

A LEADING TELECOMMUNICATIONS EQUIPMENT COMPANY

In 2004, the Group not only has consolidated and strengthened its leading position in China, but also succeeded in the international market. With a breakthrough in sales in the international market, the Group has achieved healthy and sustained growth in its operating results and financial position in 2004.



The Company is the first A share listed company to be listed on the main board of Hong Kong Stock Exchange. The successful listing provides the Group with access to international capital markets.





CHAIRMAN'S STATEMENT



Chairman
Hou Weigui

Dear Shareholders:

I am pleased to present to the shareholders of the Company the annual report of the Group for the fiscal year ended 31 December 2004. On behalf of the Board of Directors, I would like to express my sincere gratitude to each shareholder for his concern and support for ZTE.

Review of the performance of the Group for 2004

The phrase "healthy and sustained growth" can best be used to summarize the operations of the Group for the year of 2004. During the year, the Group experienced significant growth and improvement in various aspects of its operating results and financial position as compared to the previous year. We believe this result was attributable both to the overall favourable development of the telecommunications industry and the efforts made by us in order to achieve optimal operating results and financial position.

As one of the leading high technology telecommunications equipment providers in China, we were able to consolidate our leading position in the industry domestically in 2004. According to the Ministry of Information Industry, the total fixed assets investment in the telecommunications equipment industry in China grew moderately in 2004 as compared to 2003. Through our in-depth knowledge of the telecommunications industry and its telecommunications service providers, we seized upon the investment focus of the telecommunications service providers.

The Group's products have been successful in the international market. The global telecommunications industry posted a recovery in 2004 following the lackluster performance in the past few years. Against this background, the Group stepped up its efforts to develop the international market and made a breakthrough in international sales volumes in 2004 with significant growth as compared to 2003.



The Group's overall objective is to consolidate and strengthen its leading position in the telecommunications equipment market, actively develop the international market and endeavour to become the leading global cross-border telecommunications equipment supplier.



We were successfully listed on the main board of Hong Kong Stock Exchange in December 2004, becoming the first A share listed company to be listed on the main board of Hong Kong Stock Exchange. We believe that our Hong Kong listing provides a higher and better financial platform for ZTE to further implement its globalization strategy. We will also build a high quality enterprise that is more transparent and responsible to shareholders in accordance with the demands of the international capital markets.

As a high technology enterprise, research and development is the key to our development. We will continue to invest a considerable portion of our income into research and development each year and focus on accumulating and protecting intellectual property rights in the long run so as to ensure the sustainable development of the Group. We are deeply aware of the importance of improving our operating efficiency and product quality. In 2004, the Group implemented a corporate strategy of enhancing internal efficiencies, thereby improving management standards and overall operating efficiency. The Group also implemented stringent quality control measures and customers' satisfaction increased substantially.

Business Outlook

The globalization of competition is the major trend in the telecommunications equipment industry. We anticipate that the global telecommunications industry will maintain stable growth in 2005 while the domestic telecommunications industry in China will also remain stable. The application of new technologies and products will create both new business opportunities and more intense competition and challenges for the telecommunications equipment manufacturers, including ZTE.

In light of the opportunities and challenges, our main objectives in 2005 in order to maintain and enhance our core competitiveness and market share as well as to improve our results are stated below:

- To further expand our international presence. In 2005, the Group will adopt a localization strategy for its human resources, production and products to expand its development efforts in the rapidly-growing emerging market on the one hand; and to actively develop the market for cross-border telecommunications service providers on the other hand. We will continue to work towards rapid growth in the international market.

CHAIRMAN'S STATEMENT

- To consolidate and enhance the position as a leading supplier in China. The domestic market is the Group's core market, which provides us with a framework to vigorously develop the international market. The Group will continue to provide differentiated products and end-to-end integrated solutions to assist its customers in developing new business and revenue sources, expand the range of products and increase its market share. We will also foster consumption levels and promote our products and services to end-users through the establishment of strategic cooperation relationships with our customers.
- To enhance research and development capability. In 2005, the Group will continuously improve all aspects of its research and development process and capabilities, and enhance resource sharing and integration ability of each business division. At the same time, the Group will strengthen its research and development efforts on strategic new products so as to promptly seize upon or direct market opportunities.
- To continue with the further development of handset business. In 2005, the Group will further develop its handset business and continue to enhance its research and development capability for handsets by keeping abreast with technological advancements. This will enable the provision of different products and services to handset users and enable the Group to produce better quality and price-competitive products. The Group will strengthen cooperation with major telecommunications service providers and promote the sale of handset products by providing standardised handset services. The Group will also perfect its handset distribution network and promote, through advertisements, the ZTE brand to handset users so as to increase sales of the Group's handset products.
- To continue enhancing the Group's product quality and improve operating efficiency. We will actively execute and perfect our quality control system, and continue our focus on quality improvement, to enhance overall customer satisfaction. We will further enhance our operating efficiency by reinforcing execution efforts and strengthening digital management as well as constructing and operating our knowledge bank, so that the management standards of the Group will match advanced international standards.

We will make further efforts to implement the Group's development strategy, create greater value of the Company, establish a more complete corporate governance structure and enhance transparency so as to yield good returns for shareholders and the society.

Hou Weigui
Chairman
Shenzhen, China
11 April 2005