



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)

2008 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 quarterly 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 fourteenth meeting of the fourth session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Wang Zongyin, Vice Chairman, to vote on his behalf. Mr. Shi Lirong, 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. Mi Zhengkun, Independent Director, was unable to attend the meeting due to work reasons, and has authorised in writing Mr. Qiao Wenjun, Independent Director, to vote on his behalf. Mr. Li Jin, 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.

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

China’s domestic communications market continued to develop during the three months ended 31 March 2008, though at a slower pace amid intensive competition in the industry. The impact of State policy towards the industry was increasingly felt in the market with the recombination of State industry regulatory authorities, while network integration became a dominant trend.

The global communications market continued to embrace stable development during the reporting period, underpinned by faster application of new technologies. There was significant growth in mobile voice communication services in emerging markets such as Asia and Africa, while growth in developed regions was more focused on mobile data communications services.

In China, the Group made investments in focused areas in close tandem with the development trends of the domestic communications market, in a bid to prepare itself for new market situations in the future. Internationally, the Group made strong efforts to expand its presence in key overseas market and enhanced cooperation with global mainstream carriers in emerging markets to sustain stable development for its international business segment.

Analysed by product segment, revenue from the sales of our wireless products surged 113.8% compared to the same period last year, mainly driven by the substantial growth in sales of the Group’s GSM and CDMA system products. Revenue from the sales of wireline switch and access products increased by 25.5% compared to the same period last year. Revenue from the sales of optical and data communications products increased by 39.9% compared to the same period last year mainly in line with growth in the sales of optical communications systems products. Sales of handset products grew by 1.3% compared to the same period last year, representing mainly growth in the sales of the Group’s GSM and 3G handsets. Sales of telecommunications software systems, services and other products also reported an increase of 17.4% compared to the same period last year.

Looking to the next reporting period, the Group will procure business development by making focused investments to capture sound market opportunities and by improving its risk control abilities.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	End of the reporting period (31 March 2008)	End of last year (31 December 2007)	Change as at the end of the reporting period compared with the end of last year (%)
Total assets (RMB'000)	41,009,120	39,173,096	4.69
Shareholders' equity attributable to the parent company (RMB'000)	12,814,278	12,137,161	5.58
Net assets per share attributable to the parent company (RMB)	13.35	12.65	5.53
Item	Current reporting period (Three months ended 31 March 2008)	Same period last year (Three months ended 31 March 2007)	Change compared with the same period last year (%)
Net profit attributable to equity holders of the parent company (RMB'000)	60,894	31,021	96.30
Net cash flow from operating activities (RMB'000)	-4,836,842	-1,283,985	-276.71
Net cash flow from operating activities per share (RMB)	-5.04	-1.34	-276.12
Basic earnings per share (RMB) Note 1	0.063	0.032	96.88
Basic earnings per share after extraordinary items (RMB)	0.025	0.026	-3.85
Diluted earnings per share (RMB) Note 2	0.063	0.032	96.88
Fully diluted return on net assets (%)	0.48	0.29	Increase by 0.19 percentage points
Fully diluted return on net assets after extraordinary items (%)	0.18	0.23	Decrease by 0.05 percentage points

Notes:

1. For the period commencing from 1 January 2007 to 31 March 2008, there was no change in share capital of the Company, which remained 959,521,650 shares.

2. During the reporting period, in accordance with PRC Accounting Standards for Business Enterprises, diluted earnings per share is calculated by dividing net profit attributable to the equity holders of the parent company by the sum of the effective total share capital of the Company of 959,521,650 shares and 20% of the 47.98 million shares potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company.

Extraordinary items

Extraordinary items	Amount (RMB'000) Three months ended 31 March 2008
Non-operating income (non-recurrent portion)	47,895
Less: non-operating expenses	4,096
Less: effect on income tax	6,570
Total	37,229

2.2.2 The amounts of net profit and shareholders' equity of the Group for and as at the end of the reporting period calculated in accordance with PRC Accounting Standards for Business Enterprises 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 26,113 shareholders in total (of which 25,787 were holders of A shares and 326 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
HKSCC Nominees Limited	159,819,839	H share
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	73,567,681	A share
China AMC Dividend Fund	23,987,944	A share
China International Domestic Demand Dynamic Stock Fund	15,091,674	A share
Hunan Nantian (Group) Co., Ltd	11,431,810	A share
China International Fund Management Alpha Stock Fund	11,253,204	A share
Boshi Value Growth Fund	9,999,422	A share
China AMC Core Blue Chip Fund (LOF)	9,273,890	A share
China AMC Advantage Growth Fund	9,152,807	A share
Fortune SGAM Selected Sectors Fund	8,250,000	A share

3. MATERIAL MATTERS

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

√Applicable □N/A

Currency: RMB'000

Balance sheet				
Item	At 31 March 2008	At 31 December 2007	Change	Reasons
Prepayments	412,229	311,362	32.40%	Mainly owing to increase in purchase of raw materials and fixed assets by prepayment.
Tradable financial liabilities	32,781	7,876	316.21%	Mainly as a result of the decrease in fair value of forward exchange settlement transaction.
Amounts due to customers for contract work	609,540	1,597,314	-61.84%	Mainly as a result of speed-up progress of construction project.
Advances from customers	1,993,851	1,491,219	33.71%	Mainly as a result of the increase in advances from customers in line with increased sales.
Dividends payable	71,475	41,180	73.57%	Mainly as a result of the increase in dividend distributions of subsidiaries.
Bonds payable	3,423,371	0	—	Mainly as a result of the issue of bonds cum warrants by the Company.
Income statement				
Items	Three months ended 31 March 2008	Three months ended 31 March 2007	Change	Reasons
Revenue	8,644,514	6,010,780	43.82%	Mainly as a result of expanded sales and faster progress for construction project.
Cost of sales	5,583,120	4,147,409	34.62%	Mainly as a result of expanded sales of the Company.
Taxes and surcharges	52,589	30,111	74.65%	Mainly as a result of the increase in business tax in line with increased service revenue from the rendering of services.
Selling and distribution costs	1,310,128	722,764	81.27%	Mainly as a result of expanded scale of sales.
Administrative expenses	486,608	350,204	38.95%	Mainly as a result of expanded scale of operation.

Research and development costs	849,312	631,223	34.55%	Mainly as a result of expanded scale of operation.
Finance costs	184,914	129,319	42.99%	Mainly as a result of the increase in interest expense.
Assets impairment losses	93,383	19,535	378.03%	Mainly as a result of the increase in bad debt provision.
Fair value gains/losses	(28,394)	1,442	-2069.07%	Mainly as a result of the decrease in fair value of forward exchange settlement transaction
Investment income	16,676	6,776	146.10%	Mainly as a result of gains from the disposal of subsidiaries.
Operating profit	72,742	(11,567)	728.88%	Mainly as a result of expanded scale of sales.
Total profit	172,027	82,921	107.46%	Mainly as a result of expanded scale of sales.
Income tax expenses	51,429	20,383	152.31%	Mainly as a result of expanded scale of operation of subsidiaries with higher tax liabilities.
Net profit attributable to equity holders of the parent company	60,894	31,021	96.30%	Mainly as a result of expanded scale of sales.
Minority interests	59,704	31,517	89.43%	Mainly as a result of the increase in profit of subsidiaries for the period.
Cash flow statement				
Items	Three months ended 31 March 2008	Three months ended 31 March 2007	Change	Reasons
Net cash flow from operating activities	(4,836,842)	(1,283,985)	-276.71%	Mainly owing to the increase in purchase payments incurred during the reporting period following increased dispatch of goods during the previous quarter, as well as the increase in expenses for the reporting period.
Net cash flow from investing activities	(176,622)	(455,680)	61.24%	Mainly as a result of the decrease in acquisition of fixed assets and expenses of construction in progress.
Net cash flow from financing activities	4,626,248	427,342	982.56%	Mainly as a result of the increase in bank borrowings and the issue of bonds cum warrants

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 warrant of the Company

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

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

The ‘Resolution on the Replacement of self-raised Funds Previously Invested in Fund Raised Investment Projects with Fund from the Issue of Bonds cum Warrants of the Company” was considered and approved at the twelfth meeting of the fourth session of the Board of Directors of the Company held on 13 March 2008. Details of the matter involved have been published in China Securities Journal, Securities Times, Shanghai Securities News and on the website of <http://www.cninfo.com.cn>.

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

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 notes to the financial statements in the 2007 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 are as follows:

No	Contents of material contracts	Date of disclosure	Newspaper for publication	Performance
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal, Securities Times, Shanghai Securities News	Under normal progress
2	Commercial contract for the construction of trial network for TD-SCDMA scale network technology application with China Mobile	11 June 2007		
3	Amendment of the 2006 – 2007 Chip Purchase Framework Agreement signed in April 2006 with QUALCOMM			

4	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		
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3.2.4 Implementation of ongoing connected transactions during the reporting period

During the reporting period, ongoing connected transactions (as defined in the Rules Governing Listing of Stocks on Shenzhen Stock Exchange) of the Group included the purchase of raw materials from and property leasing from connected parties by the Company and its subsidiaries. Such connected transactions were conducted after arm's length negotiation between the parties on the basis of normal commercial terms. The prices at which the Group made purchases from the connected parties were 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 profits. The Group is not dependent on the connected parties and the connected transactions conducted do not affect the independence of the Group.

Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (for information on the connected parties, their connected relationships with the Group, basic terms of the connected transactions agreements between the Group and the connected parties, estimated transaction amounts for 2008 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors of the Company and such other information, please refer to the announcement on ongoing connected transactions and announcement on ongoing connected transactions of 2008 under the Listing Rules of the Shenzhen Stock Exchange published respectively by the Company on 19 April 2007 and 20 March 2008 in China Securities Journal, Securities Times and Shanghai Securities News.

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to March 2008 (Excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement Method	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited (“Zhongxingxin”) and subsidiaries Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou	Various products such as cabinets, cases, distribution frames, Flexible printed circuit boards and shelters, etc.	Consistent with market prices (as per contract)	Cabinets: RMB1,000 – RMB31,000 per unit; cases: RMB1 – RMB17,000 per unit depending on level of sophistication; distribution frames and accessories: RMB2 – RMB300,000 per unit depending on level of sophistication; Flexible printed circuit boards (FPC): RMB2 – 50 per unit, depending on size, technical parameters and functional features. Shelter: RMB20,000 – RMB100,000 per unit, depending on measurement, materials used and configuration.	13,434	3.57%	Banker's acceptance bill	No
		Zhongxing WXT Equipment Company, Ltd.	IC, connector, assemblies, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	IC (built-in): RMB100–RMB1,000 per unit depending on brand, capacity and technical parameters; plugs and connectors: RMB2–120 per unit depending on the structure and raw materials; Optical components: RMB120–RMB17,500 per unit depending on materials performance	3,142	0.84%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various communication antennas, etc.	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2,500 per piece depending on technical parameters and functional features	3,018	0.80%	Banker's acceptance bill	No
Property leasing	ZTE Corporation	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 15,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (ZTE will be responsible for property management and management fees are not payable)	156.48	1.61%	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, for the park zone)	547.63	5.64%	Banker's acceptance bill	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at No.19 Huayuan East Road, Haidian District, Beijing with a leased area of 25,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (ZTE will be responsible for property management and management fees are not payable)	797.88	8.22%	Banker's acceptance bill	No

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

Applicable N/A

Special undertaking given by holders of original non-circulating shares in respect of the share reform and its performance

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

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 therefore

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 Reception of investors and analysts for survey and research, communications and press interviews of the Company during the report period

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of Company	Hong Kong	March 2008	2007 annual results presentation	Analysts and investors	2007 annual report	Published announcements and regular reports
	Shenzhen	March 2008	Teleconference	Analysts and investors	2007 annual report	Published announcements and regular reports

External meetings	Shenzhen	March 2008	Guotai Junan Securities presentation	Customers of Guotai Junan Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	March 2008	Guangfa Securities presentation	Customers of Guangfa Securities	Day-to-day operations of the Company	Published announcements and regular reports
Company visits , reception for survey and research	Overseas investors					
	Company	First quarter, 2008	Verbal	Merrill Lynch Securities, Citibank, Lehman Brothers, Morgan Stanley, Deutsche Bank, Brummer & Partners	Day-to-day operations of the Company	Published announcements and regular reports
	Domestic investors					
	Company	First quarter, 2008	Verbal	CICC, BOCI, Guotai Junan Securities, Jiashi Fund, Everbright Securities, China Nature Asset Management, Shanghai Fareast Securities, Runhui Investment, New China Asset Management, Gansu Trust	Day-to-day operations of the Company	Published announcements and regular reports

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

4.APPENDICES

- 4.1 BALANCE SHEET (unaudited)
- 4.2 INCOME STATEMENT (unaudited)
- 4.3 CASH FLOW STATEMENT (unaudited)

ZTE Corporation Balance Sheet (unaudited)

Currency: RMB'000

Assets	2008.03.31		2007.12.31	
	Group	Company	Group	Company
Current assets:				
Cash in bank and on hand	6,113,788	4,167,915	6,483,170	4,640,149
Tradable financial assets	98,569	98,569	123,644	123,644
Notes receivable	1,699,681	1,577,059	1,656,258	1,599,250
Trade receivables	8,091,636	10,719,679	7,098,949	8,945,606
Factored trade receivables	157,490	282,490	153,668	278,668
Prepayments	412,229	104,917	311,362	85,165
Dividend receivable	-	919,699	-	184,589
Other receivables	638,240	1,675,055	689,889	1,489,362
Inventory	5,346,616	1,649,805	5,363,430	1,443,814
Amounts due from customers for contract work	9,697,082	9,496,638	8,606,291	8,216,361
Total current assets	32,255,331	30,691,826	30,486,661	27,006,608
Non-current assets:				
Available-for-sale financial assets	43,464	41,464	43,464	41,464
Long-term receivables	611,312	401,715	581,007	401,715
Long-term factored trade receivables	3,027,967	3,027,967	3,142,709	3,142,709
Long-term equity investment	137,019	547,970	137,019	547,970
Fixed assets	2,984,765	1,779,215	3,038,063	1,878,330
Construction in progress	1,169,197	923,845	931,090	817,787
Intangible assets	194,257	73,723	224,848	78,398
Development expenses	248,625	118,869	258,991	127,624
Deferred income tax assets	301,586	256,407	295,750	256,407
Long-term deferred assets	35,597	-	33,494	-
Total non-current assets	8,753,789	7,171,175	8,686,435	7,292,404
Total assets	41,009,120	37,863,001	39,173,096	34,299,012

Legal Representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Financial Division:
Shi Chunmao

ZTE Corporation
Balance Sheet (cont'd)

Currency: RMB'000

Liabilities and shareholders' equity	2008.03.31		2007.12.31	
	Group	Company	Group	Company
Current liabilities:				
Short-term loans	3,643,031	2,775,315	2,893,855	2,535,673
Bank advances on factored trade receivables	157,490	282,490	153,668	278,668
Tradable financial liabilities	32,781	26,301	7,876	-
Notes payable	3,310,946	3,359,500	3,946,429	3,818,010
Trade payables	6,071,739	8,125,045	7,856,240	8,616,400
Amount due to customers for contract work	609,540	451,910	1,597,314	472,653
Advances from customers	1,993,851	2,057,389	1,491,219	1,502,276
Remuneration payable to staff	1,221,732	567,002	1,241,839	551,215
Tax payable	(1,316,430)	(1,289,214)	(1,342,330)	(1,056,962)
Dividend payable	71,475	500	41,180	500
Other payables	1,211,326	2,718,196	1,314,057	2,643,437
Deferred income	97,683	19,748	101,695	21,695
Provision	128,571	76,273	126,042	78,463
Non-current liabilities due within one year	1,433,566	1,433,124	1,509,569	1,509,569
Total current liabilities	<u>18,667,301</u>	<u>20,603,579</u>	<u>20,938,653</u>	<u>20,971,597</u>
Non-current liabilities:				
Long-term loans	2,187,922	878,961	2,085,229	911,322
Bank advances on factored long-term trade receivables	3,027,967	3,027,967	3,142,709	3,142,709
Financial guarantee contracts	3,689	3,689	3,689	3,689
Provision for retirement benefits	34,408	34,408	34,408	34,408
Bonds payable	3,423,371	3,423,371	-	-
Specific payables	80,000	80,000	80,000	80,000
Total non-current liabilities	<u>8,757,357</u>	<u>7,448,396</u>	<u>5,346,035</u>	<u>4,172,128</u>
Total liabilities	<u>27,424,658</u>	<u>28,051,975</u>	<u>26,284,688</u>	<u>25,143,725</u>
Shareholders' equity:				
Share capital	959,522	959,522	959,522	959,522
Capital reserve	6,438,070	6,402,799	5,807,332	5,772,061
Surplus reserve	1,365,542	769,603	1,364,758	769,603
Undistributed profit	3,891,341	1,444,475	3,831,231	1,417,872
Proposed final dividend	239,880	239,880	239,880	239,880
Exchange differences	(80,077)	(5,253)	(65,562)	(3,651)
Total shareholders' equity attributable to the parent company	12,814,278	9,811,026	12,137,161	9,155,287
Minority interests	770,184	-	751,247	-
Total shareholders' equity	<u>13,584,462</u>	<u>9,811,026</u>	<u>12,888,408</u>	<u>9,155,287</u>
Total liabilities and shareholders' equity	<u>41,009,120</u>	<u>37,863,001</u>	<u>39,173,096</u>	<u>34,299,012</u>

Legal Representative of the Company:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Financial Division:
Shi Chunmao

ZTE Corporation Income Statement (unaudited)

Currency: RMB'000

Item	Three months ended 31 March 2008		Three months ended 31 March 2007	
	Group	Company	Group (Restated)	Company (Restated)
I. Revenue	8,644,514	7,729,797	6,010,780	5,690,049
Less: Cost of sales	5,583,120	6,643,881	4,147,409	5,359,898
Taxes and surcharges	52,589	7,153	30,111	13,870
Selling and distribution costs	1,310,128	908,511	722,764	498,431
Administrative expenses	486,608	330,662	350,204	204,772
Research and development costs	849,312	231,464	631,223	173,408
Finance costs	184,914	314,594	129,319	106,028
Assets impairment losses	93,383	47,303	19,535	(12,024)
Add: Fair value gains/losses	(28,394)	(26,301)	1,442	1,442
Investment income	16,676	791,375	6,776	676,680
Including: investment gain from associates and jointly-controlled entities	-	-	-	-
II. Operating profit	<u>72,742</u>	<u>11,303</u>	<u>(11,567)</u>	<u>23,788</u>
Add: Non-operating income	103,381	15,608	98,706	13,659
Less: Non-operating expenses	4,096	308	4,218	1,665
Including: Profit/loss on disposal of non-current assets	(823)	(1,629)	2,940	1,070
III. Total profit	<u>172,027</u>	<u>26,603</u>	<u>82,921</u>	<u>35,782</u>
Less: Income tax expenses	51,429	-	20,383	-
IV. Net profit attributable to:	<u>120,598</u>	<u>26,603</u>	<u>62,538</u>	<u>35,782</u>
Equity holders of the parent				
Company	60,894	26,603	31,021	35,782
Minority interests	59,704	-	31,517	-
V. Earnings per share				
(I) Basic	0.063		0.032	
(II) Diluted	0.063		0.032	

Legal Representative of the Company:

Hou Weigui

Chief Financial Officer:

Wei Zaisheng

Head of Financial Division:

Shi Chunmao

* The financial statements for the corresponding period of 2007 have been adjusted and restated on a retrospective basis in accordance with Paragraph 1 of PRC Accounting Standards for Business Enterprises - Interpretation No. 1

ZTE Corporation

Cash Flow Statement (unaudited)

Currency: RMB'000

Item	Three months ended 31 March 2008		Three months ended 31 March 2007	
	Group	Company	Group (Restated)	Company (Restated)
I. Cash flow from operating activities				
Cash received from sales of goods or rendering of services	6,571,447	5,798,088	4,652,094	4,089,960
Cash received from taxes returned	544,057	363,933	133,023	95,968
Cash received relating to other operating activities	43,044	28,067	22,394	16,177
Sub-total of cash inflow	7,158,548	6,190,088	4,807,511	4,202,105
Cash paid for goods and services	8,491,869	9,423,240	3,927,465	4,465,948
Cash paid to and on behalf of employees	1,293,525	411,793	1,234,179	482,732
Payments of taxes and levies	929,547	36,453	312,240	48,492
Cash paid relating to other operating activities	1,280,449	673,082	617,612	143,198
Sub-total of cash outflow	11,995,390	10,544,568	6,091,496	5,140,370
Net cash flows from operating activities	(4,836,842)	(4,354,480)	(1,283,985)	(938,265)
II. Cash flows from investing activities				
Cash received from sale of investments	-	-	16,225	-
Cash received from gains of investment	18,673	26,039	21,415	-
Net cash received from disposal of fixed assets, intangible assets and other long term assets	1,581	-	1,214	-
Sub-total of cash inflow	20,254	26,039	38,854	-
Cash paid to acquire fixed asset, intangible assets and other long-term assets	196,576	171,377	494,534	279,366
Cash paid for investment	300	-	-	-
Sub-total of cash outflow	196,876	171,377	494,534	279,366
Net cash flow from investing activities	(176,622)	(145,338)	(455,680)	(279,366)
III. Cash flows from financing activities				
Cash received from investments	-	-	-	-
Cash received from borrowings	1,747,719	982,660	787,489	673,144
Cash received from the issue of bonds cum warrants	3,961,444	3,961,444	-	-
Sub-total of cash inflow	5,709,163	4,944,104	787,489	673,144
Cash paid for debt repayment	971,854	851,824	310,373	309,368
Cash paid in dividend distribution or interest repayment	111,061	99,165	49,774	48,261
Sub-total of cash outflow	1,082,915	950,989	360,147	357,629
Net cash flow from financing activities	4,626,248	3,993,115	427,342	315,515
IV Effect of foreign exchange rate changes on cash	17,834	34,469	(7,876)	(302)
V Net increase in cash and cash equivalents	(369,382)	(472,234)	(1,320,199)	(902,418)
Add: Opening balance of cash and cash equivalents	6,309,749	4,604,365	4,142,063	2,922,719
VI Closing balance of cash and cash equivalents	5,940,367	4,132,131	2,821,864	2,020,301

Legal Representative of the Company:

Hou Weigui

Chief Financial Officer:

Wei Zaisheng

Head of Financial Division:

Shi Chunmao

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

By order of the board of Directors
Hou Weigui
Chairman

Shenzhen, China
25 April 2008

As at the date of this announcement, the Board of Directors of the Company comprises three Executive Directors, Yin Yimin, Shi Lirong and He 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.