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 2005.

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 105 of this annual report for the results of the Group for the year ended 31 December 2005 prepared in accordance with PRC GAAP and page 182 of this annual report for the results of the Group for the year ended 31 December 2005 prepared in accordance with HKASs.

FINANCIAL SUMMARY

Set out on page 15 of this annual report are the results and financial position summary of the Group for the three financial years ended 31 December 2005 prepared in accordance with the PRC GAAP.

Set out on page 17 of this annual report are the results and financial position summary of the Group for the five financial years ended 31 December 2005 prepared in accordance with HKASs, which have been extracted from the accountants' report of the Group for the three fiscal years ended 31 December 2003 contained in the prospectus dated 29 November 2004 issued by the Company in connection with its initial public offering of H shares and financial statements of the Group for the years ended 31 December 2004 and 31 December 2005 prepared in accordance with HKASs.

BUSINESS REVIEW AND OUTLOOK

1. Business Review

Capital expenditure in China's telecommunications sector declined 4.8% to RMB203.34 billion in 2005, as compared to the previous year. The sector, however, maintained its growth trend in terms of other indicators. Revenue generated from telecommunications operations increased 11.7% to RMB579.90 billion, on the back of continuous growth in operating revenue and the number of users. As at the end of 2005, there were 393 million mobile phone users and 350 million fixed-line users in China (based on data published by the Ministry of Information Industry).

In terms of telecommunications network operations, the GSM network was running smoothly, while capital expenditure in CDMA and PHS networks declined as carriers adopted a strategy of selective development. Meanwhile, networks supported by new technologies such as NGN were gradually replacing traditional wireline networks. The value-added services sector was developing rapidly; while the industry chain from systems to terminals for 3G networks came into shape following favourable results in the trial implementation of 3G standards. Overall, the market for telecommunications systems became increasingly competitive, given growing maturity of the market, changing pattern of market competition and revised business models of carriers.

Overview of the global telecommunications industry in 2005

Globally, the telecommunications sector maintained its growing trend during 2005. According to statistics from Gartner, operating revenue of the global telecommunications sector amounted to USD1,586.2 billion, representing a 9.84% increase as compared to 2004. Capital expenditure of the global telecommunications sector amounted to USD121.8 billion, representing a 7.75% increase as compared to 2004. Latin America, North America and Africa were the fastest-growing markets in terms of investments by carriers in telecommunications equipment.

Operating results of the Group for 2005

The Company achieved the following operating results through persistent efforts of the management in implementing development strategies laid down by the Board of Directors, despite a relatively unfavourable capital expenditure profile prevailing in the domestic market and the fact that our international development initiatives remained in a critical start-up stage.

The domestic market

Domestically, the Group enhanced its leading position in the industry in 2005 on the back of strong sales and distinct competitive edge in products including NGN, fixed line network intelligence, IPTV and GoTa based on our profound understanding of the telecommunications industry and its service providers, effectively mitigating the adverse impact of the substantial decline in CDMA and PHS investments.

The international market

On the international front, significant progress was achieved in our efforts to build regional platforms globally, with coverage of all major markets basically completed. Outstanding market development efforts among mainstream multinational carriers resulted in business partnerships with carriers including France Telecom, Hutchison Telecom and Millicom involving strategic product areas of the Group such as systems and handsets. While such partnerships held out strong potential for development in their own right, they also opened up opportunities for the introduction of other products of the Group to the markets of developed countries.

Wireless communications products

We made progress in each of the TD-SCDMA, CDMA2000 and WCDMA systems to attain leading industry standards. With products fully capable of matching the requirements of large-scale commercial applications, we have laid down solid foundations and are fully prepared for the construction of a 3G network in China, which is set to commence in the near future. The Group achieved outstanding results in the tests for each of the three systems. Large-scale applications of our WCDMA core networks were launched in more than ten countries and regions, including Nigeria, Sri Lanka and Bangladesh.

There was significant growth in the delivery of our GSM products, with breakthroughs in the scale of operations in the Eastern European and Central American markets and progress in establishing our presence in South America, on top of operations in our traditional markets of Africa and South Asia. Stable profitability from our PHS products was maintained on the back of ongoing cost reductions. Having passed technical assessment of the Ministry of Information Industry and was awarded the "Major Technology Inventions in the PRC Information Industry Award," our GoTa products became the first products in respect of which intellectual property licences were granted by a PRC company to its foreign counterparts.

Switch and access products

Investments in traditional switch and access products experienced a significant decline in 2005. The Company followed closely the changing focus of fixed line carriers around the world to launch its "fixed line network intelligence" solution, providing carriers with a conceptual framework and signpost for the construction of fixed line networks as well as facilitating the development of other products.

Data communications

The Group provides a variety of data communications equipment such as NGN, IPTV, DSL systems, routers, routing switches and wireless access data products. By undertaking the construction of the NGN project of China Telecom which covered 31 provinces throughout the nation, the Group tapped the high-end market with related products including business platforms, data, transmission and access products in 2005. We secured leadership for our IPTV products in the domestic market. Our optical communications products passed the ASON test of China Telecom during the year, while major breakthroughs were achieved in the bulk-volume, ultra-length transmission technology for our DWDM products.

Handsets

We continued to increase our investment in the research and development of handset terminal products in 2005 and launched a series of handsets with high performance to price ratios. Meanwhile, we were gradually developing core technologies for high-end handset products as additional resources were devoted to the research and development of high-end intelligent handsets and 3G handsets. Sales in the international market were growing rapidly with access to numerous countries and regions around the world. The Group enhanced the research and development of 3G handsets and data cards and secured exports of such products to Europe.

Miscellaneous

Sales of business products grew rapidly in 2005 as carriers generally increased their investments in value-added services. As a major supplier of business products in China, ZTE has launched products in all aspects of value-added services. In 2005, the Group launched customised solutions for integrated business information platforms, electronic transactions, 3G services and messaging gateways.

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 2005 prepared in accordance with PRC GAAP. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young Hua Ming Certified Public Accountants and the accompanying notes thereto.

(1) ***Certain indicators by industry, product and geographic segments for the reporting period as compared to the previous year***

Breakdown of income	Revenue from principal operations (RMB in millions)	Cost of sales from principal operations (RMB in millions)	Gross profit margin	Year-on-year increase/ decrease in revenue from principal operations	Year-on-year increase/ decrease in cost of principal operations	Year-on-year increase/ decrease in gross profit margin (Basis point)
I. By industry						
Manufacturing of communications systems	21,575.9	13,944.8	35.4%	(4.9%)	(3.0%)	(1.3)
II. By product						
Wireless communications systems	8,930.8	4,930.4	44.8%	(7.4%)	(8.4%)	0.7
Wireline switch and access systems	2,752.6	1,240.3	54.9%	(3.5%)	5.2%	(3.8)
Optical and data communications systems	3,353.0	2,665.2	20.5%	30.9%	37.4%	(3.8)
Handsets	4,333.1	3,575.0	17.5%	(28.0%)	(30.6%)	3.1
Telecommunication software systems, services and other products	2,206.4	1,533.9	30.5%	35.4%	114.5%	(25.6)
III. By region						
The PRC	13,874.3	9,364.1	32.5%	(22.1%)	20.6%	(1.2)
Asia (excluding the PRC)	4,568.7	2,692.7	41.1%	73.6%	96.3%	(6.8)
Africa	2,835.4	1,645.3	42%	75.2%	93.6%	(5.5)
Other regions	297.5	242.7	18.4%	(53.9%)	(31.0%)	(27)

(2) *Certain indicators for major products accounting for 10% of revenue from principal operations or profit from principal operations*

Product segment	Revenue from principal operations (in millions RMB)	Cost of sales of principal operations (in millions RMB)	Gross profit margin
Wireless communications systems	8,930.8	4,930.4	44.8%
Wireline switch and access systems	2,752.6	1,240.3	54.9%
Optical and data communications systems	3,353.0	2,665.2	20.5%
Handsets	4,333.1	3,575.0	17.5%
Telecommunication software systems, services and other products	2,206.4	1,533.9	30.5%

3. Breakdown of the Company's assets

Unit: RMB in millions

Item	2005 Amount	2005 As a percentage of total assets	2004 Amount	2004 As a percentage of total assets	Increase/ decrease (%)
Amounts receivable	4,994.4	22.93%	5,910.6	28.38%	(15.50)
Fixed assets	2,506.9	11.51%	1,974.6	9.48%	26.96
Long-term equity investments	85.5	0.39%	67.2	0.32%	27.23
Construction in progress	126.7	0.58%	114.7	0.55%	10.46
Short-term borrowings	136.1	0.62%	405.7	1.95%	(66.45)[1]
Inventories	2,519.5	11.57%	1,871.8	8.99%	34.60[2]
Long-term borrowings	767.8	3.53%	1,025.3	4.92%	(25.11)

Note 1: The balance of short-term borrowings decreased by 66.45% compared to the same period last year as bank loans due were repaid during the year.

Note 2: The increase in the balance of inventories by 34.60% mainly reflected the increase in inventories of raw materials for production in tandem with the expansion of the Group's production scale.

4. Expenses and income tax of the Company for the period

Unit: RMB in millions

Item	2005	2004	Increase/ decrease (%)
Selling and distribution expenses	3,023.1	2,929.1	3.21
General and administrative expenses	3,137.1	3,899.0	(19.54)
Finance expenses	288.8	285.0	1.33
Income tax	158.5	207.9	(23.76)[3]

Note 3: Income tax decreased by 23.76% compared to the same period last year as changes in the Company's accounting estimates in 2004 to the effect that additional provision for asset impairment was not deductible on a pre-tax basis resulted in relatively higher income tax for 2004, whereas no such effect was present in 2005.

5. Breakdown of cash flow

Unit: RMB in millions

Item	2005	2004	Increase/decrease (%)
Net cash flow from operating activities	177.3	1,644.6	(89.22)[4]
Net cash flow from investing activities	(984.3)	(566.4)	(73.78)[5]
Net cash flow from financing activities	(1,195.5)	2,732.4	(143.75)[6]

Note 4: Net cash flow from operating activities decreased by 89.22% compared to the same period last year mainly as a result of increased expenditure by the Group in overseas market expansion.

Note 5: Net cash outflow from investing activities increased by 73.78% compared to the same period last year mainly as a result of increased expenditure by the Group in the purchase of fixed assets and in construction works in progress.

Note 6: Net cash flow from financing activities decreased by 143.75% compared to the same period last year mainly as a result of the proceeds from the Company's offering of H shares in 2004.

6. Business operations and results of principal subsidiaries

Business operations of the Company's principal subsidiaries:

Company name	Registered capital (RMB in millions)	Percentage of equity interests (%)	Scope of business	Total assets (RMB in millions)	Net profit (RMB in millions)	Income from principal operations (RMB in millions)	Profit from principal operations (RMB in millions)
ZTE Kangxun	50	90	Production of electronic products and related parts (excluding restricted items)	6,438.9	295.9	13,377.2	507.7
ZTE Software	50	95	Development, production and sale of telecommunications systems, software for service-based businesses and provision of related technical consultancy services	1,745.9	680.8	1,853.9	1,840.2

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

For details of other subsidiaries and principal associates, please refer to Note IV to the financial statements prepared in accordance with PRC GAAP.

7. Major suppliers and customers

Purchases by the Group from its largest supplier amounted to RMB767 million in 2005, accounting for 6.9% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB2,320.9 million, accounting for 20.9% 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) had 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 corresponding figures prepared in accordance with HKASs).

Sales by the Group in 2005 to its largest customer amounted to RMB4,376.3 million, accounting for 20.3% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB10,124.1 million, accounting for 46.9% 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 had any interest in any of the five largest customers of the Group (the above figures of the Group are consistent under PRC GAAP and HKASs).

8. Investments

(1) *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 HKD22.00 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 credited into the 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 above net proceeds for the following purposes:

- the Group intends to use approximately RMB2,125,306,635.56 from the above 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 above net proceeds for the research and development on new products and technologies of strategic importance.

As at the end of the reporting period, utilisation of the above proceeds by the Company was as follows:

Application of proceeds from share issue increased 84.18% from RMB1,160,319,000 in 2004 to 2,137,048,000 in 2005.

Unit: RMB in 10,000

Gross amount of proceeds	354,217.8	Gross amount of proceeds utilised during the year	213,704.8
		Gross amount of proceeds utilised on an accumulated basis	329,736.7

Projects committed	Proposed amount of application of proceeds	Any changes to project	Actual amount of application of proceeds	Earnings generated	Whether project schedule has been met	Whether expected earnings has been attained
IP switching platforms for mobile communications	24,039	No	24,039	See below	Yes	Yes
Integrated mobile broadband service systems	22,525	No	16,301.3	See below	Yes	Yes
High speed packet mobile communication base station systems	23,820	No	16,254	See below	Yes	Yes
Intelligent wireless integrated access systems	12,890.1	No	12,890.1	See below	Yes	Yes
Core routers	20,838	No	13,179.6	See below	Yes	Yes
NGN systems	20,118	No	20,118	See below	Yes	Yes
Automated optical switching network systems	17,457	No	14,424	See below	Yes	Yes
Sub-total	141,687.1	—	117,206	—	—	—
Overseas operations	212,530.7	—	212,530.7	See below	Yes	Yes
Total	354,217.8	—	329,736.7	See Note	—	—

Note: In relation to proceeds from the H share offering not currently utilised, the Company applied funds that were temporarily idle as working capital subject to the progress of projects, with a view to enhancing the efficiency of fund application by reducing the demand for bank loans and hence financing costs. The Company will appropriate funds to relevant projects in strict accordance with project schedules.

Project progress and revenue from the projects are set out as follows:

High-speed packet mobile communications base stations

The research and development work for the project was progressing smoothly with the development of various advanced functions, including high-speed transmission for both forward and reverse channels. Currently, ZTE's CDMA2000 1xEVDO products are being put to large-scale commercial application in global markets, such as Asia-Pacific, Africa, Northern Europe and South America. On the back of CDMA2000 1xEV-DO trial stations operated on in conjunction with domestic carriers, ZTE is expecting to launch within this year the CDMA2000 1xEV-DO Revision A commercial system, an improved model that promises superior performance.

Integrated mobile broadband service systems

Research and development for integrated service platforms was basically completed to cover services such as network paging, network conferences, one-touch dialing, caller tunes, soft terminal communications and others, with related products being extensively used in the networks of domestic carriers. Such products were also being used by telecommunications carriers in Malaysia, the Philippines and Pakistan to provide value-added services. In future, the integrated platform will be able to support services on PSTN, PHS, GSM, CDMA, 3G and NGN networks simultaneously. With such competitive edge in technology, the project should enjoy excellent prospects.

Automated optical switching network systems

The first stage of research and development for the project had been completed and product samples had passed the performance testing for the inspection and acceptance process. The Company is currently conducting research and development on the commercialisation of automated optical switching network systems employing leading advanced technologies domestically. Apart from enhancing the operability and management of optical networks, automated optical switching network technologies also allow ease in incorporating new services to cater to future requirements in telecommunications. Prospects are promising as carriers are expected to deploy automated optical switching systems in the coming years, first in the backbone networks and ultimately extending to urban and regional networks.

IP switching platforms for mobile communications

Research and development of project was progressing as scheduled. The IP switching platforms for mobile communications for the core 3G network and the base station controllers were completed, as well as the production transfer of equipment associated with the NGN network gateways. The products passed the bulk volume test of China Mobile and the bulk volume gateway performance test of China Telecom. Currently, the IP switching platforms for mobile communications and the base station controllers are being put to commercial application in several countries overseas, and are expected to have a positive effect on ZTE's revenue generated from global markets.

Core routers

Most research and development programs for the project were completed. Products developed were capable of simultaneously supporting IPV4/IPV6 dual-protocol, in addition to supporting IPv6 router protocol and the IPv6 transition mechanism. As core equipment for China's model next generation foundational network, high-end routers were selected to be used in the next generation foundational networks of both China Mobile and China Unicom, and will soon be put to commercial application. The ZXR10 series have generated sales revenue of RMB100 million to date.

NGN systems

In 2005, the Company launched the leading bulk-volume media network gateway equipment and softswitch control equipment. We also undertook China Telecom's long-distance softswitch commercial trial network and network intelligence modification projects for fixed line convergence stations at Guangdong, Guangxi, Anhui, Shanghai, Wuhan, Chongqing, Qinghai and Inner Mongolia. The above projects are currently under implementation as planned, while certain completed sections have been put to commercial application, indicating that NGN network systems developed by ZTE are capable of large-scale commercial application.

Intelligent wireless integrated access systems

The first stage of research and development for the project was completed. Selected products had been launched in the domestic and overseas market after passing the testing procedures of China Telecom Research Institute. In 2006, the Company will further its development of products with access to expanded 3G network connections to support integration of fixed line and mobile networks. With their capability to accommodate a broad range of wireless access technologies, intelligent wireless integrated access systems are well-positioned to provide customised and enriched services to end-users. With increasing sophistication of wireless terminal technologies, intelligent wireless integrated access systems hold out enormous potential as a commercial product.

The year 2005 was the Company's "international year", as proceeds from the offering of shares applied in overseas operations contributed to the continuous growth of the Group's overseas revenue in 2005.

(2) ***Significant investments using funds other than proceeds from share issue***

- In April 2005, the Company made an additional investment of USD3 million in cash in Zimax (Cayman) Holding Ltd. Following the additional investment, Zimax (Cayman) Holding Ltd. had a registered capital of USD5.50 million and the Company held 100% of its shares.

- In June 2005, ZTE (H.K.) Limited and ZTE (Australia) Pty Ltd, both wholly-owned subsidiaries of the Company, established ZTE Nigeria Investment Ltd. with an investment USD2.09 million. ZTE Nigeria Investment Ltd. had a registered capital of 5 million Naira, and was mainly engaged in SKD assembly of handsets, import of raw materials, manufacturing, user training and after-sales services for telecommunications products. The Company held 100% of the company through ZTE (H.K.) Limited and ZTE (Australia) Pty Ltd.

- In June 2005, the Company made a capital contribution of RMB6 million and through ZTE (H.K.) Limited an additional RMB10 million to establish Shenzhen Zhongxing Liwei Technology Limited ("Liwei"). The registered capital of Liwei was RMB20 million. The Company and ZTE (H.K.) Limited jointly held 80% of its shares. Liwei was principally engaged in the design and development, sales, installation, testing and services relating to base station control systems, network video control systems, various electronic systems equipment for network control and monitoring systems.

9. Business outlook and risk exposure of the Company

(1) *Business outlook for 2006*

The year 2006 is set to be full of opportunities as well as challenges. The Group will continue to focus on domestic 3G carriers, carriers in developed countries and multinational carriers. On the back of our solid track record, we will focus our development on three areas: from being a mainstream supplier of telecommunications products in China to a leading global mainstream supplier of telecommunications products; from the provision of communications hardware products to the provision of leading software products and services and, finally, from a operations-driven and technology-driven business model to a leading market-driven model. Major objectives set for 2006 are as follows:

- enhancing penetration of the domestic market to ensure balanced development in different sectors of the carrier market;
- targeting multinational carriers in the international market on top of local carriers and striving for breakthroughs;
- striving to lead rather than to follow in terms of product technologies;
- shifting focus from an operations and technical-based business model to a market-based business model;
- enhancing the commercial viability of product lines; and
- deepening the development of regional platforms in the international market to facilitate a more effective team.

To these ends, the Group will facilitate major fund applications using measures including increasing the rate of turnover of funds, and improve operating efficiency. Funding requirements arising from new projects will be satisfied by reasonable and effective use of various financing tools including bank loans, depending on market conditions. The Group will continue to invest in ZTE Industrial Park and R&D centers in Shanghai and Nanjing in a bid to maintain its competitive advantage and ability for sustainable development. At the same time, fixed assets, IT equipment and software will be upgraded or acquired as necessary.

(2) *Risk exposure*

- Uncertainties in China's 3G market — The issue of 3G licences is subject to a variety of factors which are difficult to accurately predict. The extent of the future development of the 3G market is dependent on external as well as internal factors, such as the level of market competition, consumer preferences, carriers' strategies, value-added services and the progress in terminal development. Therefore, uncertainties exist in the marketing of the Group's 3G products in China.
- Changing market demands in China — Sales and profitability of the Group's existing product lines may be affected as there has been a substantial decline in investments by PRC carriers in PSTN, CDMA and PHS, which are major products of the Group, while value-added services, IPTV and other new products are still in a preliminary stage of development, and are unlikely to replace the traditional products in the short-term as a comparable source of revenue.
- International market risks — The Group has now established business presence in over 100 countries and regions. Such geographic coverage demands a high level of skills to cope with issues arising from differences in political and legal systems, taxation, market profiles and cultural traditions. Meanwhile, legal differences and rapid changes in economic policies, especially in developing countries, pose challenges to the stable development of the Group's business.

- Financial risks — Accounts receivable, exchange rates and interest rates are areas of particular concern for the Company. Exchange rate and interest rate regimes vary from country to country without any single market or tool for hedging risks. The Group has enhanced its risk control measures to meet the needs of its growing international business.

In relation to operating risks, the Group will continue to explore new markets and products in a pro-active manner and increase investments in the research and development of new products to avoid over-dependence on any single product or market.

In relation to legal and financial risks, the Group will devote additional human resources to improve its management and risk control regimes and adopt a prudent financial policy underpinned by adequate provisions, so that the Group will be able to attain stable development by controlling overall risks.

10. For details of the changes in the method of making provisions for accounts receivable, please refer to note 2.21 to the financial statements prepared under PRC GAAP.

11. The Special Notice on the Use of Funds of Listed Companies by the Controlling Shareholder and other Connected Parties issued by Ernst & Young Hua Ming. Please refer to the announcement published by the Company on the website designated for information disclosure, on 7 April 2006.

12. The independent opinion of the Independent Directors on the use of funds by Connected Parties and the Company's accumulated and current guarantees for 2005 was as follows:

(1) The transfer of funds between the Company and the controlling shareholder and other connected parties represent sales and purchases of goods in the ordinary course of business. Such transactions have been conducted based on fair market prices and were not adverse to the Company's interests. Neither the controlling shareholder of the Company nor its subsidiaries nor other connected parties have appropriated the Company's funds.

(2) In order to standardised the management of third-party guarantees, the Company has formulated the Administrative Measures on Third-party Guarantees, and set out provisions in the Articles of Association the examination and approval procedures in relation to third-party guarantees. Details of guarantees disclosed in the 2005 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, the Independent Directors of the Company have reviewed the Company's transactions against the Notice Regulating Several Issues of Fund Uses with Connected Persons and Third-party Guarantees for Listed Companies and are of the view 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.

13. Operation of the Board of Directors

(1) During 2005, the Board of Directors of the Company convened four regular meetings, the details of which are as follows:

- The 12th meeting of the third session of the Board of Directors was held at the Company's office on 10 April 2005. The announcement of resolutions of the meeting of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News, South China Morning Post and Hong Kong Economic Times on 11 April 2005.

- The 13th meeting of the third session of the Board of Directors was held by way of video conference on 25 April 2005. The announcement of resolutions of the meeting of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News, South China Morning Post and Hong Kong Economic Times on 26 April 2005.

- The 14th meeting of the third session of the Board of Directors was held at the Company's office on 23 August 2005. The announcement of resolutions of the said meeting of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News, South China Morning Post and Hong Kong Economic Times on 24 August 2005.

- The 15th meeting of the third session of the Board of Directors was held by way of video conference on 25 October 2005. The announcement of resolutions of the meeting of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News, South China Morning Post and Hong Kong Economic Times on 26 October 2005.

(2) Board implementation of resolutions of the annual general meeting

Pursuant to the relevant resolution passed at the 2004 annual general meeting, the Board of Directors of the Company implemented the 2004 profit distribution plan, according to which RMB2.5 for every 10 shares (including tax) or a total of RMB239,880,000 was paid in cash on the basis of the Company's total share capital of 959,521,650 shares as at 31 December 2004.

Record date for dividend payment for A shares: 7 July 2005. Ex-dividend date: 8 July 2005.

Record date for dividend payment for H shares: 29 April 2005. Dividend payment date: 8 July 2005.

14. The 2005 profit distribution proposal

The audited net profit of the Company for the year 2005 calculated in accordance with PRC GAAP amounted to RMB792.566 million. Profit available for distribution amounted to RMB3,355.95 million after deducting the transfer of 10% to the statutory surplus reserve amounting to RMB79.257 million, the transfer of 5% to the statutory public welfare fund amounting to RMB39.628 million and adding the undistributed profit of RMB2,682.269 million carried forward at the beginning of the year.

The audited net profit of the Company for the year 2005 calculated in accordance with HKASs amounted to RMB1,084.317 million. Profit available for distribution amounted to RMB1,195.262 million after deducting the transfers to the statutory surplus reserve and statutory public welfare totalling RMB118.885 million and adding the undistributed profit of RMB229.83 million carried forward at the beginning of the year.

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC GAAP and that calculated in accordance with HKASs. Therefore the amount of profit available for distribution is RMB1,195.262 million. The 2005 profit distribution proposal recommended by the Board of Directors of the Company is as follows: RMB2.5 for every 10 shares (including tax) or a total of RMB239,880 million in cash on the basis of the Company's total share capital of 959,521,650 shares as at 31 December 2005.

15. Designated newspapers for information disclosure

China Securities Journal, Securities Times and Shanghai Securities News have been designated as newspapers for information disclosure by the Company in China.

The Standard (South China Morning Post in 2005) (English) and Hong Kong Economic Times (Chinese) have been designated as newspapers for information disclosure by the Company in Hong Kong.

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 14 and note 15 to the financial statements prepared in accordance with HKASs.

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2005 are set out in note 31 to the financial statements prepared in accordance with HKASs.

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 37 to the financial statements prepared in accordance with HKASs.

4. Pre-emptive rights

There is no provision under the Company Law of the People's Republic of China or the Articles of Association regarding pre-emptive rights that requires the Company to offer new shares to its existing shareholders on a pro-rata basis.

5. Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year.

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 36 to the financial statements prepared in accordance with HKASs and on page 19 in this annual report.