

Realize Your Potential

Annual Report 2006

HUAWEI TECHNOLOGIES CO., LTD.

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Spain: A business traveler accesses the broadband network from his mobile terminal, and makes an important transaction across continents and oceans, all in a matter of seconds.

United Kingdom: Enthusiastic soccer fans watch the game live on their palms/PDAs and cheer excitedly for their teams.

Spring Festival, China: One billion short messages are sent in a mere two days. One billion well wishes and sincere greetings are exchanged.

Mecca, Saudi Arabia: After the HAJJ ceremony, millions of Muslims worldwide turn on their cell phones at the same time to share their joy with relatives and friends.

Mountainous regions, Pakistan: A mother carefully keys in the numbers on a cell phone, to talk to her son for the first time in ten years. Modern communication has transcended the boundaries that once existed due to physical geographical factors.

A countryside primary school, Kenya: Excited children gather before a PC and compete for a click into the far reaching and amazing world of information.

Communication is changing the world and lives in such a profound way. We are lucky to have witnessed these exciting times and to have played a part in the process. At Huawei, every one of us embraces the vision **to enrich life through communication.**

This is a huge challenge. We face a world in which the development of economy and communication is unbalanced; the people we serve are living in varied cultures and different geographical environments.

Our customers face complex and different challenges and pressures. In places where fixed and wireless broadband networks are available, people long for richer and more convenient communication and entertainment experiences. Operators therefore are planning ALL IP networks which combine fixed and mobile broadband services. Meanwhile, in places where communication rates are low, operators need to realize network coverage at lower cost and higher speed. More importantly, they need to bridge the "digital divide" and shorten the distance from developed communications networks in the shortest possible time, with the help of future oriented technologies.

To help customers solve these issues is the very reason Huawei exists. Each and every one of our employees is working hard every day to accomplish a common mission:

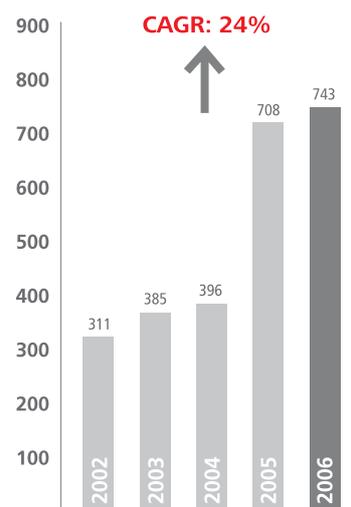
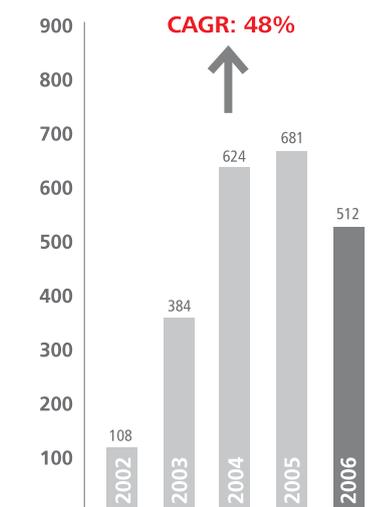
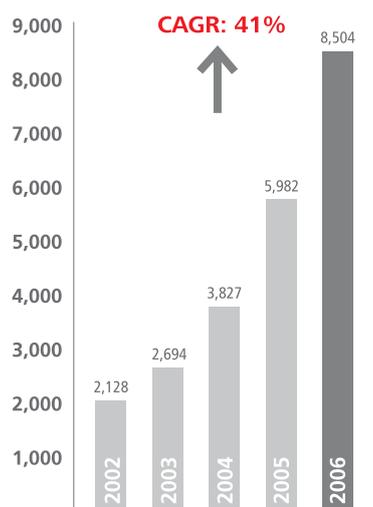
to focus on our customers' market challenges and needs by providing excellent communications network solutions and services in order to consistently create maximum value for customers.

Financial Highlights

HUAWEI TECHNOLOGIES CORPORATION and Subsidiary Companies

USD in millions

Year Ended December 31	2006	2005	2004	2003	2002
Revenue	8,504	5,982	3,827	2,694	2,128
Net income	512	681	624	384	108
Cash Flow From Operations	743	708	396	385	311
Operating Profit Margin	7%	14%	18%	19%	10%
Return on Net Assets	20%	30%	31%	23%	7%



REVENUE
(\$ in millions)

NET INCOME
(\$ in millions)

CASH FLOW FROM OPERATIONS
(\$ in millions)

Market Highlights

Contract sales reached USD11 billion in 2006, a 34% increase from last year.

65% of the contract sales came from the international market which has become the major driver of sales growth.

Huawei's global brand is continually enhanced.

Huawei has established a long-term and stable cooperation relationship with world-leading operators. Up till 2006, 31 of the world's top 50 telecom operators including Vodafone, BT, Telefonica, FT/Orange and China Mobile have selected Huawei as their corporate partner.

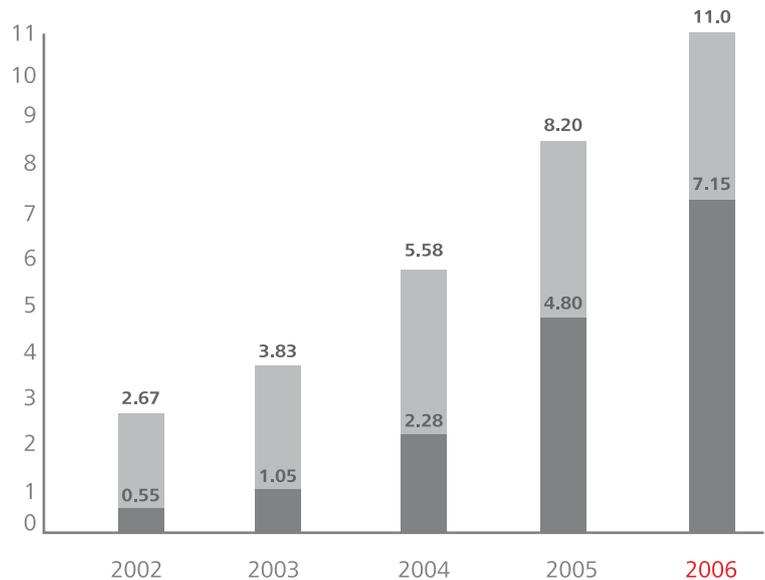
Huawei's products and solutions have been widely deployed in European countries including the UK, France, Germany, Spain, Holland, etc. We also achieved significant breakthroughs in the Japan and US markets.

As a top three equipment vendor in the global emerging market, Huawei secured a stable increase in its market share in 2006.

Overall market growth in all telecom business fields has been achieved, keeping pace with the future development trend of markets and networks.

Of all of Huawei's products, mobile products make up the biggest proportion of total sales. In 2006,

Contract Sales (USD in billions)



Steady Increase in Contract Sales

Contract Sales in the International Market

Huawei won 28 UMTS/HSPA commercial contracts. The compound increase rate of GSM sales exceeded 95% in three consecutive years. In 2006, Huawei boasted a 21% market share in the global GSM market. It ranked No.1 in Mobile Softswitch (In-Stat).

Strong performance has been witnessed in all product areas including fixed network, IP network and telecom value-added services (VAS), with continuous growth in the overall market share. In 2006, Huawei ranked No.1 in the global NGN market (Infonetics), No. 2 in Optical Network (Ovum-RHK), No.1 in IP DSLAM (Infonetics), No.2 in broadband convergence routers (Gartner) and No.1 in MSAN market (Infonetics).

Milestones



New visual identity introduced, reflecting our principles of customer-focus, innovation, steady and sustainable growth, and harmony

Huawei officially released its new visual identity and logo on May 8, 2006. Based on the original style of youthfulness and an enterprising spirit, the new logo reflects our principles of customer-focus, innovation, steady and sustainable growth, and harmony, conveying our sincere commitment to our customers. Huawei will keep rolling out competitive products, solutions and services through continuous innovation to help customers realize potential growth.

A leader of ALL IP based FMC solutions

In 2006, Huawei launched its ALL IP-based FMC solutions.

With overall strengths and profound experience in the fields of mobile, fixed and IP network and leading advantages in future-oriented network transformation, we are able to provide strong support to help our customers step into the era of ALL IP and convergence.

Preferred supplier in the new-round of 3G network construction

With strong competitive abilities and leading advantages in the new-generation UMTS/HSPA Node B, Huawei has been rising from a 3G technology leader to a market leader. In 2006, Huawei won 32.9% of the market share in the new UMTS/

HSPA markets. The new-generation UMTS/HSPA Node B has been widely deployed around the world, with a 44% of global unit shipment market share (by the end of 2006).

Vodafone chose Huawei to construct its commercial UMTS/HSDPA network in Spain and signed a 3G handset strategic partnership agreement with Huawei. Huawei also deployed Japan's first IP-based HSDPA network for EMOBILE.

Won the largest contract in history

Ufone awarded Huawei its nationwide GSM contract in Pakistan, worth a total of USD550 million. Huawei's strong capability of large-scale network construction is one of the important reasons why customers choose Huawei.

Entire stake in Huawei-3Com sold

After having sold our entire stake in Huawei-3Com, we will further focus our efforts on our core businesses, and strengthen our position as a world-leading vendor of ALL IP based FMC solutions.

3G solutions jointly developed

Huawei established a joint UMTS R&D center with Motorola in Shanghai. This collaboration will bring an enhanced and extensive portfolio of UMTS and HSPA infrastructure equipment to customers worldwide.

Message from the Company

Dear Customers, Partners and Peers of Huawei,

Last year, Huawei retained robust development and our contract sales reached USD11 billion with a 34% year on year increase, of which 65% came from the international market. We owe this achievement to the care and support of our customers and partners and would like to extend our sincere gratitude to all of you.

The communications industry is entering a new age of ALL IP and FMC. It is a great challenge to help users enjoy consistent communication experiences, via any device, anytime, anywhere. It requires operators, equipment vendors and other partners in the industry to join hands to push the transformation of communication networks. The operator needs a reliable vendor partner to provide end-to-end products and solutions which meet the needs of network and service transformation.

With strong technical expertise and years of applications experience, Huawei has gained leadership in the fixed, mobile, IP and VAS fields and obtained comprehensive advantages in providing end-to-end solutions.

In the next five years, Huawei will be committed to reinforcing our leadership in ALL IP based FMC solutions, to assist operators in entering the age of ALL IP and FMC. We will become the operators' reliable partner for their network transformation.

In 2006, mergers and acquisitions (M&A) of telecom equipment vendors were on the rise and the whole industry took on a new pattern. However, the large number of M&As and even ups and downs of enterprises in history have proved that scale is not an

absolute factor in success. In the future, only vendors capable of continuous innovation who can understand and focus on customer's real requirements and create long-term value and potential growth for customers through excellent operation and delivery can succeed in the market.

We have been adhering to the principle of getting closer to customers. As our global business increases in scale and our cooperation with customers becomes deeper, we have upgraded our regional organization structure. We are moving our support centers to be closer to our customers to ensure more effective and faster response. We keep improving upon our customer-driven R&D system to provide competitive solutions and services through continuous innovation.

With the expansion of our product applications, we have gained profound experience in delivering large-scale projects, while our delivery and service capabilities are being enhanced further. Through our 250 service organizations around the world, more than 10,000 professional service engineers, together with our 1,500 cooperating partners, offer quality delivery and services for customers. By the end of 2006, we had delivered 11,800 projects in regions outside China.

Keeping an open mind, we cooperate with all links in the industrial chain to create a multi-win business environment focusing on operators. We are committed to creating long-term value for our customers and will continue to work hard to enrich people's life through communication.

**Executive Management Team
Huawei Technologies Co., Ltd.**

Taking Telecom Networks and Services

into the Age of ALL IP and FMC

Taking Telecom Networks and Services into the Age of ALL IP and FMC

Information services are stepping into a new age of convergence. Telecom networks, IT, digital media and consumer electronics will develop towards closer convergence. This means users will be able to obtain access to multi-media information services anywhere, anytime. Accordingly, people's living and working styles will experience profound changes.

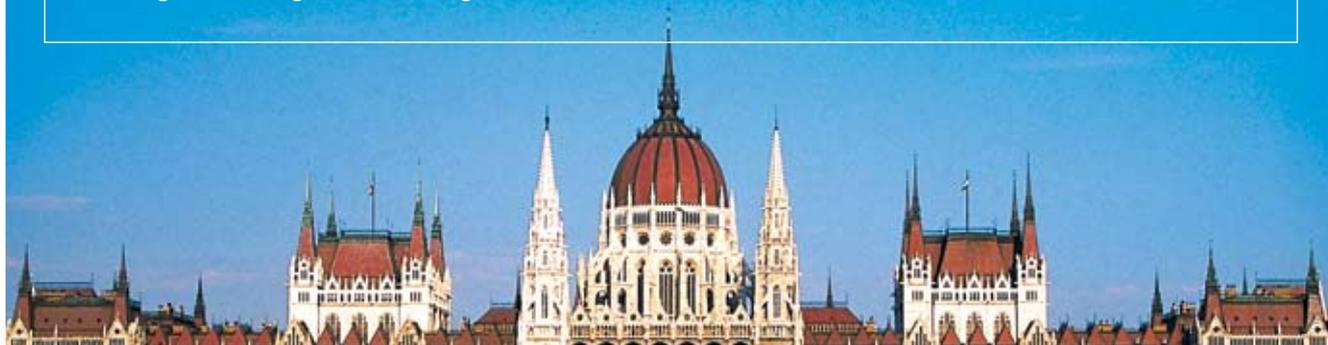
Magyar Telekom enters the age of FMC

Huawei's IMS solution helps operators realize FMC, effectively reduce OPEX and CAPEX and increase operation revenues by providing convergent services. Magyar Telekom is proof of that.

Magyar Telekom is the largest full-service telecom operator and a holding company of Deutsche Telekom (DT) in Hungary. The fixed network market in Hungary takes on a negative increase, and there is an obvious trend of mobile network services replacing fixed network services. However, the mobile network market is also getting saturated. Magyar Telekom is confronted with severe challenges of falling ARPU and high OPEX.

Presenting good service and strong capabilities, Huawei and its partners won the contract for providing a total IMS solution for Magyar Telekom. They cooperate to build a commercial IMS network and provide convergent services across the country for T-COM and T-Mobile which operate under the flag of Magyar Telekom.

The convergence of wired, fixed networks, mobile and internet becomes the development trend of the future telecoms industry. Magyar Telekom enters the age of convergence and is confident of the future, as it has chosen a reliable partner for All IP and FMC — Huawei.





For operators, the key to future successes is to transform the existing telecom networks into more adaptable, cost-efficient ALL IP networks and realize fixed and mobile convergence (FMC) based on the transformation. Driven by IP and mobile technologies, ALL IP based FMC is to become a development trend of telecom network in the coming years.

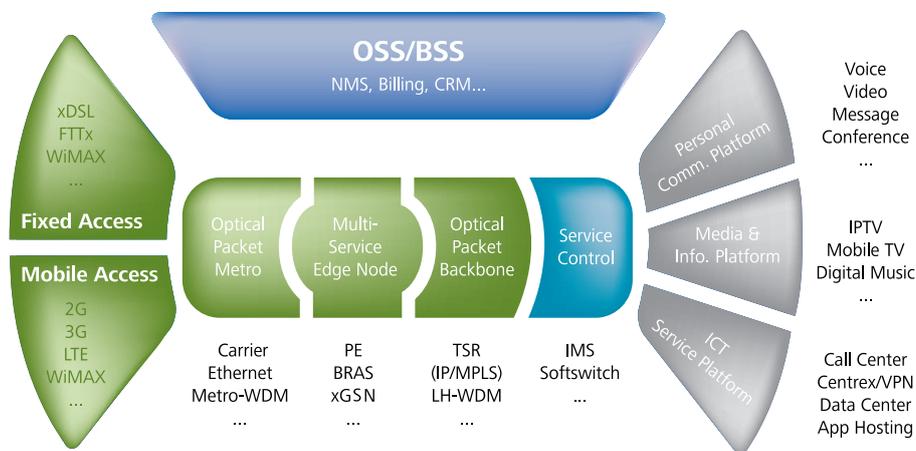
With years of experience, Huawei has achieved a balanced development and effective convergence of fixed networks, mobile networks, IP technologies and telecoms VAS. We rank among the top three in all major areas of the industry and are an operators' best partner in the age of ALL IP and FMC.

In the age of ALL IP, "IP" is no longer a separate technology, but a technology system on a par with TDM. Evolution to ALL IP is an end-to-end system project that involves all layers of the network including service, bearer, access, terminal and BSS/OSS. These are the basis for the realization of FMC.

Huawei's comprehensive advantages in all network layers, especially the ability to integrate IP technology with other network technologies, address the demands well. This is the main reason why Huawei was chosen as the strategic partner by a large number of world-class operators including DT, FT, TI, KPN, Telefonica, BT, CMCC and CTC for their ALL IP and FMC evolution.

It is the driving force for the entire network's end-to-end convergence to build an ALL IP core network with open service architecture: let IP based services drive IP based networks; let service convergence drive network convergence. This is the principle on which Huawei's IMS is designed.

Combining our expertise in the IP and softswitch areas, we have solved carrier-class operation problems of IP technologies, including IP-QoS, IP Security, and IP O&M. Many solutions are deemed as best practices in the industry. These technologies and experiences provide strong assurance for IMS deployment.



Balanced Development and Effective Convergence of Fixed Networks, Mobile Networks, IP Technologies and Telecom VAS



To provide FMC solutions based on ALL IP, ensuring that at any time, anywhere, via any terminals, users can enjoy consistent services and experiences.

Because of this, DT (Deutsche Telekom) chose Huawei to deploy the industry's first and biggest IMS based convergence solution in Hungary.

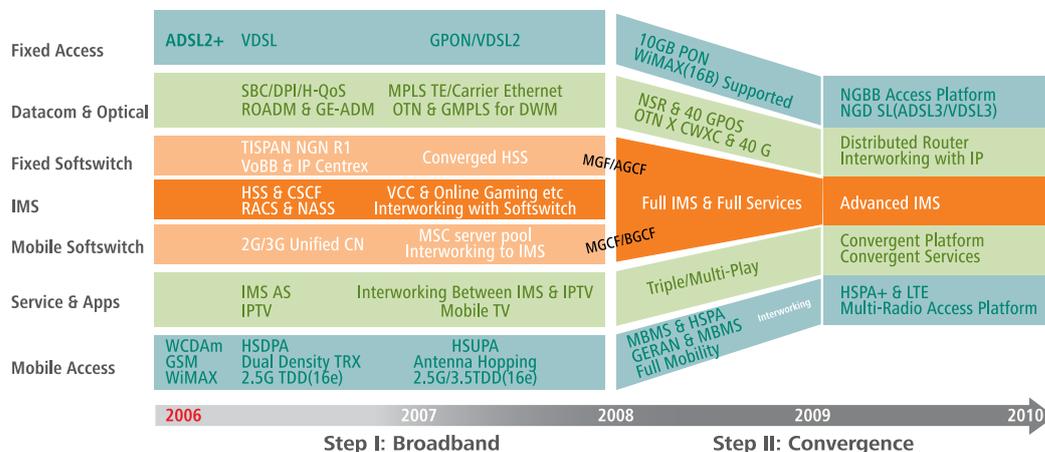
To push ALL IP and FMC of the entire network, the importance of the bearer network cannot be underestimated. Traditional optical network technologies are subject to many limitations in IP service transport. Huawei combines the advantages in optical network and IP technology and proposes the GE-ADM innovation, which adapts wavelength division systems to packet services and cuts the cost of packet transport by 20-30%.

In 2006, Huawei launched a series of end-to-end WDM/OTN products and solutions intended for IP bearers which operated on an intelligent control platform and realized the perfect combination of WDM transport and OTN switching. In terms of data communication, Huawei is the first in the industry to provide a "multi-service edge node" solution that supports FMC. The solution realizes FMC on the bearer layer.

The access network is the most costly part of a telecom network. The ability to build more flexible and cost-effective access networks that integrate the large bandwidth strength of fixed networks with the wide coverage strength of wireless networks at a faster speed is critical to the push of network evolution towards FMC. Huawei has launched the IP-DSLAM and IP-RAN solutions, which realize the in-depth combination of fixed access and mobile access and largely reduces the TCO while increasing the network bandwidth.

In the VAS area, Huawei provides unified FMC oriented service solutions based on the integrated ENIP platform to support the convergence of traditional services. Solutions of convergent IN, convergent billing, digital music and digital media will provide richer multimedia VASs, getting ready for the age of ALL IP and FMC.

The large number of innovations has established Huawei's leadership in the age of ALL IP and convergence. In the coming years, Huawei will focus on 3G/LTE, IMS and Multi-Play



Overall Roadmap towards 2010 of ALL IP based FMC Solutions

solutions to promote the progress of ALL IP network and the implementation of FMC services.

The 3G/LTE solution leads mobile networks to the age of IP. We are the first to adopt end-to-end IP technology in UMTS/HSPA, GSM, CDMA and WiMAX solutions to form an open service environment, simplify network structure, reduce OPEX, protect long-term investment and innovate new services. So operators can grasp new opportunities in mobile broadband, multi-band, multi-mode and FMC services and meet the new challenges of maintaining and increasing ARPU while assuring the fast growth of the mobile subscriber base.

The IMS solution is the foundation of convergence strategy and drives the whole network architecture towards convergence. We are the first to provide uniform network architecture that supports such access as UMTS, GSM, CDMA, WiFi, WiMAX, LAN, xDSL, and GPON, and offer consistent service experience. The IP based convergence of service networks pushes the IP based convergence of the whole network. The adoption of SOA and Web-Services architecture realizes the convergence with the Internet and offers flexible support to the commercial deployment of Walled-Garden, Smart-pipe, and Mashup services. It also supports operators' new strategies of triple convergence and innovations.

The Multi-Play solution pushes service and network transformation. We have strong capabilities in the areas of business consultation and value chain integration. We provide end-to-end solutions involving terminals, the access layer and the bearer layer and service platforms. We provide open service platforms to build a harmonious industrial environment and promote user experience and loyalty. We help operators to capture new opportunities of convergence services and gain new value in the progress of ALL IP transformation. We help realize smooth network evolution and obtain a competitive edge in the age of the open network.

KPN achieves transformation to ALL IP

"Huawei has shown their ability to supply European tier-one operators and deliver in time a network with outstanding QoS performance that will benefit KPN and Telfort's end customers. We are very pleased to see that the KPN Mobile network is now ready for the future, based mainly on the efficient IP protocol."

Sietse Sijperda, CTO of KPN Mobile.

KPN is the largest mobile and fixed network operator in Holland. KPN possesses four mobile networks, after acquiring Telfort. Along with market share growth, came a string of tough problems: KPN had to bear the huge operational costs brought about by the four networks.

After becoming the sole core network supplier of KPN in Holland, Huawei helped KPN to integrate the acquired Telfort network and its own GSM/UMTS networks to one whole network, thus serving KPN subscribers and Telfort subscribers with a uniform core network. Huawei's 3G/2G convergence solution reduces the overall operation cost and satisfies the need of new service provisioning. KPN thus achieves the transformation to an ALL IP network. It now has an advanced large capacity network, which allows the flexible deployment of the next generation of IP based services.

COO of KPN Mobile The Netherlands, Mr. Marco Visser, commented that, with Huawei's dedication to innovation and state of the art solutions, KPN will be able to provide its mobile users with better and more advanced services, more rapidly."



Creating Value for Customers

In the new industrial environment, in order to bring customers unique values and potential growth, suppliers have to possess the capability of ALL IP based FMC, the capability of integrating end-to-end solutions, complete range of network services as well as an aligned development strategy and cooperative relations with customers.

The Convergence Expert in the Core Network Field

In recent years, operators around the globe have established their transformation strategies based on ALL IP based network convergence innovation. By using mature ALL IP solutions that are operable and manageable on a large scale, they hope to realize network transformation quickly to provide more VAS services while taking over traditional services.

Huawei has years of experience not only in the area of IP but also in fixed and mobile networks. We understand the trend of ALL IP FMC and have formulated a clear investment and development strategy. We have the head start advantage in the deployment of IP networks and have accumulated abundant experience.

To maintain leadership in ALL IP FMC, Huawei has set up an integrated core network product line, with 6,000 engineers engaged in R&D. We have all-around (fixed, mobile and IP) technologies and experience. We are the strongest vendor of core network products. This enables us to help customers realize larger network value and sharper competitive edge. Huawei's core network product line has a service team of 2,000 employees around the globe to provide customers with all-round consultation, planning, delivery, maintenance and training services.

In 2006, Huawei launched IMS3.0, the first commercial IMS solution in the industry, which complies with the 3GPP



TISPAN standard. IMS3.0 has an open architecture which enables Huawei to provide rich multimedia services through cooperating widely with partners specialized in services, platforms and terminals. IMS3.0 enables system architecture featuring fixed and mobile convergence and CT and IT convergence. It also enables network and service openness and promotes the win-win development of all players involved.

In 2003, Huawei set the goal of core network evolution to ALL IP and launched the solution ahead of other vendors. In the past three years, the solution has been put into large-scale commercial use. We have created many leading application patterns and obtained considerable experience in IP QoS, network level security and large-scale networking. Huawei will continue to focus on network convergence, open innovation and smooth evolution and help operators build future-oriented architecture, increase network value and continuously drive network evolution towards ALL IP.

In 2006, while maintaining our leadership in the performance and specification of PS solutions, we launched another three major solutions: content charging solution, network convergence solution and high bandwidth solution, to promote the entire PS competitiveness. The PS solutions have become another prime profit source for the company, and promoted our competitiveness in core networks, together with CS solutions.



Global Applications (By Q4 2006)

- ✓ The capacity of Mobile Softswitch reached 210 million users, a global market share of 31.2%
- ✓ The capacity of fixed softswitch reached 76 million ports in the aggregate of GPRS/UMTS Packet Switch Domain serves 55 million users
- ✓ HLR serves 200 million users

Mobile Communications Field: Taking Mobile Networks to IP

With the rapid development of the mobile market, we are well on our way to expect another two billion mobile subscribers. The IP based mobile bandwidth solution is therefore becoming a popular choice for the development and deployment of telecom networks. IP has been applied in all layers of the mobile network including service, core, bearer and access. The IP based mobile network helps build uniform bearer networks and save 40-80% of HSPA transmission cost. Meanwhile, it simplifies the structure of the mobile network and promotes network bearer capability. Using Huawei's next generation HSPA base stations, which support IP transport, EMOBILE deployed Japan's first ALL IP HSPA network and reduced network transmission cost by 60-80%.

As HSPA network operation and service deployment matures, users will enjoy the real fun in high speed mobile data services. In developed markets, 2G network users will switch to 3G networks at a higher speed and the focus of network operation will gradually shift to 3G networks. We have launched the UMTS900 solution which provides better coverage and reduces the cost of HSPA network construction. Australia's OPTUS has cooperated with Huawei and constructed their trial UMTS900 networks. We also carry out new cooperation programs with Motorola to provide more powerful and complete UMTS products and solutions and HSPA solutions for customers worldwide.

The development of GSM technology will continue, while most operators face the challenges of changing network structure and increasing network profitability. Huawei's GSM series of base stations feature good coverage and high density to promote the competitiveness of operator networks. Leading operators like Brazil's Vivo, Pakistan's Ufone and China Mobile deployed Huawei EnerG GSM solutions in large scales. Meanwhile, Huawei applies 3G and IP technologies to promote the IP-oriented evolution of GSM. We plan to launch an IP-based GSM solution in the third quarter of 2007.

The global CDMA market is yet to grow rapidly in the future. Huawei provides not only end-to-end CDMA2000 products and solutions from systems to terminals but also professional services including business consultation and maintenance service. Continuous R&D investments make Huawei one of the few major contributors to the UMB architecture.

Huawei is one of the few vendors able to provide end-to-end mobile WiMAX solutions in the industry. We actively promote the industrialization of WiMAX. Huawei's mobile WiMAX can converge with current CDMA, GSM, NGN and IMS networks thus realizing cost-effective deployment of mobile broadband networks.

UMTS/HSPA solutions provided for StarHub

"We have been impressed by Huawei's 3G technology roadmap, especially their ability to deliver next-generation wireless applications and services quickly. We are confident that Huawei's solutions will help us deliver an enhanced 3G experience to our customers."

*Mr. David Storrie,
StarHub's Head of Network and Wholesale.*



Huawei owns 7% of the essential patents in the field of UMTS, among the top five in the world. With over 1,000 patents in the CDMA area, we are a core member of 3GPP2. Huawei invests over 10% of sales revenue in R&D, more than half of which is put into the R&D of radio technologies.

Global Applications (By Q4 2006)

UMTS / HSPA

- ✓ In 2006, the number of new commercial contracts grew to world's No.1
- ✓ The unit shipment of base stations ranked among the top in the world

GSM

- ✓ Compound increase of sales has increased over 95% for three successive years
- ✓ Deployment of base stations exceeded 850,000 TRXs worldwide

CDMA

- ✓ Serving 60 million users worldwide
- ✓ Gained the largest number of commercial EV-DO contracts in 2006
- ✓ Remained No.1 in global CDMA WLL market share in the industry

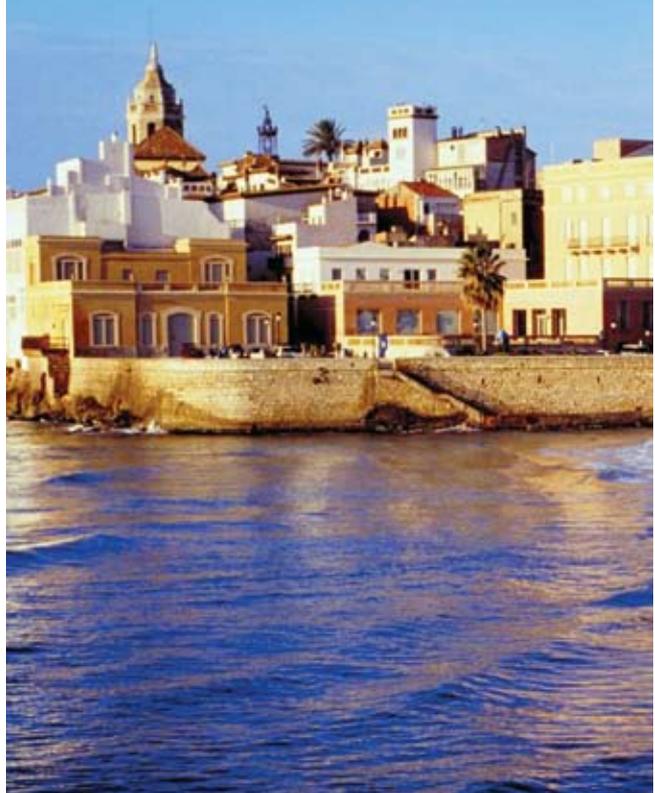
Vivo helped in constructing a GSM network scalable to 3G

"In such an important project, Huawei demonstrated professional project management and quality. Vivo appreciates Huawei's commitment and congratulates Huawei's great success in this project"

Mr. Roberto Lima, President of Vivo



Huawei was selected by the world's largest mobile operator, Vodafone, to deliver and install the radio access part of its HSDPA network for some key cities in Spain.



Network Bearer and Broadband Access Area: Laying the Foundations of the ALL IP Network

Internet, with its robust development, is taking away a bigger market share from traditional telecom operations. Traditional telecom operation is endangered by becoming the edge of the broadband value chain. The traditional separate network architecture and organization system keep network OPEX high, and make deployment and provisioning of services hard. It has become an effective approach for operators to realize higher value to integrate telecom and Internet networks and transform them to a user-centric ALL IP network.

Huawei provides end-to-end Multi-Play solutions. We are committed to helping our customers face challenges and pressure in ALL IP network transformation and help them achieve business success

Best Partner for the ALL IP transport network

Network transformation and the rise of broadband services have imposed new requirements on the transport network, like more flexible networking capability, higher transport capacity and stronger data processing capability.

Huawei puts forward the idea of evolution to the ALL IP based transport network. We provide all customers in the world with end-to-end network solutions and operation solutions that cover mobile transport, broadband transport and private line transport.

In 2006, we continued our lead in the innovation and application of optical network technologies. With SuperWDM+ technology, the system have reduced the channel spacing from 50GHz to 25GHz which expands the C-band capacity from 80 wavelengths x 10G to 192 wavelengths x 10G, greatly enhancing the transmission capability of long haul DWDM.

We promote the end-to-end WDM/OTN product and solution range of intelligent control platform, perfectly integrating the transmission capability of WDM and the switching capability of OTN.

Huawei's ASON/GMPLS intelligent optical network solution realizes unified intelligent service management, to effectively increase network security and flexibility, improve resource utilization and reduce network construction cost. We have helped more than 30 operators in more than 20 countries to construct ASON networks.

Moreover, we also offer top-level 2G/3G mobile bearer solutions and have helped China Mobile, China Unicom, American Moviles, Telefonica Moviles, MTS(Russia), Vimpelcom and MTN to build a number of important mobile transport networks.

Global Applications (By the end of 2006)

- ✓ 520,000 sets of equipment deployed in more than 100 countries and regions.
- ✓ No.1 in the Asia Pacific optical network market since 2001 (Ovum RHK) and awarded "Optical Vendor of the Year" by Frost & Sullivan in 2005 and 2006.
- ✓ No. 2 in the global market in 2006 (Ovum-RHK. 2006 Q4)
- ✓ No.1 by DWDM market share
- ✓ The fastest growing vendor in the global optical network field (Ovum-RHK. 2006 Q4)

The expert in IP bearer networks

Compared with traditional IP Internet, the carrier-class IP bearer network sees revolutionary changes which enable the IP network to become a manageable, maintainable, trustworthy secure network that offers the same QoS as the existing telecom network. The carrier-class IP network is able to support a new value chain system.

Huawei's customized solutions and services, including the IP core bearer network solution, MAN solution, and mobile bearer solution, ensures the practicality of ALL IP based telecom network.

“Huawei was selected as one of only eight strategic global vendors to support the build and implementation of BT’s 21st century network in April 2005, focused on the delivery of both access and transmission domain solutions. Huawei continues to be awarded strategically significant portions of market share in both areas, reflecting its continued technology, price and implementation performance. We have high expectations of all of our strategic suppliers in 21CN, the world’s most advanced next generation network implementation, and Huawei continues to meet those expectations.”

Meryl Bushell, Chief Procurement Officer, BT Group



The leader in the IP age of the access network

In 2006, with the emergence of high bandwidth services like VOD, network gaming and IPTV, operators raised higher requirements on the broadband network. Optical fiber access becomes the priority choice of “last mile” broadband access technology for fixed operators.

Huawei has launched the first T-bit GPON access system and FTTx solution in the industry to satisfy the super high bandwidth requirement of multi-service operation. Based on diversified application scenarios including FTTC, FTTB, and FTTH, we offer advanced competitive solutions to help our customers always lead the development of FTTx.

Market Performance (By Q4 2006)

- ✓ No.1 by global MSAN unit shipment for four successive years since 2003
- ✓ No.1 by global MSAN unit shipment in the world
- ✓ 74 million ports of HONET integrated access products sold to 60 countries and regions worldwide
- ✓ Awarded “Broadband Infrastructure Vendor of the Year in Asia Pacific” by Frost & Sullivan in 2006

Telecom VAS: Commitment, Convergence and Innovation

Telecom VAS has gradually become the major driver of the increase in telecom operation revenues. Before investment in network transformation and innovation can create any value, user experience must be gained through services and applications of the innovation.

In the area of software, we have been long committed to the R&D of telecom VAS. Focusing on user experience, we provide innovative services and convergent solutions, covering such areas as voice, digital music, digital media, mobile data, and operation support. We help operators develop capabilities of intensive operation and personalized marketing to realize fast service deployment and fast profit generation.

We offer hundreds of services, covering voice, data, and operation support and more, to help customers create bigger business opportunities.

In the hot digital music market, Huawei, as the largest RBT service provider, together with digital music distributors and intelligent service architecture providers, forms the "digital

music alliance". The alliance customizes digital music solutions that cover "platform + service + operation" and satisfy diversified and personalized user requirements to expand the market share in digital music.

Based on the existing SMS platform, we launched the "Messaging+" solution which delivers richer experience and higher added value, enabling operators to unlock their huge potential in the messaging market.

In the area of enterprise application, which has been under developed, we tailor the integrated information service solution for operators. This solution breaks the boundary between telecom network and IT facilities, and integrates the management and application of telecom terminals and enterprise office systems, creating the most efficient and convenient communication experience for enterprise users.

Facing the trend of industry convergence and telecom transformation and the shifting of software industry focus from products to service and operation, we offer a number of

The cross-network and cross-country short messaging solutions we tailored for Telefonica Moviles provide SMS for its five sub-networks (Mexico, Argentina, Chile, Ecuador and Columbia), helping the operator save about 70% CAPEX and 50% OPEX. The Mexico sub-network covers its five neighboring countries.



After commercial deployment in the network of Etisalat, the Huawei WAP/MMS has been running stably and the traffic volume increases continuously. Each month, the system generates revenues of around USD 1 million and has become the most profitable VAS of Etisalat.



Terminals: Let Users Benefit from Our End-to-End Strengths

convergent service solutions including 3G, Multi-play and IMS. We are also able to provide convergent services over multiple networks. Huawei's convergent, standard and open system architecture and service platform help operators realize fast service deployment.

We combined the platform strengths of IN and OSS, and launched the "convergent billing solution". This solution intends to serve all users of the network and promote the billing capability of new services. It helps operators reduce their CAPEX and OPEX. It also enables flexible marketing tariff strategies and intensive operation to help operators increase user loyalty.

Market Performance (By Q4 2006)

- ✓ No.1 by global intelligent network users
- ✓ No.2 by global service traffic of short messages
- ✓ No.1 with 160 million MMS users worldwide
- ✓ Serving 600 million users worldwide

In the ALL IP and convergence era, people can enjoy a consistent communication experience via any terminal. Embracing the trend of convergence and broadband, Huawei provides a wide range of network terminals, enabling operators to meet user demand for diversified terminals and drive potential business growth.

Huawei has accumulated rich experience in many terminal technologies, such as UMTS, CDMA, GSM, PHS, videoconferencing, access terminal and application terminal. As a communication terminal provider of the world's most comprehensive range of products, Huawei offers products include mobile phone, data card, FMC terminal, fixed station, videoconference system, set top box, home gateway, video phone, and module.

Huawei has established strategic partnership with a large number of operators. By offering customized products, Huawei provides operators with high-quality and cost-effective products and excellent services, enabling operators to cut down OPEX and increase user base.

Market Performance (By Q4 2006)

- ✓ Over 27 million terminals sold to more than 70 countries and regions. Sales grow 100% year over year for the past three consecutive years
- ✓ A global leading data card supplier, with annual shipment of UMTS data cards exceeding one million
- ✓ The biggest market share of CDMA fixed stations
- ✓ Over 90% share of the operator market, with videoconferencing system being applied in more than 40 countries and regions
- ✓ No.1 with global sales of RTUs (modems) exceeding 2.5 million units

The VOT and FPH services Huawei deployed for Rostelecom, Russia's biggest fixed network operator, helped the operator win back all its intelligent network investment in 3 months.



Operation and Delivery

Through years of management evolution, we have adopted best practices in the industry to improve upon our IPD, ISC, HR management, finance management, and quality control. We have built an IT-based management system, ensuring our end-to-end delivery capacity will be continuously enhanced.

Our global operations system is consistently being upgraded to support the long-term development of our global services. In 2006, we upgraded our organizational structure at the regional level, and moved our support centers to be closer and better meet our customers' needs. We have set up over 100 branch offices worldwide, established Key Account Support Department, as well as integrating service and delivery resources to ensure quality delivery and service for our customers.

Huawei has 10 technical support centers, 28 overseas training centers and 128 warehouses. More than 10,000 professional service employees of Huawei, together with over 1,500 corporate partners, provide customers with timely project delivery and specialized service support. We have completed over 11,800 projects in various geographical areas outside of China.

Huawei Service Highlights

- ✓ Built 103 representative offices in 90 countries and regions
- ✓ Established strategic partnerships with 1,500 partners
- ✓ Provided one billion users with communication service
- ✓ Provided more than 70 leading mobile operators with network planning/optimization service
- ✓ Tailored services for over 1,000 local demands in 30 countries and regions



Telekom Malaysia (TM) realizes fast 3G network deployment

In July 2006, during Malaysia's 11th National Sports Event (SUKMA), hundreds of thousands of UMTS users watched the games via their cell phones. Before the event, TM, Malaysia's largest operator, needed to realize 3G network coverage for 13 stadiums. These stadiums were widely spaced and the time for completion was tight. Huawei kept effective communications with TM and deployed the network for the entire SUKMA event within a week. The network delivered high-speed data services to users.



Continuous Innovation Based on Customer Needs

We believe that advanced products and/or technology must translate to commercial success for customers before it can be of any value. We believe that customer requirements take precedence over technology and that solutions take precedence over products. We have established a customer-driven R&D system—technological innovation driven by our customers' success.

Competitive Edge for Our Customers

Huawei has built a customer-oriented IPD process system, which gives us the ability to rapidly include customer requirements in our product roadmap plan, enabling our customers to introduce new products and new services effectively. We continuously seek improvement in the areas of speed, quality and cost of our development process through modular design, standardization and sharing of technology.

We cooperated with KPN in Holland. Through the analysis of the operator's cost structure and proposed design of distributed base stations, we helped the operator save on costs of about 30%.





The first IP-based HSDPA network deployed in Japan for EMOBILE

"Huawei is a dynamic company full of the customer-driven innovative spirit. With Huawei, we are confident of having selected the right partner that can help us to lead the market in product innovation, customer service and maximizing value for customers."

*Dr. Sachio Semmoto,
Representative Director, Chairman & CEO of EMOBILE*

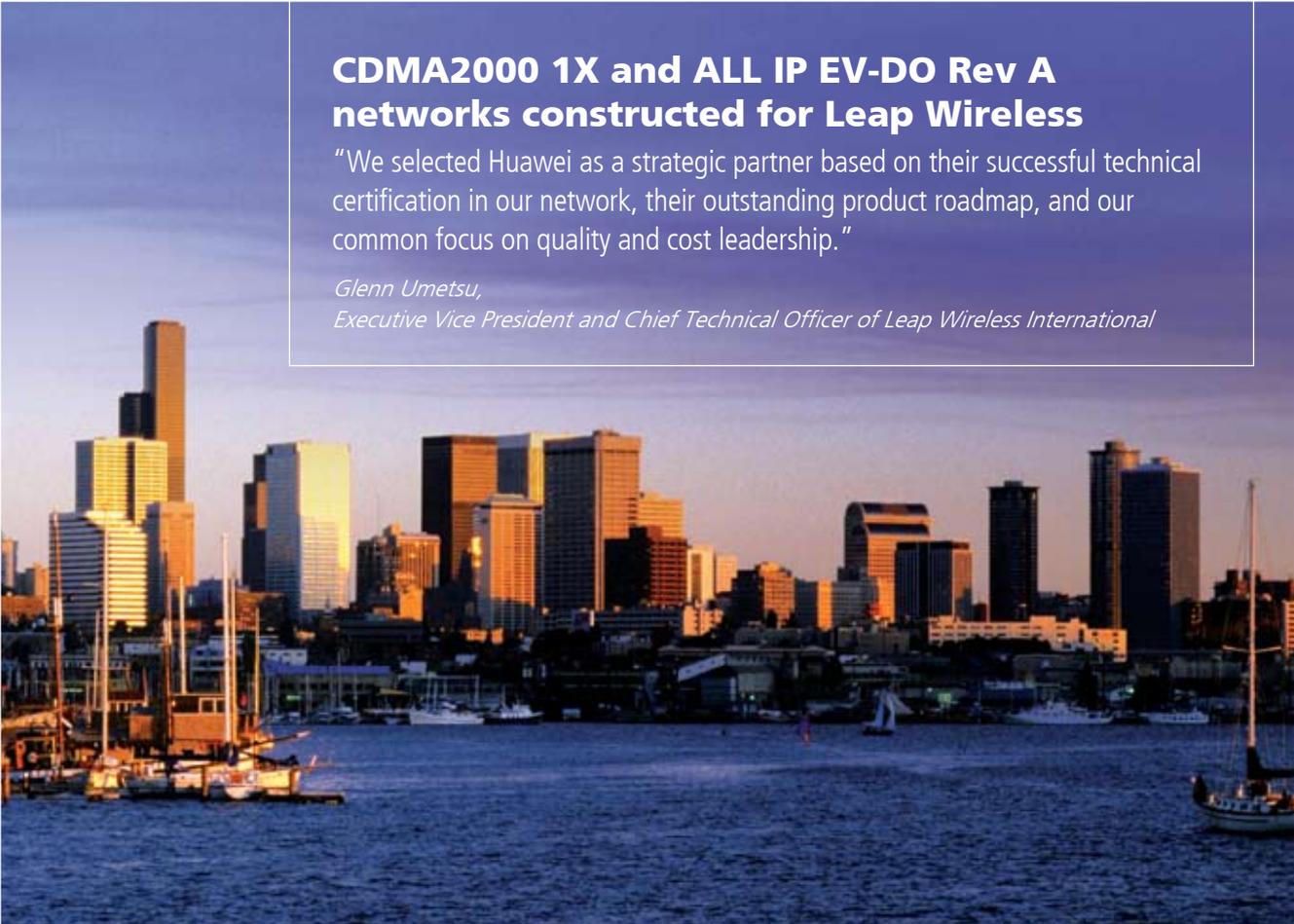


Huawei cooperated with AIS to analyze end user requirements, design innovative services and carry out joint development projects, which rapidly promoted growth. This enabled AIS's user base to triple in three years, operating revenue to rise by 2.3 times and profit to increase by 2.8 times.

Customer Investment Protection

It goes without saying that an operator's future-oriented investment should not be completely independent of the existing network. We therefore advocate a smooth network evolution that will protect any existing investment and make today's network solutions better suited to adapt to any future development, thus ensuring continuous benefits for our customers.

The Huawei R4 and R5 systems share a single hardware platform. Our UMTS, CDMA, GSM and PSTN core networks operate on the same hardware and software platforms. We also continue to invest heavily in traditional product areas such as GSM, access network, and optical network, thereby ensuring that related costs continue to decrease.



CDMA2000 1X and ALL IP EV-DO Rev A networks constructed for Leap Wireless

"We selected Huawei as a strategic partner based on their successful technical certification in our network, their outstanding product roadmap, and our common focus on quality and cost leadership."

*Glenn Umetsu,
Executive Vice President and Chief Technical Officer of Leap Wireless International*

Convergence Pushes Development

We have achieved balanced development of products, solutions and key technologies. We have formed product lines covering mobile network, broadband, data communication, optical network, application & service and terminal. We have acquired key technologies that support future network development, including key network technologies like IP, and mobile, and key application technologies like ASIC, and software.

Huawei has gained a head start advantage in future-oriented transformation. We invest heavily in key solutions such as 3G/LTE, Multi-Play and IMS-being a leader in the ALL IP and convergence era.

Highlights:

- ✓ 10% of sales revenue spent on R&D, of which 10% spent on advanced research
- ✓ 48% of employees engaged in R&D
- ✓ Member of 70 standard organizations
- ✓ Our global R&D centers are located in: Stockholm, Sweden; Dallas and Silicon Valley, U.S.; Bangalore, India; Moscow, Russia; Shenzhen, Shanghai, Beijing, Nanjing, Xi'an, Chengdu, and Wuhan, China.
- ✓ Having obtained CMM5 certification, four of our research institutes are now on par with other leading institutes in the industry in terms of software process management and quality control.
- ✓ Applied for a total of 19,187 patents, as of December 31, 2006
- ✓ Awarded 2,742 patents as of December 31, 2006
- ✓ 133 UMTS essential patents, amongst the world's top 5

STC successfully endures HAJJ traffic

During the Muslim HAJJ ceremony, over 3 million pilgrims, who gathered within 5 square kilometers in Mecca, Saudi Arabia, switched on their handsets at nearly the same time to make calls or send short messages to their families and friends. The huge traffic surge severely overloaded the network of STC, the largest mobile operator in Saudi Arabia. STC was in bad need of an economical and large-capacity solution to construct a high-quality and stable network.

Faced with the extreme traffic flow, many established telecom equipment vendors could not meet the requirements. Huawei's experts formulated an economical solution in which Huawei's reliable core network utilized resources of the existing network intelligently and balanced network loads so as to endure peak traffic periods.

In two years, the STC network proved to be 100% reliable during HAJJ. STC successfully promoted its profitability and gained a better brand image. Out of its trust for Huawei, STC once again chose Huawei as its partner to deploy its 3G network in economically developed areas of Saudi Arabia in 2006. Huawei is now a major 3G supplier of STC.



Winning Environment

Focusing on the Operators

The network and information world is experiencing a complete and in-depth revolution. It has become a common strategy for operators to transform from traditional telecom operators into integrated information service providers. The development of the industry value chain requires that all resources of the chain be integrated with the operators as the focus, to create a positive and harmonious value system.

Huawei is actively involved in promoting the construction of a value chain focusing on the operators. We cooperate with various partners to provide end-to-end solutions and services so as to achieve win-win development with our customers and partners.

In terms of content offerings, we cooperate with more than 300 partners to provide rich content for operators in UMTS, WiMAX, CDMA EV DO, and broadband solutions. To further improve the industry value chain, provide experiential marketing, and carry out customer-centered service innovations, we have set up the inTouch Lab experience center and launched inTouch Lab Partnership Program globally.

We have also established a Mobile Innovation Center (MIC) in

Holland to provide a service innovation environment for the European market. We have cooperated with the Hong Kong Wireless Development Center and launched nearly a hundred new 3G applications, which are now being used commercially in Hong Kong.

inTouch Lab experience center

The inTouch Lab provides an end-to-end trial run environment for new service solutions. The lab also provides a service experience center for 50 operators and 84 SP/CPs both in China and other countries. In the lab, we cooperate with operators and SP/CPs to launch service innovations, push its maturity level and accelerate the commercial use of VAS and applications.



inTouch Lab Partnership Program

With this program, Huawei aims to gather as many content providers and application providers as possible through mutual technology benefits and establish an alliance of VAS value chain technology, focusing on the operation and service of operators. Huawei's inTouch Lab partnership program enables all members to share resources, including content, applications, along with the latest technology and service solutions.

Since its launch, the program has attracted more than 300 partners from China, Asia-Pacific, North America, Latin America, Middle East and North Africa.

IMS has strategic importance for competition in the future telecom market. It will surely bring a brand new challenging business model. Operators also hope that IMS architecture can exploit the advantages of the IP network more easily and support the fast provisioning of multimedia services. They hope to make their services quickly penetrate to all areas and develop new sources of profit.

Huawei has cooperated with over 100 industry leading enterprises in areas of service software, access platform and handset terminal. The purpose is to help operators realize fast service deployment, reduce cost, and dominate the industry value chain. We have also built joint labs to provide IOT and service experience environments and competitive solutions.

Huawei's Partnership Within the IMS Value Chain

Huawei partnered with BroadSoft, a world leading VoIP application provider, to integrate its IMS application platform with the IMS 3.0 solution, thus providing enterprise users with better IP Centrex and PBX services.

We partnered Sylanro Systems to utilize its advantage in the server for VoIP managed service. We incorporate the application server in our total IMS solution to maximize operator's investment return.

Huawei's IMS solution successfully integrates the eyebeam telephone technology of the soft terminal provider CounterPath to provide complete end-to-end FMC services including VoIP, Multi-media Conference, IP Centrex, IM and Presence.

With an open mind, we have been cooperating extensively with our fellow vendors in technologies, product development and market exploration. We aim to construct a future-oriented, multi-beneficial and stable development mode and carry out cooperation based on work division for mutual benefits so as to create higher values for customers worldwide.

Cooperation with other Vendors

We built a joint UMTS R&D center with Motorola to provide customers around the world with a stronger and more complete range of UMTS products and solutions as well as HSPA solutions.

We established a joint venture with Siemens, who is committed to the R&D, manufacturing, sales and service of TD-SCDMA, while driving the development of TD-SCDMA.

Huawei cooperates widely and has established stable partnerships with industry-leading vendors to share top technologies and platforms in the industry, thus ensuring our products and technologies stay at the forefront of the industry.

World Class Training Platform

The establishment of a truly successful global company in the long run depends not only on the adjustment and reform in the organizational processes but also on the continuous improvement of values, skills and knowledge of individuals forming the foundation of the corporation. Here at Huawei, the continuous self-improvement of our employees is undertaken by Huawei University. Here, the professionalism and internationalism of managers and employees is greatly enhanced.





Huawei's technology support center and training center in Nigeria's capital city, Abuja

In addition, we are concerned with the latest developments in the communications world, and provide practical technical training for our customers based on their needs, thereby growing together with our customers.

Employees Learn and Grow from Practice

A variety of factors contribute to the growth of employees, of which 70% comes from the challenging aspects of their work, 20% from interpersonal communication, and only 10% are due to training. We value learning through practice, and our trainers represent all levels of managers who have real management experience. Managers and employees improve themselves through real practice which allows them to acquire abilities to solve practical problems. Training programs are also designed based on service needs, which is a unique feature of Huawei training.

We have cooperated with Hay Group to determine the basic qualities of Huawei managers based on the needs of our corporate strategy. We have also established a leadership quality

model and training roadmap. Programs have been developed to train our leaders in management. In 2005 and 2006, Huawei trained a total of more than 2,000 leaders, who will support the stable development of the company in the future.

Customer Training

With mature and complete training programs, flexible and diversified training methods, and training resources that cover the whole world, we provide an all-round quality training service based on customer needs. We have provided management training for 35,000 operator employees.

Huawei has set up 18 technical training centers around the globe. We provide all-round training service covering equipment installation and commissioning, acceptance test, operation and maintenance, network operation and technical certification to serve different levels of training requirements of different customers. So far, over 197,000 trainees from 70 countries and regions worldwide have attended Huawei's training programs.

Social Responsibility

Huawei endeavors to increase access to information and communication technology. In addition, we place great emphasis on sustainable development and the bridging of the digital divide.

We are fully committed to fulfilling our responsibility as a global corporate citizen by providing people with better career opportunities, higher standards of living and education. We also hope to continue enriching the lives of people through communication.



As the largest archipelago in the world, Indonesia has thousands of islands spread across its large territory, posing as a considerable challenge for service providers who wish to provide wireless nationwide coverage.

Huawei provided a customized network solution that provides coverage for 70% of the territory or more than 40% of the population with access to communication.

Huawei worked with PTCL to implement an initiative called "Telephone to Villages". The network currently covers most of the villages and towns in Pakistan, providing local people with increased access to advanced communication services, while promoting the operator's brand and profitability.



As a member of the United Nations Global Compact (UNGC), Huawei incorporates the corporate rights and responsibilities that the UNGC advocates into our corporate culture and business practices.

Bridging the Digital Divide

In remote areas that are often sparsely populated and located in difficult geographical environments, a telecom infrastructure is more often than not underdeveloped due to the fact that providing telecom services in such areas means low returns on their investment for service providers.

In order to enhance communication and accessibility in such

rural regions, Huawei has developed customized technology that adapts to difficult environmental conditions at a relatively lower cost of deployment and operation, thereby enabling service providers worldwide to bring the power of communication to rural areas more cost-effectively.

Green Huawei, Green Communication, a Green World

We observe international standards in product development and other business activities, and aim to achieve environmental protection through the wise use of natural resources and technological innovation.

Environmental Health and Safety

We have implemented the Environment, Health and Safety (EHS) management system based on international standards, which strives to provide a safe and healthy working environment for our employees.

Green Products

To ensure that our EHS objectives are met, we have started a "Green Products" program that covers R&D, procurement, production and customer support. The program's execution is being overseen by a tri-level organization to guarantee its full support throughout the company.

We comply with the following international standards and environmental policies and regulations:

- ✓ ISO 14001:2004 and OHSAS 18001:1999, the most widely-recognized standards on environmental management and occupational health and safety.
- ✓ Huawei's products and product components in the European market comply with RoHS (Restriction of the Use of Certain Hazardous Substances) and WEEE (Waste from Electric and Electronic Equipment), directives issued by the European Union aimed at recycling and restricting the use of certain hazardous substances in electrical and electronic equipment.
- ✓ Huawei is currently in the process of preparation to comply with the directive on the eco-design of Energy-using Products (EuP) by 2008.
- ✓ Huawei implements all-round certification on its suppliers based on the SA8000 standard.

The ability of telecom equipment to improve our means of communication is particularly important because it reduces the need for transportation, and thus resources, especially in less developed countries. Taking into consideration customer needs and environmental concerns, Huawei has made considerable effort in the research and development of telecom equipment that significantly lowers Total Cost of Ownership (TCO).

The Huawei Distributed Node B was designed to lower operation costs by effectively reducing the cost of leasing, electricity, air-conditioning, and manpower. In a UMTS network of 2,000 sites, the amount of energy saved by Huawei Distributed Node B compared with a conventional Node B is enough to provide power for around 3200 homes.

Giving Back to Society

We firmly believe in the need to give back to the local community and the localization of our global operations. We have set up more than 100 representative offices, local sales and service institutions, R&D centers, training centers, technical support centers and production centers worldwide. This has not only enhanced our understanding of local markets, but also contributes to local economies by increasing employment and enhancing local engineers' technical skills, especially in less developed regions. Currently, local employees account for over 60% of the staff in our local representative offices.

Communication in Relief Efforts

In August 2006, Huawei employees contributed more than CNY 4million to typhoon-afflicted areas including Guangdong and Hunan provinces.

In November 2005, our North American employees donated to Hurricane Katrina victims through the American Red Cross.

In July 2005, an unprecedented flood struck the Chinese province of Guangdong, and Huawei employees donated USD 475,000 to help people severely affected by the disaster rebuild their lives.

In December 2004, after the devastating tsunami that struck Southeast Asia, a total of USD 2.5million worth of emergency communications equipment was donated and a donation of USD 2.5million was made to affected countries including Indonesia, Thailand, Sri Lanka and India.

Invest in Africa, Serve in Africa

In Africa, Huawei is now the preferred partner of local telecom service providers, and has made outstanding contributions to the telecom industry.

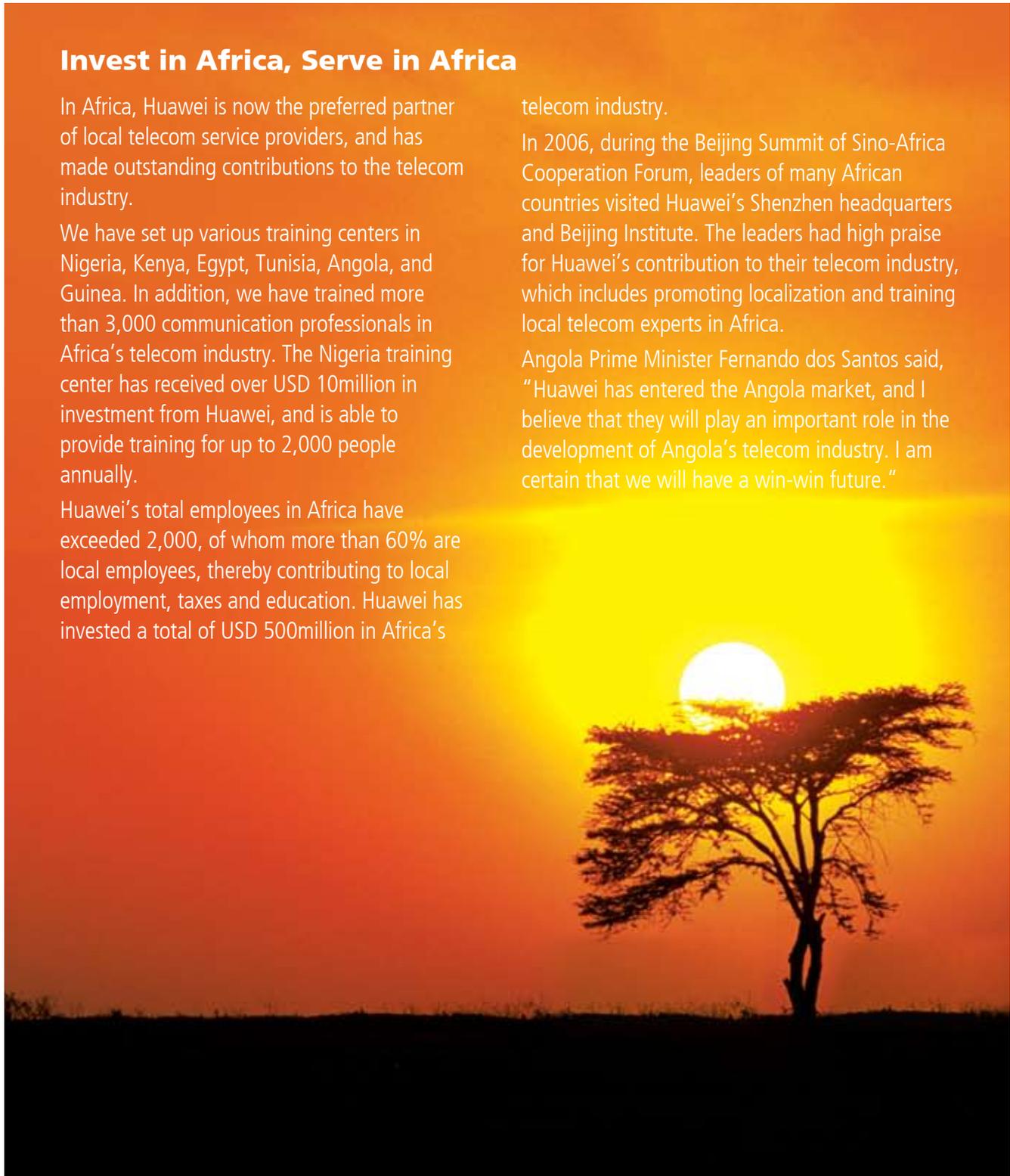
We have set up various training centers in Nigeria, Kenya, Egypt, Tunisia, Angola, and Guinea. In addition, we have trained more than 3,000 communication professionals in Africa's telecom industry. The Nigeria training center has received over USD 10million in investment from Huawei, and is able to provide training for up to 2,000 people annually.

Huawei's total employees in Africa have exceeded 2,000, of whom more than 60% are local employees, thereby contributing to local employment, taxes and education. Huawei has invested a total of USD 500million in Africa's

telecom industry.

In 2006, during the Beijing Summit of Sino-Africa Cooperation Forum, leaders of many African countries visited Huawei's Shenzhen headquarters and Beijing Institute. The leaders had high praise for Huawei's contribution to their telecom industry, which includes promoting localization and training local telecom experts in Africa.

Angola Prime Minister Fernando dos Santos said, "Huawei has entered the Angola market, and I believe that they will play an important role in the development of Angola's telecom industry. I am certain that we will have a win-win future."



Consolidated Income Statement

Huawei Technologies Corporation

and Subsidiary Companies

For the year ended 31 December	2006 USD '000	2005 USD '000
Revenue	8,503,897	5,981,542
Cost of Sales	(5,424,011)	(3,559,366)
Gross Profit	3,079,886	2,422,176
Operating expenses	(2,352,862)	(1,601,656)
Other operating income/(loss)	(106,029)	30,091
Income from Operations	620,995	850,611
Net financing costs	(38,918)	(38,369)
Share of losses of associates	(15,025)	(12,552)
Income before income taxes	567,052	799,690
Income taxes expense	(54,664)	(115,788)
Minority Interest	(200)	(3,079)
Net Income for the year	512,188	680,823

Consolidated Balance Sheet

Huawei Technologies Corporation

and Subsidiary Companies

As of 31 December	2006 USD '000	2005 USD '000
Assets		
Cash and cash equivalents	1,056,042	883,029
Trade and other receivables	3,650,086	2,322,711
Investments	64	0
Inventories	1,420,455	1,214,842
Deferred tax assets	181,529	109,514
Total Current Assets	6,308,176	4,530,096
Property, plant and equipment	939,784	894,142
Intangible assets	10,937	13,862
Investments	237,286	315,552
Total Non-current Assets	1,188,007	1,223,556
Total Assets	7,496,183	5,753,652
Liabilities and Shareholders' Equity		
Interest-bearing loans and borrowings	332,883	288,170
Income tax payable	163,312	150,197
Trade and other payables	4,183,046	2,582,120
Provision for warranties	80,122	39,887
Total Current Liabilities	4,759,363	3,060,374
Interest-bearing loans and borrowings	39,790	253,173
Other payables	25,894	23,412
Total Non-current Liabilities	65,684	276,585
Minority Interest	4,286	4,912
Total Capital and Reserves	2,666,850	2,411,781
Total Liabilities and Shareholders' Equity	7,496,183	5,753,652

Consolidated Statement of Cash Flows

Huawei Technologies Corporation

and Subsidiary Companies

For the year ended 31 December	2006 USD '000	2005 USD '000
Cash Flows from Operating Activities		
Cash generated from operation	928,363	872,081
Interest and income tax paid	(184,991)	(163,939)
Cash Flows from Operating Activities	743,372	708,142
Cash Flows (used in)/from Investing Activities	(78,243)	(220,580)
Cash Flows (used in)/from Financing Activities	(511,556)	(733,106)
Net Increase/(decrease) in Cash and Cash Equivalents	153,573	(245,544)
Cash and Cash Equivalents at 1 January	883,029	1,100,860
Effect of foreign exchange rate changes	19,440	27,713
Cash and Cash Equivalents at 31 December	1,056,042	883,029

Notes:

- All the financial data are quoted from the unqualified auditors reports of KPMG which are presented in accordance with International Financial Reporting Standards.
- Solely for the convenience of the readers, the consolidated financial statements of the year ended 31 December 2006 have been translated to United States dollars at the rate of US\$1.00=RMB7.8041 (2005: US\$1.00=RMB8.0702)

