



ZTE CORPORATION
中興通訊股份有限公司

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

(Stock Code: 763)

2009 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 twenty-third meeting of the fourth session of the Board of Directors of the Company. Mr. Wang Zongyin, 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. Xie Weiliang, Vice chairman, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Dong Lianbo, Director, to vote on his behalf. Mr. Li Juping, Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Dong Lianbo, Director, to vote on his behalf. Mr. He Shiyou, Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Yin Yimin, Director, to vote on his behalf. Mr. Zhu Wuxiang, Independent Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Chen Shaohua, 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

Driven by 3G construction projects in China, the demand for wireless network products from mainstream carriers in the domestic market grew rapidly during the reporting period, while investments in transmission and data products were also steadily on the rise. Internationally, stable growth was sustained in our voice data business, while the growth of mobile broadband and fixed-line broadband remained robust, as the impact of the financial crisis on telecommunications equipment investment was generally in line with expectations. Market shares of dominant equipment suppliers expanded as carriers became increasingly cautious with their investments.

At home, the Group won a number of tenders for carriers’ networks and terminal products during the reporting period to lay solid foundations for a strong presence in the new 3G-related market, thanks to its efforts in closely matching carriers’ requirements for customisation in connection with 3G building in China. In the international market, the Group continued to work with mainstream carriers in emerging markets to pave the way for attaining its goals in business growth. Meanwhile, the Group continued to explore new grounds and achieve breakthroughs in our cooperation with mainstream global carriers in Europe and America, as huge efforts were being made to expand our presence in key overseas markets.

By product segment, the Group reported year-on-year growth of 46.9% in its carriers’ network business for the period, driven mainly by revenue generated from 3G and GSM network building. Revenue generated from handset sales grew by 22.2% in tandem with growth in domestic sales of CDMA handsets and international sales of 3G handsets. Revenue from telecommunications software systems and services and other products grew by 3.6%, driven mainly by growth in the sales of video products and network terminal products.

Looking ahead to the next reporting period, the Group will seek to consolidate its achievements so far in the 3G market and continue to make focused investments in relevant network and terminal products. Meanwhile, we intend to increase our efforts in soliciting multi-national carriers active in the European, American and emerging markets, striving to ensure stable development in an uncertain economic environment.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Items	End of the reporting period (31 March 2009)	End of last year (31 December 2008)	Change as at the end of the reporting period compared with the end of last year (%)
Total assets (<i>RMB in thousands</i>)	54,408,579	50,865,921	6.96%
Shareholders' equity attributable to the parent company (<i>RMB in thousands</i>)	14,381,195	14,249,544	0.92%
Share capital (<i>RMB in thousands</i>)	1,343,330	1,343,330	0.00%
Net assets per share attributable to shareholders of the parent company (<i>RMB</i>) ^{note 1}	10.71	10.61	0.94%

Items	Current reporting period (Three months ended 31 March 2009)	Same period last year (Three months ended 31 March 2008)	Change compared with the same period last year (%)
Total operating revenue (<i>RMB in thousands</i>)	11,670,176	8,644,514	35.00%
Net profit attributable to equity holders of the parent (<i>RMB in thousands</i>)	78,655	60,894	29.17%
Net cash flow from operating activities (<i>RMB in thousands</i>)	-4,486,410	-4,836,842	7.25%
Net cash flow from operating activities per share (<i>RMB</i>) ^{note 1}	-3.34	-3.6	7.22%
Basic earnings per share (<i>RMB</i>) ^{note 1}	0.06	0.05	29.17% ^{note 3}
Diluted earnings per share (<i>RMB</i>) ^{note 1 & note 2}	0.06	0.04	29.17% ^{note 3}
Fully diluted return on net assets (%)	0.55%	0.48%	0.07%
Basic earnings per share after extraordinary items (<i>RMB</i>) ^{note 1}	0.05	0.02	150.00%
Fully diluted return on net assets after extraordinary items (%)	0.49%	0.18%	0.31%

Notes:

1. For the period commencing from 1 January 2009 to 31 March 2009, there was no change in share capital of the Company, which remained 1,343,330,310 shares.
2. During the reporting period, in accordance with PRC ASBEs, diluted earnings per share is calculated by dividing net profit attributable to the equity holders of the parent by the sum of the effective total share capital of the Company of 1,343,330,310 shares and 55% of the 67.172 million shares potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company.
3. The percentage change compared to the same period last year in basic earnings per share and diluted earnings per share is consistent with the percentage change compared to the same period last year in net profit attributable to shareholders of the parent company, but might be different from the percentage change calculated on the basis of actual figures owing to rounding reasons.

Extraordinary items

Extraordinary items	Amount <i>(RMB'000)</i>
Government grants accounted for in current profit and loss ^{note}	23,060
Other non-operating income	18,703
Less: Profit/loss arising from the disposal of non-current assets	4,410
Other non-operating expenses	27,041
Effect of income tax	<u>1,547</u>
Total	<u><u>8,765</u></u>

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

2.2.2 *The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2009 and as at 31 March 2009 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.*

2.3 Total number of shareholders and 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 41,223 shareholders in total (of which 40,899 were holders of A shares and 334 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
1. Shenzhen Zhongxing Telecommunication Equipment Company, Limited	477,088,010	A share
2. HKSCC Nominees Limited	223,762,935	H share
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	25,058,343	A share
4. Southern Tracking Growth Stock Fund	19,295,361	A share
5. Guangfa Jufeng Stock Fund	18,599,739	A share
6. Hunan Nantian (Group) Co., Ltd	16,004,534	A share
7. Lion Value Growth Stock Fund	13,565,000	A share
8. Xingye Mixed Trend Investment Fund	12,373,702	A share
9. Boshi Value Growth Fund	11,800,000	A share
10. Jilin Posts and Telecommunications Equipment Company	7,728,252	A share
10. Hebei Telecommunications Equipment Company Limited	7,728,252	A share

3. MATERIAL MATTERS

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

Applicable N/A

Balance sheet

Items	At 31 March 2009	At 31 December 2008	Change	Reasons
Short-term loans	5,122,226	3,882,479	31.93%	Attributable mainly to increase in loans to meet working capital requirements
Derivative financial liabilities	17,336	12,560	38.03%	Attributable mainly to the decrease in fair value of forward exchange settlement trades
Bills payable	9,438,026	6,318,059	49.38%	Attributable mainly to the increase in materials purchase coupled with the increase in the use of bill payments to settle purchase amounts
Amount due to customers for contract work	1,881,479	2,965,582	-36.56%	Attributable mainly to increased matching between project progress and settlement of project billing
Taxes payable	-386,024	-765,040	49.54%	Attributable mainly to the increase in export VAT received
Dividend payable	33,953	22,750	49.24%	Attributable mainly to the increase in dividend not paid to minority shareholders
Long-term loans	1,964,149	1,292,547	51.96%	Attributable mainly to increase in loans to meet fund requirements for the medium to long term

Income statement (Three months ended 31 March)

Items	Three months ended 31 March 2009	Three months ended 31 March 2008	Change	Reasons
Operating revenue	11,670,176	8,644,514	35.00%	Attributable mainly to the expansion in sales
Operating costs	7,657,391	5,583,120	37.15%	Attributable mainly to the expansion in sales
Taxes and surcharges	98,643	52,589	87.57%	Attributable mainly to the increase in service income
Research and development costs	1,130,099	849,312	33.06%	Attributable mainly to the increase in R&D expenses in line with the expansion of operations
Finance expenses	393,164	184,914	112.62%	Attributable mainly to the increase in interest expenses and the increase in exchange losses caused by volatility in the exchange rates of foreign currencies other than USD
Impairment losses	165,169	93,383	76.87%	Attributable mainly to the increase in bad debt provision
Gains/(losses) from changes in fair values	-1,913	-28,394	93.26%	Attributable mainly to the decrease in forward exchange settlement trade contracts
Investment income	-7,126	16,676	-142.73%	Attributable mainly to the transfer of profit/loss arising from fair value change upon maturity of forward exchange settlement trade contract to investment gains
Non-operating expenses	31,451	4,096	667.85%	Attributable mainly to the increase in non-operating expenses incurred during the course of contract performance
Minority interests	27,382	59,704	-54.14%	Attributable mainly to the decrease in profit of subsidiaries with a higher level of minority interests

Cash flow statement

Items	Three months ended 31 March 2009	Three months ended 31 March 2008	Change	Reasons
Net cash flow from financing activities	1,942,739	4,626,248	-58.01%	Attributable mainly to financing through the issue of Bonds cum Warrants during the comparable period
Effect of changes in foreign exchange rate on cash and cash equivalents	-92,608	17,834	-619.28%	Attributable mainly to the increase in exchange losses caused by volatility in exchange rates

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

√ Applicable N/A

3.2.1 Progress of issue of the bonds cum warrants of the Company

The application of proceeds from the issue of bonds cum warrants (the “Bonds cum Warrants”) during the reporting period was in compliance with the Administrative Measures of Shenzhen Stock Exchange for Issue Proceeds of Listed Companies (《深圳證券交易所上市公司募集資金管理辦法》). The Company published the “Announcement of Interest Payment for “中興債1” on 17 January 2009 and bond interests with a total amount of RMB32,000,000 were paid on 2 February 2009. Details of the aforesaid matters have been disclosed in China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn>. For details of the issue of the Bonds cum Warrants of the Company, please refer to the section headed “Material Matters” and “Report of the Board of Directors” in the 2008 annual report of the Company.

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

The Phase I of Share Incentive Scheme of the Company was under normal implementation during the reporting period. The detailed impact of the Phase I of 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 2008 annual report of the Company. There was no other progress pertaining to the matter during the reporting period.

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

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

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

3.2.4 Implementation of ongoing connected transactions during the reporting period

During the reporting period, ongoing connected transactions (as defined in the Rules Governing Listing of Stocks on Shenzhen Stock Exchange) of the Group included the purchase of raw materials from and property leasing to 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 2009 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or the general meeting of the Company, please refer to the "Announcement Regarding Connected Transactions" and "Announcement Regarding 2009 Ongoing Connected Transactions (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange)" published by the Company on 19 April 2007, 24 October 2008 and 20 March 2009 respectively in China Securities Journal, Securities Times and Shanghai Securities News.

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to December 2008 (Excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun Telecom Company, Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited and subsidiaries	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB1-RMB31,000 per unit; Cases: RMB1-RMB17,000 per unit depending on level of sophistication; Distribution frames: RMB2-RMB300,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB2-RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000-RMB100,000 per unit, depending on measurement, materials used and configuration.	17,466.24	2.28%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas and radio frequency transmitter	Consistent with market prices (as per contract)	Communication antenna: RMB320-RMB2,500 per piece and radio frequency transmitter, 350-4100 per unit, depending on technical parameters and functional features.	8,048.83	1.05%	Banker's acceptance bill	No
Property leasing	ZTE Corporation and subsidiary Chengdu Zhongxing Software Company, Limited	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 19,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq.m. (property management undertaken by ZTE and no management fees are payable)	217.52	1.78%	Banker's acceptance bill	No
		Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq.m. (inclusive of RMB2.5/sq.m. as monthly management fees)	547.62	4.48%	Banker's acceptance bill	No
	Shenzhen Zhongxing Development Company Limited (lessor)	Zhongxingxin (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 25,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	850.48	6.96%	Banker's acceptance bill	No
		Chongqing Zhongxing Development (lessor)	Property located at No.3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq.m. (property management undertaken by the Company and no management fees are payable)	113.56	0.93%	Banker's acceptance bill	No

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

Applicable N/A

3.4 Warning and explanation of possible accumulated net loss projected for the period from the beginning of the year through the end of the next reporting period or significant changes in accumulated net profit as compared to the same period last year and the reasons thereof

Applicable N/A

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities

Applicable N/A

3.5.2 Equity interests in other listed companies

Applicable N/A

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

Applicable N/A

3.5.4 Additional share acquisition proposed by shareholders with a 30% interest or above during the reporting period and its implementation

Zhongxingxin, controller shareholder of the Company, acquired additional A shares in the Company on 10 October 2008 through the Shenzhen Stock Exchange trading system. For details of the acquisition, please refer to the “Announcement on the Acquisition of Additional Shares in the Company by the Controlling Shareholder” published in China Securities Journal, Securities Times and Shanghai Securities News on 10 October 2008 and posted on <http://www.cninfo.com.cn>. The aforesaid acquisition of additional shares by the controlling shareholders during the reporting period was in compliance with relevant provisions of laws and regulations such as the Securities Laws, departmental rules and operational rules of Shenzhen Stock Exchange.

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

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

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of Company	Hong Kong	March 2009	2008 annual results	Analysts and investors	2008 annual report	Published announcements
	Hong Kong	March 2009	Teleconference	Analysts and investors	2008 annual report	Published announcements
	Shenzhen	March 2009	Analysts' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements
External meetings	Shanghai	January 2009	UBS Greater China Forum	Customers of UBS	Day-to-day operations of the Company	Published announcements
	Hong Kong	March 2009	Credit Suisse Asia Investment Forum	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements
Overseas investors						
Company visits by analysts	Company	2009 first quarterly	Verbal	Merrill Lynch Securities, Citibank, BlackShip Capital Management, Greenwoods Asset Management, Daiwa Securities, Sumitomo Mitsui, Oppenheimer Fund, Henderson Global, Matthews International, BOCI, First Shanghai	Day-to-day operations of the Company	Published announcements
Domestic investors						
	Company	2009 first quarterly	Verbal	CICC, China Universal Asset Management, CCBI, China Merchants Securities, Donghai Securities, Guotai Junan	Day-to-day operations of the Company	Published announcements

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

4. APPENDICES

4.1 Balance Sheet (unaudited) 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 (unaudited)*Currency: RMB in thousands*

Assets	2009.3.31		2008.12.31	
	Consolidated	Company	Consolidated	Company
Current assets:				
Cash on hand and at bank	8,716,644	4,388,534	11,480,406	8,331,272
Derivative financial assets	—	—	—	—
Bills receivables	1,616,565	1,588,422	1,578,473	1,513,358
Trade receivables	12,789,482	16,454,597	9,972,495	13,186,642
Factored trade receivables	1,675,339	1,777,647	1,658,941	1,783,941
Prepayments	291,417	41,997	355,887	18,546
Dividends receivable	—	43,506	—	23,848
Other receivables	678,102	1,662,423	757,847	1,442,177
Inventories	10,804,692	6,206,159	8,978,036	5,211,017
Amount due from customers for contract works	9,497,551	9,644,989	7,894,010	8,038,449
Total current assets	46,069,792	41,808,274	42,676,095	39,549,250
Non-current assets:				
Available-for-sale financial assets	251,148	243,198	251,148	243,198
Long term trade receivables	600,641	1,257,897	612,008	1,214,038
Factored long term trade receivables	754,058	754,058	753,568	753,568
Long-term equity investments	172,433	1,747,760	168,433	1,747,760
Fixed assets	4,370,088	2,658,348	4,103,076	2,608,957
Construction in progress	604,924	442,393	817,086	402,290
Intangible assets	554,115	452,290	589,084	479,947
Development costs	601,202	146,679	476,020	137,915
Deferred income tax assets	413,247	243,027	400,265	231,182
Long-term deferred assets	16,931	—	19,138	—
Total non-current assets	8,338,787	7,945,650	8,189,826	7,818,855
Total assets	54,408,579	49,753,924	50,865,921	47,368,105

Currency: RMB in thousands

Liabilities and shareholders' equity	2009.3.31		2008.12.31	
	Consolidated	Company	Consolidated	Company
Current liabilities:				
Short-term loans	5,122,226	2,110,751	3,882,479	1,273,828
Bank advances on factored trade receivables	1,675,339	1,800,339	1,658,941	1,783,941
Derivative financial liabilities	17,336	17,336	12,560	12,560
Bills payable	9,438,026	8,856,050	6,318,059	6,901,568
Trade payables	8,976,265	12,034,337	9,495,946	12,582,726
Amount due to customers for contract works	1,881,479	1,613,555	2,965,582	2,408,455
Advances from customers	1,164,381	1,004,442	1,392,862	1,640,192
Salary payables	1,120,000	567,188	1,443,017	596,515
Taxes payable	(386,024)	(666,405)	(765,040)	(993,777)
Dividends payable	33,953	10	22,750	10
Other payables	1,535,127	4,519,426	1,553,011	4,188,152
Deferred income	65,894	29,513	64,281	31,263
Provision	164,928	100,621	170,382	100,724
Long-term loans due within one year	1,918,854	810,154	1,782,006	673,384
Total current liabilities	32,727,784	32,797,317	29,996,836	31,199,541
Non-current liabilities:				
Long-term loans	1,964,149	1,683,590	1,292,547	1,005,039
Bank advances on factored long-term trade receivables	754,058	754,058	753,568	753,568
Bonds payable	3,519,039	3,519,039	3,514,652	3,514,652
Specific payables	80,000	80,000	80,000	80,000
Deferred income tax liabilities	4,984	7,242	5,019	7,242
Other non-current liabilities	39,752	39,752	39,752	39,752
Total non-current liabilities	6,361,982	6,083,681	5,685,538	5,400,253
Total liabilities	39,089,766	38,880,998	35,682,374	36,599,794
Shareholders' equity:				
Share capital	1,343,330	1,343,330	1,343,330	1,343,330
Capital reserves	6,361,849	6,334,814	6,298,172	6,271,137
Surplus reserves	1,432,493	769,603	1,431,820	769,603
Retained profits	5,099,349	2,034,009	5,021,369	1,992,735
Proposed final dividend	402,999	402,999	402,999	402,999
Foreign currency translation differences	(258,825)	(11,829)	(248,146)	(11,493)
Equity attributable to equity holders of the parent	14,381,195	10,872,926	14,249,544	10,768,311
Minority Interests	937,618	—	934,003	—
Total shareholders' equity	15,318,813	10,872,926	15,183,547	10,768,311
Total liabilities and shareholders' equity	54,408,579	49,753,924	50,865,921	47,368,105

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

Income Statement (unaudited)

Currency: RMB in thousands

Item	Three months ended 31 March 2009		Three months ended 31 March 2008	
	Consolidated	Company	Consolidated	Company
1. Operating revenue	11,670,176	11,371,947	8,644,514	7,729,797
Less: Operating costs	7,657,391	9,301,300	5,583,120	6,643,881
Taxes and surcharges	98,643	1,911	52,589	7,153
Selling and distribution costs	1,510,104	1,193,699	1,310,128	908,511
Administrative expenses	627,369	367,733	486,608	330,662
Research and development costs	1,130,099	225,811	849,312	231,464
Finance costs	393,164	176,836	184,914	314,594
Impairment losses	165,169	74,461	93,383	47,303
Add: Fair value gains/losses	(1,913)	(1,913)	(28,394)	(26,301)
Investment income	(7,126)	12,532	16,676	791,375
Including: Share of profits and losses of associates and jointly controlled entities	—	—	—	—
2. Operating profit	<u>79,198</u>	<u>40,815</u>	<u>72,742</u>	<u>11,303</u>
Add: Non-operating income	117,370	19,495	103,381	15,608
Less: Non-operating expenses	31,451	7,577	4,096	308
Including: Profit/loss on disposal of non-current assets	—	—	(823)	(1,629)
3. Total profit	<u>165,117</u>	<u>52,733</u>	<u>172,027</u>	<u>26,603</u>
Less: Income tax	<u>59,080</u>	<u>11,460</u>	<u>51,429</u>	—
4. Net profit	<u>106,037</u>	<u>41,273</u>	<u>120,598</u>	<u>26,603</u>
Attributable to equity holders of the parent Company	78,655	41,273	60,894	26,603
Minority interests	27,382	—	59,704	—
5. Earnings per share				
(1) Basic	0.06		0.05	
(2) Diluted	0.06		0.04	

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

* The comparative figures for 2008 have been restated to reflect the change of total share capital from 959,521,650 shares to 1,343,330,310 shares as a result of the implementation of the Company's profit distribution for 2007.

Cash Flow Statement (unaudited)

Currency: RMB in thousands

Item	Three months ended 31 March 2009		Three months ended 31 March 2008	
	Consolidated	Company	Consolidated	Company
1. Cash flows from operating activities				
Cash received from sale of goods or rendering services	6,990,257	6,105,024	6,571,447	5,798,088
Cash received from taxes returned	877,036	746,194	544,057	363,933
Cash received relating to other operating activities	<u>59,083</u>	<u>41,926</u>	<u>43,044</u>	<u>28,067</u>
Sub-total of cash inflow	<u>7,926,376</u>	<u>6,893,144</u>	<u>7,158,548</u>	<u>6,190,088</u>
Cash paid for goods and services	7,932,558	10,420,057	8,491,869	9,423,240
Cash paid to and on behalf of employees	2,158,346	492,977	1,293,525	411,793
Payments of taxes and levies	680,680	57,355	929,547	36,453
Cash paid relating to other operating activities	<u>1,641,202</u>	<u>1,289,961</u>	<u>1,280,449</u>	<u>673,082</u>
Sub-total of cash outflow	<u>12,412,786</u>	<u>12,260,350</u>	<u>11,995,390</u>	<u>10,544,568</u>
Net cash flows from operating activities	<u>(4,486,410)</u>	<u>(5,367,206)</u>	<u>(4,836,842)</u>	<u>(4,354,480)</u>
2. Cash flows from investing activities				
Cash received from sale of investments	—	—	—	—
Cash received from gains of investment	—	—	18,673	26,039
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<u>161</u>	<u>—</u>	<u>1,581</u>	<u>—</u>
Sub-total of cash inflow	<u>161</u>	<u>—</u>	<u>20,254</u>	<u>26,039</u>
Cash paid to acquire fixed asset, intangible assets and other long-term assets	119,380	89,557	196,576	171,377
Cash paid for investment	<u>8,264</u>	<u>4,264</u>	<u>300</u>	<u>—</u>
Sub-total of cash outflow	<u>127,644</u>	<u>93,821</u>	<u>196,876</u>	<u>171,377</u>
Net cash flow from investing activities	<u>(127,483)</u>	<u>(93,821)</u>	<u>(176,622)</u>	<u>(145,338)</u>

Item	Three months ended 31 March 2009		Three months ended 31 March 2008	
	Consolidated	Company	Consolidated	Company
3. Cash flows from financing activities				
Cash received from investment	26,871	26,871	—	—
Cash received from borrowings	2,310,516	1,858,017	1,747,719	982,660
Cash received from the issue of Bonds cum Warrants	—	—	3,961,444	3,961,444
Sub-total of cash inflow	2,337,387	1,884,888	5,709,163	4,944,104
Cash paid for debt repayments	262,319	205,773	971,854	851,824
Cash payments for distribution of dividends and interest expenses	132,329	96,778	111,061	99,165
Sub-total of cash outflow	394,648	302,551	1,082,915	950,989
Net cash flow from financing activities	1,942,739	1,582,337	4,626,248	3,993,115
4. Effect of changes in foreign exchange rate on cash	(92,608)	(64,048)	17,834	34,469
5. Net increase in cash and cash equivalents	(2,763,762)	(3,942,738)	(369,382)	(472,234)
Add: Opening balance of cash and cash equivalents	11,344,160	8,323,750	6,309,749	4,604,365
6. Closing balance of cash and cash equivalents	8,580,398	4,381,012	5,940,367	4,132,131

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chun

* *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
23 April 2009

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