





CHAIRMAN'S STATEMENT



Dear Shareholders:

I am pleased to present the annual report of the Group for the financial year ended 31 December 2006. 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 2006

The Group was confronted with increasing competition in 2006. Nevertheless the management succeeded in driving the overall development of the Group's business under the leadership of the Board of Directors by capitalising on opportunities presented by emerging markets and other regions to expand our international business, overcoming temporary difficulties experienced earlier in the year. The Group's efforts have been well rewarded with a growing share of the domestic telecommunications market and stronger competitiveness for our handset products. Such achievements have provided strong support for the longer-term development of the Group.

The adverse impact of the continuous decline in CDMA and PHS investments in China was effectively curbed as the Group increased the market shares of its GSM, network intelligence and integrated access products. We obtained satisfactory results in TD-SCDMA network trials through close collaboration with carriers, while major breakthroughs in the China Telecom DC1 project and other endeavours positioned the Group favourably for future development in China, its fundamental market.

On the international front, breakthroughs were also achieved to explore the multinational carriers' market in greater depth as the Group continued to implementing the strategy of focusing on mainstream carriers and multinational carriers. The revenue from international business grew to account for 44.4% of the total revenue of the Group, compared to 35.7% in the previous year, underpinning further the importance of internationalisation to business growth of the Group.

Following efforts in the previous year to optimise the global marketing platform, the Group conducted a major organisational reshuffling towards the domestic marketing regime during the interim period to improve its operational efficiency and provide better support to the expansion of the international business. The management standard of the international marketing platform was further improved during the year, as the Company achieved progress in business development through improvement in management measures such as the conducting of performance appraisals and the implementation of the cost leadership strategy.

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BUSINESS OUTLOOK

In the year ahead, steady growth of the global communications industry combined with the unveiling of the 3G sector in China is set to create a favourable environment for the Group's development. We plan to make further inroads in our strategies of differentiation, human resource deployment and cost leadership and pursue growth through international market expansion, product quality improvement, brand name enhancement, improvements in logistical efficiency and protection of intellectual property rights. Our focus for 2007 is as follows:

For the new year, the Group will focus on making breakthroughs in soliciting mainstream multinational carriers undergoing rapid expansion in emerging markets and realise sales in a more significant scale, while our marketing initiatives in respect of multinational carriers in developed countries will be underpinned by the customisation of new products. All in all, we will pursue a balanced international business portfolio and potential for long-term development.

The PRC market is set to present the Group with new development opportunities in 2007. We will capitalise fully on the strategic occasion of the launching of 3G and endeavour to increase our shares of various domestic carrier markets. Meanwhile, the Group will continue to provide differentiated services and point-to-point integrated solutions that will help our customers develop new businesses and therefore sources for revenue. We will also seek pro-active engagement in strategic cooperation with customers as a driver for organic growth.

After years of dedicated efforts, the Group has now established itself as a world-leading supplier of CDMA system equipment. On this basis, we will continue to originate top-rated, world-class products by enhancing the innovative element of our research and development activities, always effectively market-driven and with the benefit of proven technologies and seasoned talents.

The organisational structure of a company should provide effective backup for its development strategies and, accordingly, the Group conducted an organisational restructuring exercise in early 2007 in tandem with the above-stated strategies and objectives. We believe the adjustment will contribute to enhanced competitive edge and more efficient and satisfactory customer services by consolidating our market planning functions and integrating our commercial and technical capabilities.

The Company and the Board will strive to improve its corporate governance regime and operational transparency in the new year. We are committed to delivering sound results to the shareholders and the society by capitalising on opportunities presented by the domestic 3G sector, the international business and handset products.

Hou Weigui

Chairman

Shenzhen, China

19 April 2007