongyang Investment, China Universal Asset Management, Yinhu Fund, Great Wall Fund, UBS SDIC, New China Fund, Lombarda China Fund, China Post Fund, Morgan Stanley Huaxin Funds, China Merchants Fund	Day-to-day operations of the Company	Published announcements and regular reports



### 3.5.3 Equity interests in other listed companies

Applicable  N/A

Currency: RMB in ten thousands

Stock code	Abbreviated name	Initial investment amount	Percentage of shareholdings in issuer	Carrying value at the end of the period	Gain/loss during the reporting period	Change in owner's equity during the reporting period	Accounting classification	Source of shares
300077	Nationz Technologies	3,000	20%	54,891.98	842.51	842.51	Long-term equity investment	Initial investment

### 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 quarter 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 RMB44.55 million, comprising exchange gains of RMB28.60 million, gains from fair-value change of RMB-59.99 million and recognized investment gains of RMB75.94 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters or the counterparty bank 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, sponsors or financial advisors 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

*Currency: RMB in thousands*

<b>Type of contract</b> <sup>Note 1</sup>	<b>Opening balance</b>	<b>Closing balance</b>	<b>Gain/loss during the reporting period</b>	<b>Contract amount as a percentage of the Company's net assets as at the end of the period</b> <sup>Note 2</sup>
Fixed-income derivative investment	<b>4,473,943</b>	3,454,601	50,220	14.88%
Value-protection investment	<b>1,968,858</b>	2,159,255	(5,670)	9.30%
<b>Total</b>	<b>6,442,801</b>	5,613,856	44,550	24.17%

*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 in the first quarter of 2011**

1. The “ZTE 2011 Internal Control Development Plan and Implementation Scheme” formulated by the Company in early 2011 was considered and approved at the Eighth Meeting of the Audit Committee of the Fifth Session of the Board of Directors held on 27 January 2011 and the Sixteenth Meeting of the Fifth Session of the Board of Directors held on 17 March 2011 and was filed with the Shenzhen Bureau of China Securities Regulatory Commission.
2. An internal control development project team was set up in early February 2011. The project team was structured into three levels: the project steering committee, the project management office and the project task force. The project steering committee provided top-level leadership with Company Chairman Mr. Hou Weigui acting as convenor and Mr. Wai Zaisheng (Executive Vice President and Chief Financial Officer) and Mr. Chen Jianzhou (officer in charge of corporate processes and structures) as deputy convenors. The project management office carried administrative functions with Mr. Shi Chunmao (Head of Finance Division) and Mr. Xie Jiepeng (Deputy Head of the Financial Control Department) as project managers and the dedicated internal control officers and process managers as core members. The project task force was responsible for implementation and comprised heads and responsible officers of responsible departments corresponding to the 18 Application Guidelines.
3. During the reporting period, the internal control development project team identified financial reporting as a key focus for the implementation of internal control development in 2011, in addition to the full coverage of issues under the 18 Application Guidelines, based on its in-depth understanding of basic internal control rules and supplementary guidelines,.
4. The internal control development project commencement meeting was held on 24 March 2011. Mr Chen Jianzhou, deputy convenor of the project steering committee, attended the meeting, while project managers Mr. Shi Chunmao and Mr. Xie Jiepeng explained the objectives, work plans, team composition, coordination and reward/punishment mechanisms of the internal control development project and confirmed the responsible departments and responsible officers corresponding to each application guideline.
5. During the reporting period, the internal control development project team engaged an accountants firm to conduct a three-day training for team members on basic internal control rules and supplementary guidelines. Through the training, members of the project team have enhanced their awareness of internal control and developed a thorough understanding of the 18 Application Guidelines.
6. During the reporting period, the project management office organised all business departments to jointly determine specific business processes in relation to each of the 18 Application Guidelines and developed in-depth understanding of existing difficulties and matters requiring coordination.

7. The progress of the Company's internal control efforts during the first quarter of 2011 was in line with the work plans under the "ZTE 2011 Internal Control Development Plan and Implementation Scheme" approved by the Audit Committee and the Board of Directors. The internal control development project team has completed all tasks for the start-up stage of the project.

**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

Currency: RMB in thousands

Assets	2011.3.31		2010.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash on hand and at bank	14,187,560	9,156,439	15,383,207	9,690,867
Derivative financial assets	32,248	18,923	123,365	23,984
Bills receivables	3,214,665	3,110,915	1,289,877	1,199,161
Trade receivables	22,268,653	29,486,389	17,563,925	24,283,587
Factored trade receivables	2,989,553	2,838,844	3,016,569	2,864,307
Prepayments	600,820	168,824	449,664	85,559
Dividends receivable	—	27,418	—	27,418
Other receivables	1,546,525	3,554,638	1,389,783	5,678,250
Inventories	14,052,585	6,420,204	12,103,670	5,501,368
Amount due from customers for contract works	<u>11,760,569</u>	<u>10,328,092</u>	<u>14,208,039</u>	<u>12,668,254</u>
<b>Total current assets</b>	<b><u>70,653,178</u></b>	<b><u>65,110,686</u></b>	<b><u>65,528,099</u></b>	<b><u>62,022,755</u></b>
Non-current assets:				
Available-for-sale financial assets	364,305	212,448	342,706	244,448
Long term trade receivables	530,670	1,275,392	567,444	1,262,311
Factored long term trade receivables	4,926,601	5,051,601	4,972,718	5,097,718
Long-term equity investments	994,048	3,707,250	917,989	3,515,824
Fixed assets	6,651,594	4,303,050	6,523,505	4,253,887
Construction in progress	1,278,774	943,596	1,146,739	796,916
Intangible assets	886,311	491,401	891,290	492,918
Development costs	1,612,986	392,035	1,466,504	350,767
Deferred income tax assets	676,664	458,560	655,245	447,416
Long-term deferred assets	36,519	—	50,032	—
Other non-current assets	<u>1,390,086</u>	<u>1,090,086</u>	<u>1,090,086</u>	<u>1,090,086</u>
<b>Total non-current assets</b>	<b><u>19,348,558</u></b>	<b><u>17,925,419</u></b>	<b><u>18,624,258</u></b>	<b><u>17,552,291</u></b>
<b>Total assets</b>	<b><u>90,001,736</u></b>	<b><u>83,036,105</u></b>	<b><u>84,152,357</u></b>	<b><u>79,575,046</u></b>

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

Currency: RMB in thousands

Liabilities and shareholders' equity	2011.3.31		2010.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	12,399,566	8,332,382	6,578,413	4,165,978
Derivative financial liabilities	8,694	—	40,139	—
Bank advances on factored trade receivables	2,989,553	2,838,844	3,016,569	2,864,307
Bills payable	10,509,898	12,799,407	10,056,477	9,444,653
Trade payables	14,356,155	20,429,020	15,441,206	25,507,206
Amount due to customers for contract works	3,512,734	2,494,570	2,772,669	1,703,293
Advances from customers	4,141,436	3,736,343	2,744,694	2,110,666
Salary payables	2,596,927	269,498	3,097,927	504,335
Taxes payable	(684,844)	(1,103,959)	(321,345)	(948,244)
Dividends payable	147,024	97	136,302	97
Other payables	2,564,233	8,372,976	2,976,325	8,030,437
Deferred income	58,982	7,278	91,256	7,805
Provision	267,660	117,865	260,693	109,493
Long-term loans due within one year	<u>864,776</u>	<u>458,948</u>	<u>1,322,817</u>	<u>1,087,589</u>
<b>Total current liabilities</b>	<b><u>53,732,794</u></b>	<b><u>58,753,269</u></b>	<b><u>48,214,142</u></b>	<b><u>54,587,615</u></b>
Non-current liabilities:				
Long-term loans	2,009,772	1,221,204	1,719,310	728,497
Bank advances on factored long-term trade receivables	4,926,601	5,051,601	4,972,718	5,097,718
Bonds payable	3,763,559	3,763,559	3,755,790	3,755,790
Deferred income tax liabilities	69,572	66,048	89,167	66,048
Other non-current liabilities	<u>388,070</u>	<u>388,070</u>	<u>439,232</u>	<u>439,232</u>
<b>Total non-current liabilities</b>	<b><u>11,157,574</u></b>	<b><u>10,490,482</u></b>	<b><u>10,976,217</u></b>	<b><u>10,087,285</u></b>
<b>Total liabilities</b>	<b><u>64,890,368</u></b>	<b><u>69,243,751</u></b>	<b><u>59,190,359</u></b>	<b><u>64,674,900</u></b>

Currency: RMB in thousands

Liabilities and shareholders' equity	2011.3.31		2010.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Shareholders' equity:				
Share capital	2,866,732	2,866,732	2,866,732	2,866,732
Capital reserves	9,087,773	9,083,537	9,070,975	9,066,202
Restricted shares remaining in lock-up	(276,266)	(276,266)	(276,266)	(276,266)
Surplus reserves	1,537,512	875,295	1,537,512	875,295
Retained profits	9,349,676	417,212	9,222,387	1,542,299
Proposed final dividend	841,297	841,297	841,297	841,297
Foreign currency translation differences	(183,229)	(15,453)	(168,765)	(15,413)
Equity attributable to equity holders of the parent	23,223,495	13,792,354	23,093,872	14,900,146
Minority Interests	<u>1,887,873</u>	<u>—</u>	<u>1,868,126</u>	<u>—</u>
<b>Total shareholders' equity</b>	<b><u>25,111,368</u></b>	<b><u>13,792,354</u></b>	<b><u>24,961,998</u></b>	<b><u>14,900,146</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>90,001,736</u></b>	<b><u>83,036,105</u></b>	<b><u>84,152,357</u></b>	<b><u>79,575,046</u></b>

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao



## Income Statement

Currency: RMB in thousands

Item	Three months ended 31 March 2011		Three months ended 31 March 2010	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	15,084,769	12,272,789	13,255,783	12,023,905
Less: Operating costs	9,921,986	11,073,576	8,832,482	10,026,163
Taxes and surcharges	347,644	70,518	163,357	14,244
Selling and distribution costs	2,055,515	1,228,777	1,867,015	1,210,412
Administrative expenses	470,060	285,318	657,561	358,045
Research and development costs	1,757,732	378,886	1,184,616	368,137
Finance costs	164,586	213,642	308,672	255,943
Impairment losses	331,135	259,999	237,263	214,714
Add: Fair value gains/losses	(59,993)	(5,061)	39,447	—
Investment income	90,657	21,255	—	591,314
Including: Share of profits and losses of associates and jointly controlled entities	8,425	8,425	—	—
2. Operating profit	<u>66,775</u>	<u>(1,221,733)</u>	<u>44,264</u>	<u>167,561</u>
Add: Non-operating income	221,585	102,109	225,151	62,561
Less: Non-operating expenses	6,428	179	17,461	2,127
Including: Profit/loss on disposal of non- current assets	<u>33</u>	<u>—</u>	<u>709</u>	<u>709</u>
3. Total profit	<u>281,932</u>	<u>(1,119,803)</u>	<u>251,954</u>	<u>227,995</u>
Less: Income tax	<u>118,924</u>	<u>5,284</u>	<u>57,702</u>	<u>2,226</u>
4. Net profit	<u><u>163,008</u></u>	<u><u>(1,125,087)</u></u>	<u><u>194,252</u></u>	<u><u>225,769</u></u>
Attributable to equity holders of the parent company	127,289	(1,125,087)	109,864	225,769
Minority interests	35,719	—	84,388	—

Currency: RMB in thousands

Item	Three months ended 31 March 2011		Three months ended 31 March 2010	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
5. Earnings per share				
(1) Basic*	<b>RMB0.05</b>		RMB0.04	
(2) Diluted**	<b>RMB0.04</b>		RMB0.04	
6. Other comprehensive income	<u>(13,464)</u>	<u>(40)</u>	<u>10,364</u>	<u>(3)</u>
7. Comprehensive income	<u><b>149,544</b></u>	<u><b>(1,125,127)</b></u>	<u>204,616</u>	<u>225,766</u>
Comprehensive income attributable to equity holders of the parent	<b>112,825</b>	<b>(1,125,127)</b>	139,539	225,766
Comprehensive income attributable to minority interests	<b>36,719</b>	—	65,077	—

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

\* *Basic earnings per share for the same period of 2010 has been restated as a result of the implementation of the 2009 profit distribution. Basic earnings per share for the reporting period was calculated on the basis of the weighted average ordinary share capital representing the total share capital as at the end of the period less 62,407,186 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 61,864,408 shares and 69,737,523 shares for the reporting period and the same period of 2010, 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.*

## Cash Flow Statement

*Currency: RMB in thousands*

Item	Three months ended 31 March 2011		Three months ended 31 March 2010	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>1 Cash flows from operating activities</b>				
Cash received from sale of goods or rendering services	13,102,348	10,606,836	11,889,391	10,490,132
Cash received from taxes returned	1,659,394	1,401,447	1,167,243	1,019,893
Cash received relating to other operating activities	<u>177,847</u>	<u>1,695,595</u>	<u>147,722</u>	<u>76,589</u>
<b>Sub-total of cash inflow</b>	<u>14,939,589</u>	<u>13,703,878</u>	<u>13,204,356</u>	<u>11,586,614</u>
Cash paid for goods and services	13,297,961	14,656,808	14,009,804	14,957,650
Cash paid to and on behalf of employees	2,879,734	1,002,083	1,818,834	455,288
Payments of taxes and levies	1,215,166	190,331	1,020,312	85,380
Cash paid relating to other operating activities	<u>3,073,114</u>	<u>1,679,397</u>	<u>3,470,944</u>	<u>3,153,834</u>
<b>Sub-total of cash outflow</b>	<u>20,465,975</u>	<u>17,528,619</u>	<u>20,319,894</u>	<u>18,652,152</u>
<b>Net cash flows from operating activities</b>	<u>(5,526,386)</u>	<u>(3,824,741)</u>	<u>(7,115,538)</u>	<u>(7,065,538)</u>
<b>2 Cash flows from investing activities</b>				
Cash received from disposal of investment	32,000	32,000	—	—
Cash received from gains of investment	102,031	16,520	—	15,736
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<u>4,565</u>	<u>4,401</u>	<u>2,410</u>	<u>—</u>
<b>Sub-total of cash inflow</b>	<u>138,596</u>	<u>52,921</u>	<u>2,410</u>	<u>15,736</u>

Currency: RMB in thousands

Item	Three months ended 31 March 2011		Three months ended 31 March 2010	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
Cash paid to acquire fixed asset, intangible assets and other long-term assets	784,861	425,628	633,704	430,668
Cash paid for investment	<u>417,858</u>	<u>183,000</u>	<u>4,500</u>	<u>—</u>
<b>Sub-total of cash outflow</b>	<b><u>1,202,719</u></b>	<b><u>608,628</u></b>	<b><u>638,204</u></b>	<b><u>430,668</u></b>
<b>Net cash flow from investing activities</b>	<b><u>(1,064,123)</u></b>	<b><u>(555,707)</u></b>	<b><u>(635,794)</u></b>	<b><u>(414,932)</u></b>
<b>3 Cash flows from financing activities</b>				
Cash received from investment	—	—	3,197,918	3,197,918
Cash received from borrowings	<u>8,327,530</u>	<u>4,854,469</u>	<u>1,187,946</u>	<u>682,531</u>
<b>Sub-total of cash inflow</b>	<b><u>8,327,530</u></b>	<b><u>4,854,469</u></b>	<b><u>4,385,864</u></b>	<b><u>3,880,449</u></b>
Cash paid for debt repayments	2,673,956	823,999	1,446,897	528,616
Cash payments for distribution of dividends or interest expenses	<u>228,333</u>	<u>155,760</u>	<u>130,211</u>	<u>89,716</u>
<b>Sub-total of cash outflow</b>	<b><u>2,902,289</u></b>	<b><u>979,759</u></b>	<b><u>1,577,108</u></b>	<b><u>618,332</u></b>
Net cash flow from financing activities	<u>5,425,241</u>	<u>3,874,710</u>	<u>2,808,756</u>	<u>3,262,117</u>
<b>4 Effect of changes in foreign exchange rate on cash</b>	<b><u>(30,379)</u></b>	<b><u>(28,690)</u></b>	<b><u>(52,431)</u></b>	<b><u>(51,291)</u></b>
<b>5 Net increase in cash and cash equivalents</b>	<b><u>(1,195,647)</u></b>	<b><u>(534,428)</u></b>	<b><u>(4,995,007)</u></b>	<b><u>(4,269,644)</u></b>
Add: Opening balance of cash and cash equivalents	<u>14,905,099</u>	<u>9,505,157</u>	<u>14,075,822</u>	<u>9,808,228</u>
<b>6 Closing balance of cash and cash equivalents</b>	<b><u>13,709,452</u></b>	<b><u>8,970,729</u></b>	<b><u>9,080,815</u></b>	<b><u>5,538,584</u></b>

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

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

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

Shenzhen, PRC  
19 April 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 Shiyong; six non-executive directors, Hou Weigui, Lei Fanpei, 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*