

REPORT OF THE BOARD OF DIRECTORS



Yin Yimin
President

The Board of Directors is pleased to present its report together with the audited financial statements of the Company and the Group for the year ended 31 December 2004.

BUSINESS OF THE GROUP

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets, and telecommunications software systems and services.

FINANCIAL RESULTS

Please refer to page 108 of this annual report for the results of the Group for the year ended 31 December 2004 prepared in accordance with PRC GAAP and page 177 of this annual report for the results of the Group for the year ended 31 December 2004 prepared in accordance with Hong Kong accounting standards.

FINANCIAL SUMMARY

Set out on page 14 of this annual report is a summary of the results and financial position of the Group for the last three fiscal years ended 31 December 2004 prepared in accordance with the PRC GAAP.

Set out on page 16 of this annual report is a summary of the results and financial position of the Group for the last four fiscal years ended 31 December 2004 prepared in accordance with Hong Kong accounting standards, which is extracted from the accountants' report of the Group for the three fiscal years ended 31 December 2003 in the prospectus dated 29 November 2004 issued by the

Company in connection with its initial public offering of H shares and the audited financial statements of the Group for the year ended 31 December 2004 prepared in accordance with Hong Kong accounting standards.

(1) BUSINESS REVIEW

Overview of China's telecommunications industry in 2004

The overall trend in fixed assets investment in China's telecommunications industry was stable in 2004. For the year, total fixed assets investment in equipment amounted to RMB98.5 billion, representing an increase of 3% as compared to 2003. Other industry indicators showed steady growth. In particular, revenues for the telecommunications industry increased by 12.6% to RMB518.8 billion in 2004 as compared to 2003 and such growth was driven by revenues from the data communications segment. In 2004, the number of new telephone users was 115 million, resulting in a total of 647 million telephone users in the country. (The source of the above data is the Ministry of Information Industry.)

Overview of global telecommunications industry in 2004

The international telecommunications industry began to recover and grow in 2004. According to GARTNER, global revenue for the telecommunications industry amounted to US\$1,178.2 billion for 2004, representing an increase of 5.9% compared to 2003 while the global investment in telecommunications equipment amounted to US\$298.1 billion for 2004, representing an increase of 5.4% compared to 2003. New development opportunities are emerging in the global telecommunications industry.

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Operating results in 2004

In the international market, the Group has made a breakthrough in its internationalisation strategy. By successfully taking advantage of business opportunities offered by the recovery of the global telecommunications industry, revenues from international sales increased substantially as compared to 2003. Meanwhile, a significant breakthrough was made in sales to major multinational telecommunications service providers and penetration into new markets. In the past year, we made significant improvements in internal management, brand promotion and corporate organisation, laying a good foundation for further breakthroughs in international market.

In the domestic market, competition among domestic telecommunications service providers has been intensifying with the nature of the competition based on monopolisation of resources shifting towards competition based on technology and service. In view of this and guided by customer requirements, the Group implemented a product differentiation strategy, and adopted new marketing and business models. The Group made significant improvement in balancing business development in different geographic regions.

Wireless communications products

The Group supplies CDMA, GSM and PHS systems to telecommunications service providers in both the PRC and international markets.

With respect to CDMA systems, the Group continued to maintain its market position as the third largest supplier of and the largest domestic supplier of CDMA systems in the PRC market. In addition, the Group was the one-off PRC manufacturer of CDMA equipment with the largest overseas sales.

With respect to GSM systems, the Group experienced rapid growth in international sales while sales in the domestic market also increased. In the international market, the Group continued to maintain its position as one of the leading suppliers in African countries such as Nigeria and Zambia and successfully entered the Indian market.

With respect to PHS systems, during the year, investment in PHS systems by telecommunications service providers decreased as compared to the previous year due to adjustments by telecommunications service providers in their product strategies. The Group continued to maintain its market position as one of the largest leading suppliers of PHS systems in the PRC.

Wireline switch and access products

The Group supplies circuit-switch and narrow-band access systems to telecommunications service providers in the PRC and international markets. As one of the three largest domestic suppliers in the circuit-switch and narrow-band access products market, the Group was able to further reduce costs and improve gross profit margins for its products through engaging in research and development and strengthening project management on the one hand and intensifying efforts to maintain its existing market position on the other hand. At the same time, the Group has increased efforts to develop international markets and enter new markets and has made progress in countries such as Russia and Pakistan.

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Optical and data communications products

Data communications

The Group offers a variety of data communications equipment such as softswitch, DSL systems, routers and routing switches and wireless access data products.

With respect to DSL systems, the Company's products were mainly sold in the domestic market but were also sold in the international markets during 2004. In the PRC market, the Group continues to remain as one of the leading suppliers. Overseas markets include Russia, India, Romania and Italy. The Group also donated broadband access equipment for the Olympic Games in Athens.

Softswitch, as the core technology of next generation networks and an application protocol interface, is at present still in the initial stages of commercial deployment. In 2004, the Group's softswitch products were widely deployed for commercial trial use by China Telecom, China Netcom and China Unicom and successfully entered the international market.

Optical communications products

The Group offers various optical communications equipment, including SDH and DWDM optical communications systems. As the second largest supplier of optical network systems in China, the Group's market share steadily increased in 2004. In particular, the Group succeeded in opening up new markets in the developed coastal regions. In the international market, the Group's optical network systems gained entry into countries such as India and Romania.

Handsets

The Group offers CDMA, GSM and PHS handsets to end users of wireless services primarily through bundling its handsets with its wireless telecommunications systems and selling the package to telecommunications service providers in both the PRC and international markets. In 2004, the Company generated sales of over 10 million handsets, amid intense competition in the market, representing a substantial increase from sales of approximately 4.5 million handsets in 2003.

Miscellaneous

The Group performed favourably with respect to the production and sales of the Group's other products, including routers and routing switches, wireless access data products, telecommunications software systems and services.

(2) DISCUSSION AND ANALYSIS PREPARED UNDER PRC GAAP

The financial data below are extracted from the Group's audited financial statements for the year ended 31 December 2004 prepared in accordance with PRC GAAP. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Shenzhen Dahua Tiancheng Certified Public Accountants and the accompanying notes thereto.

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1. Certain indicators by product segments during the reporting period as compared to the previous year:

Product category	Income from main operations (in millions RMB)	Costs of main operations (in millions RMB)	Gross profit	Increase/Decrease in income from main operations compared with last year	Increase/Decrease in costs of main operations compared with last year	Increase/Decrease in gross profit compared with last year
Wireless communication systems	9,640.4	5,384.8	44.1%	29.4%	24.6%	5.1%
Wireline switch and access system	2,851.1	1,178.8	58.7%	37.6%	2.4%	32.1%
Optical and data communications systems	2,562.2	1,939.7	24.3%	15.4%	46.4%	-39.7%
Handsets	6,015.0	5,150.8	14.4%	70.7%	74.5%	-11.4%
Telecommunication software systems, services and other products	1,629.5	715.0	56.1%	111.0%	95.5%	6.6%
Total	22,698.2	14,369.1	36.7%	41.5%	42.1%	-0.6%
Of which: Connected Transactions	102.2	72.3	29.3%	39.2%	166.8%	-7.7%
Principles for price determination of connected transactions*	The prices of connected transactions between the Company and connected parties were based on market prices.					
The necessity and continuing need for connected transactions*	Sales by the Company to connected parties resulted mainly from sales of the Company's products by these connected parties acting as agents, and such transactions will continue.					

* The above-mentioned transactions refer to connected transactions under PRC laws and regulations. Please refer to note 7 to the financial statements prepared in accordance with the PRC GAAP.

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2. Income from principal operations and profit from principal operations by geographic segments during the reporting period:

Unit: RMB million

	Income from main operations	Gross profit from main operations
The PRC	17,803.6	5,936.8
Asia (excluding the PRC)	2,631.2	1,259.7
Africa	1,618.5	768.5
Other regions	644.9	293.1
Total	22,698.2	8,258.1

3. Certain indicators for principal products accounting for 10% of income from principal operations or profit from principal operations

Products	Income from main operations (in millions RMB)	Cost of main operations (in millions RMB)	Gross profit margin
Wireless communication systems	9,640.4	5,384.8	44.1%
Wireline switch and access system	2,851.1	1,178.8	58.7%
Optical and data communications systems	2,562.2	1,939.7	24.3%
Handsets	6,015.0	5,150.8	14.4%

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4. Business operations and results of principal subsidiaries

Business operations of the Company's principal subsidiaries

Company name	Registered capital	Percentage of equity interests (%)	Scope of business	Total assets (in millions RMB)	Net profit (in millions RMB)
ZTE Kangxun	RMB50,000,000	90	Production of electronic products and related parts (excluding restricted items)	4,280.9	170.2
ZTE Software	RMB50,000,000	90	Development, production and sale of telecommunications systems, softwares for service-based businesses and provision of related consultancy services	2,135.4	1,169.7

The Company does not hold any interest in any company in which the Company's share of the income of such company accounted for more than 10% of the net profit of the Company.

5. Major suppliers and customers

Purchases by the Group from its largest supplier were RMB1,953.9 million in 2004, accounting for 14.03% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers were RMB4,044.0 million, accounting for 29.04% of the total purchases of the Group for the year. None of the Directors or Supervisors or their associates or any of the shareholders of the Company (other than Zhongxingxin) has any interest in any of the five largest suppliers of the Group. (The above figures for the Group prepared in accordance with PRC GAAP were consistent with the figures prepared in accordance with Hong Kong accounting standards.)

Under PRC GAAP, sales by the Group in 2004 to its largest customer were RMB7,101.0 million, accounting for 31.3% of the total sales of the Group for the year, while sales to its five largest customers were RMB15,163.8 million, accounting for 66.8% of the total sales of the Group for the year. Under Hong Kong accounting standards, the sales made by the Group to its largest customer were RMB6,082.5 million, accounting for 28.7% of the total sales of the Group for the year, and the sales made by the Group to its five largest customers were RMB13,705.5 million, accounting for 64.6% of the total sales of the Group for the year; none of the Directors or Supervisors or their associates or any of the shareholders of the Company has any interest in any of the five largest customers of the Group.

Note: In the 2003 annual report of the Company, the largest and the five largest customers were classified according to the entity at the provincial level under PRC practice. In 2004, in response to market changes, the largest and the five largest customers were classified by reference to telecommunications services providers on a group basis.

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6. Investments

(1) Proceeds from the issue of additional A shares by the Company in 2001

On 13 March 2001, the Company issued 50,000,000 A shares at an issue price of RMB32.7 per share. Net proceeds from the offering (after deducting expenses from the issue) amounted to RMB1,594,479,810.63. The proceeds had, on 20 March 2001, been credited into the Company's designated account. Shenzhen Nanfang Minhe Certified Public Accounting Firm had verified the receipt of the above proceeds and issued its Capital Verification Report (Shennan (2001) YAO48).

Proceeds from the abovementioned offering were utilized by the Group as follows:

Unit: RMB10,000

Total proceeds		159,447.98		Total amount of proceeds utilized during the year		37,022.44	
				Total accumulated amount of proceeds utilized		159,447.98	
Committed projects	Amount of proceeds proposed to be injected	Project changed	Actual amount injected	Amount of revenue generated	Progress on schedule	Whether meet expected revenue	
WCDMA 3G mobile communications construction project	48,263.00	No	48,263.00	See note	Yes	Yes	
Wire-speed router construction project	19,068.00	No	19,068.00	See note	Yes	Yes	
Broadband exchange system construction project	11,969.00	No	11,969.00	See note	Yes	Yes	
Broadband access system construction project	17,723.60	No	17,723.60	See note	Yes	Yes	
Digital TV editing and decoding system construction project	5,060.00	No	5,060.00	See note	Yes	Yes	
Optoelectronics system construction project	34,230.00	No	34,230.00	See note	Yes	Yes	
Regional smart information system technological switching project	15,498.00	No	15,498.00	See note	Yes	Yes	
Working capital	7,636.38	N/A	7,636.38	N/A	N/A	N/A	
Total	159,447.98	-	159,447.98	-	-	-	

Note: As at 30 April 2004, the above proceeds have been fully utilized. Since the services provided by the Company are total solution programs for the customers, the sale of each product is in the form of an integrated contract. As such, the revenue generated by the investments of the above proceeds are realized in the general revenue of the Company. All revenues of the above projects, except the WCDMA 3G mobile communications project, are included in the revenue of the Company's principal operations as if they had been under production and generating revenue since 2001.

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(2) Use of proceeds from global offering of H shares

In December 2004, the Company made a global offering of 160,151,040 H shares (including H shares issued pursuant to the exercise of the over-allotment option) at an issue price of HKD22.0 per share, raising total proceeds of HKD3,523,322,880.00, equivalent to RMB3,734,722,252.80. After deduction of the underwriting fees and expenses relating to the global offering and reduction in shareholding of state-owned shares, the net proceeds of RMB3,542,177,725.94 were all credited into designated account of the Company on 9 December 2004 and 16 December 2004 respectively. Shenzhen Dahua Tiancheng Certified Public Accountants had examined and verified the net proceeds and issued a verification certificate "Shenhua (2005) Yanzi No.(003)".

The Group intends to use the aforesaid net proceeds for the following purposes:

- the Group intends to use approximately RMB2,125,306,635.56 from the abovementioned net proceeds for the expansion of the Group's overseas operations; and
- the Group intends to use approximately RMB1,416,871,090.38 from the abovementioned net proceeds for the research and development on new products and technologies of strategic importance.

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As at the end of the reporting period, utilization of the aforesaid proceeds by the Company was as follows:

Unit: RMB10,000

Total proceeds		354,217.8	Total amount of proceeds utilized during the year			116,031.9
			Total accumulated amount of proceeds utilized			116,031.9
Committed project	Amount of proceeds proposed to be injected	Project changed	Actual amount injected	Amount of revenue generated	Progress on schedule	Whether meet expected revenue
IP switching platforms for mobile communications	24,039	No	12,567.8	See below	Yes	Yes
Integrated mobile broadband service systems	22,525	No	6315.2	See below	Yes	Yes
High speed packet mobile communications base stations	23,820	No	7739.9	See below	Yes	Yes
Intelligent wireless integrated access systems	12,890.1	No	8,341.4	See below	Yes	Yes
Core routers	20,838	No	2,942.9	See below	Yes	Yes
NGN systems	20,118	No	9,658.2	See below	Yes	Yes
Automated optical switching network systems	17,457	No	4,719.4	See below	Yes	Yes
Sub-total	141,687.1	-	52,284.8	-	-	-
Overseas operations	212,530.7	-	63,747.1	See below	Yes	Yes
Total	354,217.8	-	116,031.9	-	-	-

Note: In respect of unused proceeds, in order to improve the efficiency in the use of the proceeds, the Company intends to, subject to the progress of the projects, use any temporarily idle funds for working capital purposes to reduce demand for bank facilities and reduce financing costs. In addition, the Company will inject the funds into the relevant projects strictly in accordance with the development progress.

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Progress and return on the projects are as follows:

- *High speed packet mobile communications base stations*

The project is a base station system in compliance with the CDMA2000 1X EVDO standard. Progress has now been made in its research and development results in phases. The project has certain commercial capabilities and participation in commercial trials in the international markets have commenced.

- *Integrated mobile broadband service systems*

The project is a platform system for 3G broadband business. At present, the Company has completed research in key technologies for the business platforms and developed initial products. As the various application systems developed under the business platform have commenced commercial use, the project may be used in 3G networks in the future.

- *Automated optical switching network systems*

The system may enhance the operating capabilities of optical networks while reducing the operating and maintenance costs of optical network, and is one of the technologies that attracts much concern from operators. At present, the Company has grasped all the core technologies for the project and is enhancing the performance based on its initial products. Meanwhile, the Company is actively participating in trials and network field tests organized by domestic operators.

- *IP switching platforms for mobile communications*

IP switching platforms for mobile communications is applicable to all 3G core networks and base station controllers. The project is also applicable to the next generation of NGN network to meet the future demand resulting from the growth in broadband multimedia communications. Research and development in the application to the 3G core network switching platforms have been completed, generating commercial capabilities for the project.

- *Core routers*

The Company is devoting considerable research and development efforts in the ZXR10 T1200 series core router, which delivers larger capacity, for smooth transition from IPV4 to the IPV6 forum. The project is expected to be applied more extensively in the construction of domestic and global IPV6 networks, particularly for large-scale use in the construction of core networks.

- *NGN systems*

The Company has completed product development using key technologies in respect of multimedia gateway and access gateway. ZTE NGN network is now actively participating in commercial trials organized by domestic and global telecommunications services providers.

- *Intelligent wireless integrated access systems*

On the basis of an integrated fixed and mobile network, intelligent wireless integrated access systems can support both sound and data applications, thus offering more diversified and personalized services for operators and end users. The Company has already completed research and development for the prototype project.

Proceeds used in overseas operations contributed to an increase in overseas income in 2004. As the products of strategic importance mentioned above have not been put into large scale commercial use by the telecommunications services providers, the Group is increasing its research and development efforts on such products with a view to generating income from the products in the future.

(3) Investments other than from the global offering:

- In January 2004, the Company invested RMB4.5 million to establish Guangdong New Pivot Technology & Service Company, Limited ("New Pivot"). New Pivot has a registered capital of RMB5 million and the Company holds a 90% stake in its shares. Its principal scope of business includes: to engage in the related businesses developed based on LINUX technologies.

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- In February 2004, the Company invested USD60,000 to establish ZTE (Malaysia) Corporation Sdn. Bhd in Malaysia, with the Company holding a 100% stake in its shares. The major scope of business of the company includes: sale of the Company's products and provision of related services in Malaysia.
- In February 2004, the Company invested RMB15.30 million to establish Shenzhen Changfei Investment Company, Limited ("Changfei"). Changfei has a registered capital of RMB30 million and the Company holds a 51% stake in its shares. Its principal scope of business includes: industrial investments and operations.
- In March 2004, the Company made a cash investment of SEK900,000 to increase the capital of Wistron AB. Following the capital increase, Wistron AB has a registered capital of SEK1 million and the Company maintains a 100% stake in its shares.
- In April 2004, the Company invested RMB5.10 million to establish Shanghai Zhongxing Telecom Equipment Technology & Science Company Limited ("Shanghai Zhongxing"). Shanghai Zhongxing has a registered capital of RMB10 million and the Company holds a 51% stake in its shares. Its principal scope of business includes: design, research, development, production, and sale of telecommunications technologies and related hardware and software products (excluding handsets) and provision of related technical consultancy services.
- In April 2004, the Company made a cash investment of RMB25 million to increase the capital of ZTE Mobile Tech Co., Limited ("ZTE Mobile"). Following the capital increase, ZTE Mobile has a registered capital of RMB33.333 million and the Company holds a 95% stake in its shares.
- In May 2004, the Company invested RMB45 million to establish Shenzhen Zhongxing Telecom Equipment Technology & Science Company Limited ("Shenzhen Zhongxing"). Shenzhen Zhongxing has a registered capital of RMB50 million and the Company holds a 90% stake in its shares. Its principal scope of business includes: design and consultation of telecommunications systems and engineering and provision of related services.
- In May 2004, the Company invested in equipment valued USD2.04 million to establish Closed Joint Stock Company TK Mobile ("TK Mobile"). TK Mobile has a registered capital of USD4 million and the Company holds a 51% stake in its shares. Its principal scope of business includes: construction and installation of mobile operations network within Tajikistan and provision of corresponding engineering and maintenance services as well as provision of communications operations services within Tajikistan.
- In May 2004, the Company proposed to make a cash investment of HKD45 million to increase the capital of ZTE (H.K.) Limited ("ZTE H.K.") and purchased all the shares held by other shareholders in ZTE H.K. in June 2004. Following the capital increase and stake transfer, ZTE H.K. has a registered capital of HKD50 million and the Company holds a 100% stake in its shares.
- In May 2004, the Company made a cash investment of RMB17.25 million to increase the capital of ZTE Integration Telecom Ltd. ("ZTE Integration"). Following the capital increase, ZTE Integration has a registered capital of RMB55 million and the Company maintains a 75% stake in its shares.

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- In July 2004, the Company invested USD122,500 to establish Kaznurtel Limited Liability Company ("ZTE Kaznurtel"). ZTE Kaznurtel has a registered capital of USD3 million and the Company holds a 49% stake in its shares. The remaining contribution will be made within one year from the establishment of the company. Its principal scope of business includes: production and sale of telecommunications equipment and provision of corresponding technical support, engineering and after-sale services within Kazakhstan.
- In July 2004, the Company invested RMB32 million to establish China Topssion Communication Co., Ltd. ("China Topssion"). China Topssion has a registered capital of RMB200 million and the Company holds a 16% stake in its shares. Its principal scope of business includes: principally engaged in sale and maintenance of mobile terminals and also involved in agency services for telecommunications businesses, providing value-added services, production and research and development of mobile terminals.
- In November 2004, the Company invested USD100,000 to establish ZTE Romania SRL ("ZTE Romania"). ZTE Romania has a registered capital of USD100,000 and the Company holds a 100% stake in its shares. Its principal scope of business includes: provision of agency services for and sale and marketing of the Company's products and provision of corresponding engineering, after-sale services and technical support within Romania.
- In November 2004, the Company invested USD2,500,000 to establish Zimax (Cayman) Co., Ltd. The company has a registered capital of USD2,500,000 and the Company holds a 100% stake in its shares. Its principal scope of business includes: to invest in research and development projects on all kinds of telecommunications products.

7. Description of financial condition of the Group

Unit: RMB million

Item	2004	2003	Increase/ decrease
Total assets	20,850.0	15,833.4	31.7%
Shareholders' equity (excluding minority interests)	9,174.4	4,810.4	90.7%
Long-term liabilities	1,252.6	883.4	41.8%
Profit from principal operations	8,258.1	5,714.2	44.5%
Net profit	1,008.9	704.1	43.3%
Cash and cash equivalents	7,598.2	3,785.0	100.7%

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Reasons for changes in financial status:

- (1) The increase in total assets was mainly due to expansion in the Company's scale of operations in production and proceeds raised from the H share issue;
- (2) The increase in shareholders' funds was mainly due to the proceeds raised from the H share issue by the Company, expansion in the scale of operations in production and increase in net profit;
- (3) The increase in long-term liabilities was mainly due to new borrowings;
- (4) The increase in profit from principal operations was mainly due to expansion in the scale of sales of the Company;
- (5) The increase in net profit of the Company was mainly due to expansion in the scale of operations of the Company; and
- (6) The increase in cash and cash equivalents of the Company was mainly due to the favourable condition of the collection of sales receivables of the Company and the proceeds raised from the H share issue.

For details of the changes in the accounting policies and accounting estimates and rectification of accounting errors of the Group for the year ended 31 December 2004, please refer to note 3 to the financial statements prepared under the PRC GAAP.

8. Special Notice on the Use of Funds of Listed Companies by the Controlling Shareholder and other Connected Persons issued by Shenzhen Dahua Tiancheng Certified Public Accountants. The Special Notice referred to above is set out on page 243 of this annual report.

9. The independent opinion of the independent Directors on the Company's accumulated and current external guarantees for 2004 was as follows:

- (1) Transfer of funds between the Company and the controlling shareholder and other connected parties represent normal acts of sales and purchases of goods. Such transactions have always been conducted on fair market prices and no act to the detriment of the Company's interests has existed. Neither the controlling shareholder of the Company nor its subsidiaries nor other connected parties have committed any acts of using the Company's funds.
- (2) In order to implement a standardized management for external guarantees, the Company has formulated Administrative Measures on External Guarantees and set out provisions in the Articles of Association for the examination and approval procedures and credit qualifications of the guaranteed party in relation to external guarantees. Details of guarantees disclosed in the 2004 annual report are true and the Company has not committed any unlawful acts of guarantees or connected guarantees.
- (3) As required by China Securities Regulatory Commission, independent Directors of the Company have seriously considered the Notice of Regulating Several Issues of Funds Uses with Connected Persons and External Guarantees of Listed Companies and consider that the Company has been in strict compliance with the relevant provisions under the Notice and have not found any matter which is in breach of the Notice.

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10. Meetings of the Board of Directors

During the reporting period, the Board of Directors convened eleven meetings, details of which are as follows:

1. The first meeting of the third session of the Board of Directors was held at its office on 15 January 2004. 15 directors should have attended the meeting and 14 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:
 - The proposal in relation to the election of chairman and vice chairman of the third session of the Board of Directors was considered and passed
 - The proposal in relation to the election of the respective specialist committee member of the third session of the Board of Directors was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 16 January 2004.

2. The second meeting of the third session of the Board of Directors was held at its office on 15 January 2004. 15 directors should have attended the meeting and 14 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:
 - The proposal in relation to the appointment of new senior management personnel of the Company was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 16 January 2004.

3. The third meeting of the third session of the Board of Directors was held at its office on 7 April 2004. 15 directors should have attended the meeting and 11 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The full text of the annual report of the Company together with its summary for 2003 was considered and passed
- The report of the Board of Directors for 2003 was considered and passed
- The report of the general manager for 2003 was considered and passed
- The financial report and profit distribution plan of the Company for 2003 was considered and passed
- The proposal in relation to connected transactions framework agreement proposed to be entered into by the Company was considered and passed
- The proposal in relation to organisational and structural adjustments of the Company was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 10 April 2004.

4. The fourth meeting of the third session of the Board of Directors was held by way of written resolutions on 13 April 2004. 15 directors should vote at the meeting and all of them voted. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

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The proposal in relation to the convening of the 2003 Annual General Meeting was considered and passed

The notice of the Annual General Meeting was published in China Securities Journal, Securities Times and Shanghai Securities News on 14 April 2004.

5. The fifth meeting of the third session of the Board of Directors was held by way of video conference at its headquarter, and in Beijing, Shanghai, Xi'an, Nanjing, etc. on 21 April 2004. 15 directors should have attended the meeting and 10 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The first quarterly report of the Company for 2004 was considered and passed

The quarterly report was published in China Securities Journal, Securities Times and Shanghai Securities News on 22 April 2004.

6. The sixth meeting of the third session of the Board of Directors was held at its office on 28 May 2004. 15 directors should have attended the meeting and 12 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The proposal in relation to the issue and listing of H share was considered and passed
- The proposal in relation to the investment of and use of proceeds under the H share issue was considered and passed
- The proposal in relation to the submission of application to regulatory authority governing domestic listing issues for the issue and listing of H shares was considered and passed

- The proposal in relation to an explanation on the use of proceeds previously raised was considered and passed

- The proposal in relation to amendments made to the Articles of Association was considered and passed

- The proposal in relation to the appointment of additional independent director was considered and passed

- The proposal in relation to the submission to the shareholders' general meeting for the granting of a mandate to the Board of Directors with respect to the issue and listing of H shares was considered and passed

- The proposal in relation to the submission to the Board of Directors for the granting of a mandate to relevant parties with respect to the issue and listing of H shares was considered and passed

- The proposal in relation to the submission to the shareholders' general meeting for granting consent as to the valid period in respect of the issue and listing of H shares was considered and passed

- The proposal in relation to the engagement of Ernst & Young to act as international auditors of the Company for the H share issue was considered and passed

- The proposal in relation to the submission to the shareholders' general meeting for consent to share the pre-offering accumulated profits between the new and old shareholders upon completion of the issue was considered and passed

- The proposal in relation to the convening of the second extraordinary general meeting for 2004 was considered and passed

REPORT OF THE BOARD OF DIRECTORS

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 29 May 2004.

7. The seventh meeting of the third session of the Board of Directors was held by way of written resolutions on 22 July 2004. 16 directors should vote at the meeting and all of them voted. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The proposal in relation to changes in the accounting policies on income tax for A shares, the valuation method for assets impairment was considered and passed
- The proposal in relation to the re-appointment of the domestic auditors of the Company was considered and passed
- The proposal in relation to the convening of the third extraordinary general meeting for 2004 was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 24 July 2004.

8. The eighth meeting of the third session of the Board of Directors was held at its office on 27 August 2004. 16 directors should have attended the meeting and 13 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The full text of the 2004 interim report of ZTE Corporation together with its summary was considered and passed
- The report of the general manager of ZTE Corporation for the first half of 2004 was considered and passed

- The financial analysis report of ZTE Corporation for the first half of 2004 was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 31 August 2004.

9. The ninth meeting of the third session of the Board of Directors was held by way of video conference at its headquarters, and in locations including Beijing, Shanghai, Nanjing, Changsha on 28 October 2004. 16 directors should have attended the meeting and all of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The third quarterly report of the Company for 2004 was considered and passed

The quarterly report was published in China Securities Journal, Securities Times and Shanghai Securities News on 30 October 2004.

10. The tenth meeting of the third session of the Board of Directors was held at its office on 19 November 2004. 16 directors should have attended the meeting and 13 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The proposal in relation to the resignation of Mr. Tan Shanyi as Director of the Company was considered and passed
- The proposal in relation to the retrospective adjustments made to certain items on the income statements in the 2003 interim report and third quarterly report was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 24 November 2004.

REPORT OF THE BOARD OF DIRECTORS

11. The eleventh meeting of the third session of the Board of Directors was held by way of written resolutions on 28 December 2004. 16 directors should vote at the meeting and all of them voted. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The internal control system of the Company was considered and passed

11. 2004 profit distribution plan

The audited net profit of the Company for the year 2004 amounted to RMB1,162,283,000 as calculated in accordance with the PRC GAAP. The distributable profit amounted to RMB2,922,149,000 after adding the undistributed profit of RMB2,067,667,000 at the beginning of the year, and transferring 10% to the statutory surplus reserve amounting to RMB116,228,000, and 5% to the statutory public welfare fund amounting to RMB58,114,000 and deducting the capitalisation of ordinary share dividends amounting to RMB133,459,000.

The audited net profit of the Company for the year 2004 amounted to RMB150,233,000 as calculated in accordance with the Hong Kong accounting standards. The distributable profit amounted to RMB469,710,000 after adding the distributed profit of RMB627,278,000 at the beginning of the year, and deducting the transfers to the statutory surplus reserve and statutory public welfare totaling RMB174,342,000 and the capitalization of ordinary share dividends amounting to RMB133,459,000.

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association of the Company, the distributable profits shall be the lower of the distributable profits as calculated in accordance with PRC GAAP and Hong Kong accounting standards, being RMB469,710,000.

The Board of Directors recommended the profit distribution of the Company for the year 2004 as: payment of RMB2.5 (inclusive of PRC individual income tax) in cash for every 10 shares on the basis of the total share capital of 959,521,650 Shares as at 31 December 2004, totaling RMB239,880,000.

3. OTHER INFORMATION

1. Fixed assets

Details of changes in the fixed assets of the Company and the Group for the year are set out in note 15 to the financial statements prepared in accordance with Hong Kong accounting standards.

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in note 29 to the financial statements prepared in accordance with Hong Kong accounting standards.

3. Reserves

Details of the reserves and changes in the reserves of the Company and the Group for the year are set out in note 35 to the financial statements prepared in accordance with the Hong Kong accounting standards.

4. Pre-emptive rights

There is no provision under the Company Law of the People's Republic of China regarding pre-emptive rights that requires the Company to offer new shares to its existing shareholders.

5. Purchase, sale or redemption of shares

Save for the H shares issued under the global offering, during the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

REPORT OF THE BOARD OF DIRECTORS

6. Share capital

Details of the share capital of the Company during the year, together with the changes in the share capital and the reasons therefor, are set out in note 34 to the financial statements prepared in accordance with the Hong Kong accounting standards and page 21 in this annual report.

7. Retirement benefits

Details of the retirement benefits provided by the Group are set out in note 30 to the

financial statements prepared in accordance with Hong Kong accounting standards.

8. Interests of substantial shareholders and other parties in shares and debentures

As at 31 December 2004, the following shareholders held an interest of 5% or more in the Company's issued share capital as shown in the register maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance in Hong Kong:

Name	Number of shares held	Approximate Shareholding (%)
Zhongxingxin	423,221,760	44.1
Zhongxing WXT ⁽¹⁾	423,221,760	44.1
Xi'an Microelectronics ⁽²⁾	423,221,760	44.1
China Aerospace Times Electronics Corporation ⁽³⁾	423,221,760	44.1
China Aerospace Science and Technology Corporation ⁽⁴⁾	423,221,760	44.1

Notes:

(1) Zhongxing WXT directly owns a 49.0% equity interest in Zhongxingxin and which directly owns 423,221,760 shares, representing approximately 44.1% of the issued share capital of the Company. Therefore, the above 423,221,760 shares attributable to Zhongxing WXT represent its indirect deemed interest in the issued shares of the Company via its equity interest in Zhongxingxin.

(2) Xi'an Microelectronics directly owns a 34.0% equity interest in Zhongxingxin which directly owns 423,221,760 shares, representing approximately 44.1% of the issued share capital of the Company. Therefore, the above 423,221,760 shares attributable to Xi'an Microelectronics represent its indirect deemed interest in the issued share capital of the Company via its equity interest in Zhongxingxin.

(3) China Aerospace Times Electronics Corporation directly owns the entire share capital of Xi'an Microelectronics. Therefore, the above 423,221,760 shares attributable to China Aerospace Times Electronics Corporation represent its indirect deemed interest in the issued shares of the Company via its equity interest in Xi'an Microelectronics and the latter's equity interest in Zhongxingxin.

(4) China Aerospace Science and Technology Corporation directly owns the entire share capital of China Aerospace Times Electronics Corporation. Therefore, the above 423,221,760 shares attributable to China Aerospace Science and Technology Corporation represent its indirect deemed interest in the issued share capital of the Company via its equity interest in China Aerospace Times Electronics Corporation, China Aerospace

REPORT OF THE BOARD OF DIRECTORS

Times Electronics Corporation's equity interest in Xi'an Microelectronics and Xi'an Microelectronics' equity interest in Zhongxingxin.

Save as disclosed above, as at 31 December 2004, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to section 336 of the Securities and Futures Ordinance.

9. Connected transactions

Details of connected transactions of the Company during the year are set out on pages 78 to 84 of the annual report.

10. Audit committee

The Company has established an audit committee. The audit committee comprises seven members, all of whom are non-executive directors, including four independent non-executive Directors. The audit committee has reviewed with the management the accounting principles and standards adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the audited financial statements for the year ended 31 December 2004.

11. Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that that Company was not, for the period from the date of listing of the H shares of the Company on the Hong Kong Stock Exchange to 31 December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules.

12. The Model Code on Securities Transactions by Directors of Listed Issuers

The Directors of the Company confirm that the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules. After making specific enquiry with the Directors and Supervisors of the Company, the Company is not aware of any situation that would reasonably indicate that the Directors and Supervisors of the Company was not in compliance with the requirements of the Model Code throughout 2004.

13. Proposed amendments to the Articles of Association

The Company proposes to make amendments to its Articles of Association, in compliance with certain laws and regulations in the PRC and Hong Kong, including the following:

- Certain Regulations on Strengthening the Protection of Public Shareholders' Interests; and
- Working Guidelines (Provisional) Relating to Online Voting for Shareholders' General Meetings of Listed Companies.

The proposed amendments include the following:

1. Duty of good faith of controlling shareholder

Article 60 of the amended Articles of Association imposes a duty of good faith on the controlling shareholder and persons who exercise effective control over the Company, and prohibits these persons from exercising their powers adversely to the interests of the Company and its public shareholders.

REPORT OF THE BOARD OF DIRECTORS

2. Announcement obligations

Article 67 of the amended Articles of Association deals with the announcement obligations of the Company where matters under Article 106 are proposed to be considered at the shareholders' general meetings.

3. Amendment of wording

The wording in Articles 21, 72 and 73 of the amended Articles of Association relating to central depository, recognised clearing house and proxy is proposed to be amended as requested by the Hong Kong Securities Clearing Company Limited.

4. Online voting

Articles 88, 100 and 101 of the amended Articles of Association sets out details relating to online voting with respect to shareholders' general meetings, including the deadline for putting forward a motion before the shareholders' general meeting matters for which online voting should be made available, and the period within which online voting may take place.

5. Communications with and voting by public shareholders

Article 61 of the amended Articles of Association provides for the establishment of an adequate system for managing investor relations, in particular, to improve communications with public shareholders.

Article 66 of the amended Articles of Association provides that the Company shall encourage greater participation of public shareholders in shareholders' general meetings through various channels, including the use of online voting.

Article 94 of the amended Articles of Association provides that for matters considered by the shareholders' general meeting under Article 106, abstained votes and notes not cast shall be deemed to be included in the total number of votes cast.

Article 106, 114 and 115 of the amended Articles of Association list the matters that must be passed by more than one-half of the public shareholders voting at the shareholders' general meeting (including any proposed issue of capital to public shareholders, material asset acquisition or reorganisation, proposed listing of material subsidiaries of the Company and other matters having a material effect on the interests of public shareholders), the announcement of voting results for such matters and the information to be disclosed relating to public shareholders in the announcement.

6. Number of Directors and Supervisors

The requirement to obtain approval by the shareholders' general meeting where a Director resigns from his position prior to expiration of his term of office is removed in Article 130 of the amended Articles of Association.

Article 134 of the amended Articles of Association provides that at least one-third of the Board of Directors shall be composed of independent directors, at least one of whom shall be of an accounting background.

The number of Directors and Supervisors in Articles 142, 173 and 174 of the amended Articles of Association are updated to reflect the resignations and appointments of Directors and Supervisors, which will be effective upon adoption of shareholders' resolution at the 2004 Annual General Meeting. Article 183 provides that a Supervisor intending to resign from the Supervisory Committee shall produce a resignation report to the Supervisory Committee.

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7. Duties of independent Directors

Article 137 of the amended Articles of Association provides that an independent Director shall not be removed without an appropriate reason and any such removal must be disclosed as a special matter. Article 138 provides that independent Directors shall be independent from substantial shareholders of the Company or persons who exercise effective control over the Company, and Article 139 obligates independent Directors to express an opinion where the Board of Directors does not provide a profit appropriation plan. Articles 140 and 141 obligate independent Directors to attend Board meetings, have an understanding of the operations of the Company and to submit their report to the shareholder's general meeting.

8. Provision of guarantees

Article 143 of the amended Articles of Association provides that the maximum amount of any single guarantee provided by the Company in favour of third parties shall not be more than 5% of the net asset value recorded on the consolidated financial statements for the most recent financial year; the maximum accumulated amount of guarantees provided by the Company to any one party shall not be more than 10% of the net asset value recorded on the consolidated financial statements for the most recent financial year.

9. Profit distribution

Article 222 of the amended Articles of Association provides that where a shareholder misappropriates cash from the Company, the Company shall reduce any profits distributed to the shareholder to repay the loss.

The resolutions regarding the above amendments and certain other amendments will be put forward to the shareholders for approval by way of special resolution at the 2004 Annual General Meeting. For details of the resolutions regarding the proposed amendments, please refer to the notice of annual general meeting published in the China Securities Journal, Securities Times, Shanghai Securities News, South China Morning Post and Hong Kong Economic Times on 11 April 2005.