

ZTE中兴

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)

2007 FIRST QUARTERLY REPORT

This announcement is published simultaneously in Shenzhen 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 are unable to warrant or are in dispute with the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved by the third meeting of the fourth session of the Board of Directors of the Company. Mr. Qiao Wenjun, Independent Director, was unable to attend the meeting due to work reasons, and authorised in writing Mr. Mi Zhengkun, 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 report has been prepared in accordance with generally accepted accounting principles in the People’s Republic of China (“PRC GAAP”). The Company has also disclosed in this quarterly report a reconciliation of net profits and shareholders’ equity of the Company and its subsidiaries (together referred to as the “Group”) from PRC GAAP to Hong Kong accounting standards (“HKASs”).
- 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 during the reporting period

During the reporting period, the PRC telecommunications industry continued to sustain growth with the mobile sector providing the main drive, while the market for fixed line products contracted further. The Group has been negotiating contracts for the construction of extended trial networks for large-scale application of TD-SCDMA network technologies organised by carriers. On 7 April 2007 the Group received an official notification from China Mobile Group confirming that our TD-SCDMA wireless network products had been selected for networks in Beijing, Tianjin, Shenzhen, Shenyang, Qinghuangdao and Xiamen and our core network products had been selected for networks in Beijing, Guangzhou, Xiamen and Qinhuangdao.

During the reporting period, the international business of the Group expanded rapidly to account for 60% of its revenue. Emerging countries, such as those in the Asia Pacific region, continued to be a major source of revenue for the Group during the period.

Analysed by product segments, a 23% growth was recorded for our wireless products compared to the same period last year mainly as a result of the substantial growth in revenues from international CDMA, GSM. Sales of wireline switch and access decreased by 48% compared to the same period last year. On the other hand, sales of optical and data communications products increased by 48% year-on-year, driven mainly by growth in the international sales of optical communications products. Sales of handset products grew by 51% compared to the same period last year as export grew substantially to offset the decline in domestic sales. Sales of telecommunications software systems, services and other products also achieved an increase of 48% compared to the same period last year.

In a move to better adapt to requirements of developments in the telecommunications industry and telecommunications carriers, the Group make certain moves in organisational restructuring and optimisation during the reporting period, with a view to providing more efficient and comprehensive solutions and services to carriers.

Prospects for the next quarter will be underpinned by further development of 3G building in the PRC, which should generate sound opportunities for the Group to drive the sales of other products. In the international market, the Group will continue to closely monitor investment trends of carriers in the emerging markets in sectors such as mobile communications, broadband and transmission. We will also actively track the development of latest technologies in the market of developed countries, such as broadband, transmission and WiMax. We intend to expand both in terms of the depth of market coverage and sales volumes, capitalising on opportunities for the sales of terminal products presented by the speedy growth of the global population of mobile phone users.

2.2 Financial Information

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	End of the reporting period	End of last year	Change as at the end of the reporting period compared with the end of last year (%)
Total assets (RMB in thousands)	28,720,952	25,727,237	11.64
Shareholders' equity (excluding minority interests) (RMB in thousands)	10,771,805	10,656,956	1.08
Net assets per share (excluding minority interests) (RMB)	11.23	11.11	1.08

Item	Beginning of year to end of reporting period	Change compared with the same period last year (%)
Net cashflow from operating activities (RMB in thousand)	(1,283,985)	43.47
Net cashflow from operating activities per share (RMB)	(1.34)	43.47

Item	Reporting period	Same period last year	Change compared with the same period last year (%)
Net profit (excluding minority interests) (RMB in thousands)	42,445	33,418	27.01
Earnings per share, basic (RMB)	0.044	0.035	25.71
Earnings per share, diluted (RMB)	0.044	0.035	25.71
Return on net assets (%)	0.39	0.33	Increase by 0.06 percentage points
Return on net assets after extraordinary gains or losses (%)	0.34	0.35	Decrease by 0.01 percentage points

Extraordinary gain or loss items

Extraordinary gain or loss items	Amount during the period from the beginning of the year to the end of the reporting period (RMB in thousands)
Non-operating income (non-recurrent)	11,331
Less: Non-operating expenses	4,218
Less: Effect of income tax	1,067
Total	6,046

Note: There was no change in share capital of the Company for the period commencing from 1 January 2006 to 31 March 2007, and the share capital of the Company comprised 959,521,650 shares.

2.2.2 Differences in financial statements prepared in accordance with PRC GAAP and HKASs

The effects on the net profit and the shareholders' equity arising from material differences between the consolidated financial statements prepared under PRC GAAP and HKASs standards are summarised as follows:

(Unit: RMB'000)

	Net profit for the three months ended 31 March 2007 (unaudited)	Shareholders' equity at 31 March 2007 (unaudited)
Under PRC GAAP	42,445	10,771,805
Add back/(deduct)		
R&D expenses under different accounting standards	(13,089)	91,147
Deferred tax	1,665	4,420
Under Hong Kong accounting standards	31,021	10,867,372

(i) Deferred development expenses

Before 1 January 2007, according to PRC GAAP, all research and development expenses should be charged to profit and loss when incurred.

According to HKASs, expenses incurred in the development of new products will only be capitalised and deferred for recognition if the projects concerned are clearly defined, the expenses can be separately accounted for and reliably measured and the project can be reasonably ascertained to be technically feasible and the products derived therefrom are commercially viable. Product development expenses that do not meet the aforesaid conditions should be recognised as expenses when incurred.

(ii) *Deferred taxation*

As a result of the differences in accounting estimates and between PRC GAAP and HKASs, differences in revenue and profit before taxation will arise in the Group's financial statements prepared under PRC GAAP and HKASs. Deferred taxation is recognised as the impact of the temporary differences in income tax, deferred development expenses, and government grants.

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 42,433 shareholders in total (of which 42,041 were holders of A shares and 392 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	159,656,639	H shares
ICBC Credit Suisse Stable Growth Stock Securities Investment Fund	18,674,923	A shares
China Life Insurance Company Limited — Dividends — Individual Dividends — 005L-FH002 Shen	14,906,499	A shares
Hunan Nantian (Group) Co., Ltd	11,431,810	A shares
Guotai Junan — Citibank — DEUTSCHE BANK AKTIENGESELLSCHAFT	9,782,806	A shares
JADE DRAGON (MAURITIUS) LIMITED	9,500,000	A shares
ICBC Credit Suisse Selected and Balanced Hybrid Fund	7,925,265	A shares
Fuguo Tianhui Selected Mixed Growth Fund (富國天惠精選成長混合型證券投資基金)	7,766,205	A shares
China Life Insurance Company Limited — Traditional — General Insurance Products	6,915,593	A shares
ICBC Credit Suisse Core Value Stock Securities Investment Fund	6,792,153	A shares

3. MATERIAL MATTERS

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

√ Applicable □ N/A

Balance Sheet

Unit: RMB'000

Items	At 31 March 2007	At 31 December 2006	Change	Reasons
Cash in bank and on hand	2,990,861	4,311,060	-30.62%	Increase in purchase of raw materials and fixed assets
Tradable financial assets	0	33,288		/ Disposal of tradable financial assets by the Group
Trade receivables	7,050,904	5,329,628	32.30%	Deferred payment as part of the favourable credit terms granted to customers by the Group
Prepayments	101,525	51,757	96.16%	Increase in purchase of raw materials by prepayment at the beginning of the year
Inventory	3,595,600	2,481,155	44.92%	Increase in the purchase of raw materials at the beginning of the year following expansion in scale
Investments held to maturity	610,802	0		/ Recognition of forward contract of foreign currency at fair value
Tradable financial liabilities	613,051	3,689	16,518.35%	Recognition of forward contract of foreign currency at fair value
Notes payable	3,586,780	2,242,566	59.94%	Increase of purchase of raw materials using notes
Advances from customers	842,638	635,875	32.52%	Increase in advances from customers in tandem with increased sales
Remuneration payable to staff	582,109	1,090,862	-46.64%	Performance bonus payment and adjustments in the financial policies relating to welfare expenses
Tax payable	(1,039,682)	(690,767)	-50.51%	Increase in deduction in VAT tax as a result of increased purchase volume
Dividend payable	58,753	83,941	-30.01%	Dividend payment by subsidiaries
Long-term loans	2,439,419	1,679,242	45.27%	Increase in long-term bank loans

Income Statement

Items	For the three months ended 31 March 2007	For the three months ended 31 March 2006	Change	Reason
Operating income	6,010,780	4,603,289	30.58%	Increase in sales and faster progress for construction projects
Cost of sales	4,134,320	3,087,252	33.92%	Increase in sales and slight rise in cost ratios
Taxes and surcharges	30,111	16,418	83.40%	Increase in service income
Finance expenses	129,319	13,141	884.09%	Increase in interest expense, foreign exchange loss and increase in the cost for factoring and guarantee letters
Asset impairment losses	19,535	(131,026)	114.91%	Increase in bad debt provision
Investment gains	6,776	(3,408)	298.83%	Increase in investment gains from short-term stock trading
Operating profit	1,522	54,940	-97.23%	Decrease in gross profit margin and increase in R&D expenses
Non-operating income	98,706	14,925	561.35%	Increase in software tax rebate
Non-operating expenses	4,218	7,425	-43.19%	Decrease in loss on retirement of fixed assets
Total profit	96,010	62,440	53.76%	Increase in software tax rebate
Income tax expenses	22,048	14,665	50.34%	Increase in profit before taxation
Net profit (including minority interests)	73,962	47,775	54.81%	Increase in software tax rebate
Net profit attribute to minority interests	31,517	14,357	119.52%	Increase in the percentage of profit contribution from non-wholly owned subsidiaries

Cash flow statement:

Items	For the three months ended 31 March 2007	For the three months ended 31 March 2006	Change	Reason
Net cash flow from operating activities	(1,283,985)	(2,271,243)	43.47%	Increase in collection of receivables, software tax rebate and export rebate
Net cash flow from investing activities	(455,680)	(82,594)	-451.71%	Increase in the purchase of fixed assets
Net cash flow from financing activities	427,342	30,760	1,289.28%	Increase in bank loans

Explanation of the adjustment to welfare expenses payable for the first quarter after the adoption of the new Enterprise Accounting Standards:

In accordance with the new Enterprise Accounting Standards and relevant provisions in the guideline, the balance of the Group's welfare expenses payable that should be transferred to remuneration payable to staff (staff welfare) on the first implementation date should be accounted for as follows:

1. Based on the actual circumstances of the Group and the staff welfare schemes, potential staff welfare expenses (corporate medical insurance, labour protection and housing allowance, etc) for 2007 approximating RMB220 million should be charged to profit and loss on a monthly basis during the year and recognised as remuneration payable to staff. The amount recognized for the first quarter should be approximately RMB55 million.
2. An adjustment of RMB243 million was made to the expenses for the period in respect of the difference between the balance of welfare expenses payable of RMB298.43 million on the first implementation date and the remuneration payable to staff (staff welfare).

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

Applicable N/A

3.2.1 Progress of the Phase I Share Incentive Scheme during the reporting period

A no-comment letter was issued from the CSRC in respect of Phase I Share Incentive Scheme (Version dated 5 February 2007) and the scheme was reviewed and approved at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007. The relevant Scheme Participants paid the subscription amounts for the Subject Shares between 14 March 2007 and 18 March 2007. Please refer to section headed "Material Matters" set out in the 2006 annual report of the Company for details of the accounting method for the scheme and its impact on the Company.

3.2.2 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 connected parties by the Company and its subsidiaries. Such connected transactions were conducted after arm's length negotiations 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. In addition, such connected transactions would not have any adverse impact on the Group's profit. The Company is not dependent on the connected parties and the connected transactions do not affect the independence of the Company.

Details of the implementation of the Group's ongoing connected transactions during the reporting period are set out in the following table (for basic information on the connected parties, their connected relationships with the Group, basic terms of the connected transaction agreements between the Group and the connected parties, estimated transaction amounts for 2007 under each agreement,

impact of the connected transactions on the Group and review of the connected transactions by the general meeting and board of directors of the Company, please refer to the ongoing connected transactions for 2007 announcement published by the Company on 26 October 2006 in the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>).

Classification of transaction	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Amounts for connected transactions from	As a percentage of transactions in the same classification	Settlement	Whether different from estimated status
					January to March 2007 (excluding VAT) (RMB in 10,000)			
Purchase of raw materials	ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited and its subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited and Zhongxing Xinzhou Complete Equipment Co., Ltd	Various products such as cabinets, cases, distribution equipment, soft circuit boards and shelters	Consistent with market prices (as per contract)	10,828.19	2.1%	banker's acceptance bill	No
	ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxing WXT Equipment Company, Ltd. and its subsidiary Shenzhen Gaodonghua Communication Technology Co., Ltd.	IC, connector assemblies, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	2,090.55	0.4%	banker's acceptance bill	No
	ZTE Kangxun Telecom Company Limited	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Communications antennas and radio frequency transmission devices	Consistent with market prices (as per contract)	5,240.93	1.0%	banker's acceptance bill	No

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

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”, 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 “RMB30.51” following the implementation of the 2005 profit distribution plan of the Company on 14 July 2006.</p>	In progress	Undertaking strictly complied with

Note: The other eight holders of original non-circulating shares other than Zhongxingxin have not entered into any special undertaking in respect of the share reform.

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 therefor

Applicable N/A

3.5 Explanation of difference in Shareholders’ Equity as at the beginning of 2007 in Balance Sheet set out in this quarterly report and in Statement of reconciliation of differences between shareholders’ equity prepared in accordance with the current and the new PRC Accounting Standards.

Applicable N/A

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

4. APPENDICES

4.1 BALANCE SHEET (unaudited)

Unit: RMB'000

	At 31 March 2007		At 31 December 2006	
	Group	Company	Group	Company
Assets				
Current assets:				
Cash in bank and on hand	2,990,861	2,055,502	4,311,060	2,957,920
Tradable financial assets	—	—	33,288	—
Notes receivable	1,247,510	1,576,048	1,658,406	1,617,133
Trade receivables	7,050,904	7,420,677	5,329,628	5,753,208
Factored trade receivables	151,379	274,391	152,848	275,830
Prepayments	101,525	57,650	51,757	20,619
Dividend receivable	1,136	817,631	1,136	817,631
Other receivables	429,021	874,346	439,904	1,220,098
Inventory	3,595,600	1,542,717	2,481,155	1,179,106
Amounts due from customers for contract work	7,170,217	6,848,325	5,907,013	5,883,180
Total current assets	22,738,153	21,467,287	20,366,195	19,724,725
Non-current assets:				
Investments available for sale	43,488	41,488	43,488	41,488
Investments held to maturity	610,802	610,802	—	—
Long-term receivables	369,791	328,166	372,703	328,166
Long-term factored trade receivables	1,388,333	1,384,159	1,399,206	1,394,970
Long-term equity investment	57,193	2,608,169	57,193	2,599,677
Fixed assets	2,491,920	1,720,974	2,591,858	1,611,968
Construction in progress	491,294	410,854	469,636	402,430
Intangible assets	183,255	83,737	152,859	78,456
Development expenses	67,972	67,972	—	—
Deferred income tax assets	233,666	217,307	233,683	217,307
Long-term deferred assets	45,085	—	40,416	—
Total non-current assets	5,982,799	7,473,628	5,361,042	6,674,462
Total assets	28,720,952	28,940,915	25,727,237	26,399,187

	At 31 March 2007		At 31 December 2006	
	Group	Company	Group	Company
Current liabilities:				
Short-term loans	662,665	580,065	945,726	741,827
Bank advances on factored trade receivables	151,379	274,391	152,848	275,830
Tradable financial liabilities	613,051	613,051	3,689	3,689
Notes payable	3,586,780	3,987,926	2,242,566	2,187,595
Trade payables	5,546,936	6,830,574	4,749,099	6,704,325
Amount due to customers for contract work	1,248,346	1,057,511	996,275	991,612
Advances from customers	842,638	899,126	635,875	513,954
Remuneration payable to staff	582,109	383,795	1,090,862	760,039
Tax payable	(1,039,682)	(968,615)	(690,767)	(615,741)
Dividend payable	58,753	378	83,941	378
Other payables	741,531	574,498	733,924	701,721
Deferred income	60,269	10,349	66,273	14,404
Total current liabilities	13,054,775	14,243,049	11,010,311	12,279,633
Non-current liabilities:				
Long-term loans	2,439,419	1,855,016	1,679,242	1,329,478
Bank advances on factored long-term trade receivables	1,389,787	1,384,159	1,399,206	1,394,970
Specific payables	80,000	80,000	80,000	80,000
Provision	395,492	263,662	339,630	316,950
Total non-current liabilities	4,304,698	3,582,837	3,498,078	3,121,398
Total liabilities	17,359,473	17,825,886	14,508,389	15,401,031
Shareholders' equity:				
Share capital	959,522	959,522	959,522	959,522
Capital reserve	5,579,421	5,605,893	5,509,523	5,535,994
Surplus reserve	1,331,059	769,603	1,331,059	769,603
Undistributed profit	2,932,177	3,783,821	2,889,732	3,736,615
Exchange differences	(30,374)	(3,810)	(32,880)	(3,578)
Total shareholders' equity attributable to the parent	10,771,805	11,115,029	10,656,956	10,998,156
Minority interests	589,674	—	561,892	—
Total shareholders' equity	11,361,479	11,115,029	11,218,848	10,998,156
Total liabilities and shareholders' equity	28,720,952	28,940,915	25,727,237	26,399,187
Legal representative: Hou Weigui	Chief Financial Officer: Wei Zaisheng	Head of Finance Division: Shi Chunmao		

4.2 INCOME STATEMENTS (unaudited)

Unit: RMB'000

Item	For the three months ended 31 March 2007		For the three months ended 31 March 2006	
	Group	Company	Group	Company
I. Operating revenue	6,010,780	5,690,049	4,603,289	4,379,523
Less: Cost of sales	4,134,320	5,348,474	3,087,252	3,332,366
Taxes and surcharges	30,111	13,870	16,418	12,559
Selling expenses	722,764	498,431	709,951	560,434
General and administrative expenses	350,204	204,772	354,615	194,273
R&D expenses	631,223	173,408	494,590	187,940
Finance expenses	129,319	106,028	13,141	24,099
Asset impairment loss	19,535	(12,024)	(131,026)	(157,810)
Add: Gain or loss from fair value change	1,442	1,442	—	—
Investment gains	6,776	676,680	(3,408)	—
Including: gains from investments in associates and joint ventures	—	—	(3,408)	—
II. Operating profit	<u>1,522</u>	<u>35,212</u>	<u>54,940</u>	<u>225,662</u>
Add: Non-operating income	98,706	13,659	14,925	6,503
Less: Non-operating expenses	4,218	1,665	7,425	3,550
Including: Gain or loss from disposal of non-current assets	<u>2,940</u>	<u>1,070</u>	<u>3,131</u>	<u>1,510</u>

Unit: RMB'000

	For the three months ended 31 March 2007		For the three months ended 31 March 2006	
	Group	Company	Group	Company
III. Total profit	<u>96,010</u>	<u>47,206</u>	<u>62,440</u>	<u>228,615</u>
Less: Profit tax expenses	<u>22,048</u>	<u>0</u>	<u>14,665</u>	<u>5,416</u>
IV. Net profit	<u>73,962</u>	<u>47,206</u>	<u>47,775</u>	<u>223,199</u>
Attributable to owners of the parent	42,445	47,206	33,418	223,199
Minority interests	31,517	—	14,357	—
V. Earnings per share				
(I) Earnings per share, basic	0.044		0.035	
(II) Earnings per share, diluted	0.044		0.035	

Legal representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

4.3 CASH FLOW STATEMENT (unaudited)

Unit: RMB'000

Item	For the three months ended 31 March 2007		For the three months ended 31 March 2006	
	Group	Company	Group	Company
I. Cash flow from operating activities				
Cash received from sales of goods or rendering of services	4,652,094	4,089,960	3,814,520	3,678,242
Cash received from taxes returned	133,023	95,968	56,481	45,045
Cash received relating to other operating activities	22,394	16,177	26,264	15,052
Sub-total of cash inflow	4,807,511	4,202,105	3,897,265	3,738,339
Cash paid for goods and services	3,927,465	4,465,948	4,339,288	4,472,143
Cash paid to and on behalf of employees	1,234,179	482,732	723,951	308,209
Payments of taxes and levies	312,240	48,492	172,123	45,236
Cash paid relating to other operating activities	617,612	143,198	933,146	825,699
Sub-total of cash outflow	6,091,496	5,140,370	6,168,508	5,651,287
Net cash flows from operating activities	(1,283,985)	(938,265)	(2,271,243)	(1,912,948)
II. Cash flows from investing activities				
Cash received from sale of investments	16,225	—	—	—
Cash received from gains of investment	21,415	—	—	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	1,214	—	691	605
Net cash received from disposal of subsidiaries and other business units	—	—	—	—
Sub-total of cash inflow	38,854	—	691	605
Cash paid to acquire fixed asset, intangible assets and other long-term assets	494,534	279,366	81,038	62,592
Cash paid for investment	—	—	2,247	—
Cash paid for the acquisition of subsidiaries and other business units	—	—	—	—
Sub-total of cash outflow	494,534	279,366	83,285	62,592
Net cash flow from investing activities	(455,680)	(279,366)	(82,594)	(61,987)

Item	For the three months ended 31 March 2007		For the three months ended 31 March 2006	
	Group	Company	Group	Company
III. Cash flows from financing activities				
Cash received from investments	—	—	—	—
Cash received from borrowings	<u>787,489</u>	<u>673,144</u>	<u>121,100</u>	<u>100,000</u>
Sub-total of cash inflow	<u>787,489</u>	<u>673,144</u>	<u>121,100</u>	<u>100,000</u>
Cash paid for debt repayment	310,373	309,368	55,696	—
Cash paid in dividend distribution or interest repayment	49,774	48,261	34,644	25,714
Cash paid in relation to other financing activities	—	—	—	—
Sub-total of cash outflow	<u>360,147</u>	<u>357,629</u>	<u>90,340</u>	<u>25,714</u>
Net cash flow from financing activities	<u>427,342</u>	<u>315,515</u>	<u>30,760</u>	<u>74,286</u>
IV Effect of foreign exchange rate changes on cash	<u>(7,876)</u>	<u>(302)</u>	<u>3,829</u>	<u>(30)</u>
V Net increase in cash and cash equivalents	<u>(1,320,199)</u>	<u>(902,418)</u>	<u>(2,319,248)</u>	<u>(1,900,679)</u>
Add: Opening balance of cash and cash equivalents	<u>4,311,060</u>	<u>2,957,920</u>	<u>5,573,132</u>	<u>4,258,936</u>
VI Closing balance of cash and cash equivalents	<u>2,990,861</u>	<u>2,055,502</u>	<u>3,253,884</u>	<u>2,358,257</u>

Legal representative:
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
26 April 2007

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

*Please also refer to the published version of this announcement in **The Standard**.*