

CHAIRMAN'S STATEMENT

Dear Shareholders:

I am pleased to present the annual report of the Group for the financial year ended 31 December 2005. On behalf of the Board of Directors, I would like to express my sincere gratitude for your concern and support for ZTE.

REVIEW OF THE PERFORMANCE OF THE GROUP FOR 2005

Despite being confronted with greater challenges as compared to the preceding period, the Group delivered stable operating results in 2005 as a result of strategies taken by management and concerted efforts from our staff under the leadership of the Board. More importantly, our endeavours over the years, especially in 2005, have noticeably enhanced our competitiveness in the domestic and global marketplace, boosting our research and development capabilities and the market competitiveness of our core products, including 3G, NGN and handsets, laying solid foundations for our development in the longer term.

In 2005, the Group further consolidated its leading industry position in the domestic market. Through profound understanding of the telecommunications industry and telecommunications service providers, the Group adopted a strategy of customisation and achieved sound sales performance in products such as NGN, fixed line intelligence, IPTV and GoTa and maintained its leading competitive position, mitigating the adverse impact resulting from the sharp decline in CDMA and PHS investments.

In 2005, the global telecommunications market sustained steady growth. The establishment of an effective sales and marketing regime has improved the Group's penetration and fostered its brand recognition in markets strategically conducive to its future development, winning recognition from a growing number of leading international carriers. With long-term growth potential, our international business expanded quickly, accounting for a larger share of our overall business volume, lending strong support to the current results of the Company.

BUSINESS OUTLOOK

The Group is fully aware of the importance of improving the efficiency of its operations. During the year under review, the global sales and marketing platform was refined to enhance the efficiency of our decision-making process for sales and marketing as well as our risk management capabilities. An optimised research and development system improved the speed and efficiency in the development of new products, contributing to critical breakthroughs in some of our major projects, in particular, our 3G-related projects. In addition, more efficient and effective administration of support systems including financial management and human resources resulted in better coordination among business segments.

The steady growth of the global telecommunications industry presents opportunities for the development of the Group. In view of intense competition in the telecommunications industry globally, the Group will draw on its solid track record and focus our operations in three areas: to seek transformation from a major supplier of telecommunications products in China to a leading international supplier of telecommunications products; from the provision of communications hardware to the provision of software and services and, finally, from a technological and operations-driven business model to a market-based one. The objectives set for 2006 are as follows:

- In addition to consolidating its presence in emerging markets, the Group will seek to explore developed countries and the market for multinational carriers. The Group will adopt a localisation strategy for its human resources, research and development as well as production, and leverage on its increasingly stronger sales and marketing network and brand name, to actively expand its presence in developed countries and the market for multinational carriers to ensure sustained growth of its international business.



- The domestic market remains the Group's core market. We will capitalise fully on strategic opportunities presented by 3G to further balance our business development among geographic regions domestically. In addition, the Group will continue to provide customised services 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 activities and promote our products and services to end-users through strategic partnerships with our customers.
- The Group will aim to strengthen and expedite research and development in order to deliver products of top international standards. The accumulation of technological expertise and development of a well-trained team over the years has laid a good foundation for developing such products, whereas the increasing demands from our customers provides an external motivational force to drive such development. In 2006, resources will be deployed to encourage innovation in research and development in order to achieve this goal.
- As with other successful enterprises, the Group sees the recruitment and training of talents as an underlying driving force for growth. In the year ahead, we will actively solicit high-calibre people on a global basis and develop a pool of management personnel to ensure that human capital is adequate to match its corporate development. Meanwhile, the Group will conduct a thorough review of its experience in relation to building its corporate culture, and seek to enhance solidarity and efficiency within the company by persistent fulfilment of the principles of speed, innovation and learning.

Capitalising on our 3G development in the domestic market together with our international business expansion, the Company and the Board of Directors will endeavour in the year ahead to refine our corporate governance structure and enhance transparency to provide sound returns for our shareholders as well as the society at large.

Hou Weigui
Chairman

Shenzhen, China
7 April 2006



Link to the
World.



