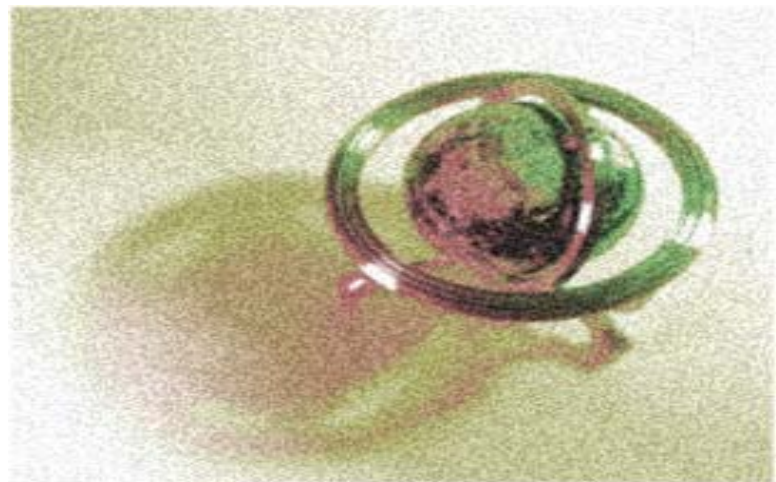


Analysis on ZTE
(Selected from China Telecom
Intelligence Weekly 20070702)



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ZTE was listed on November 18, 1997. As of June 11, 2007, ZTE's price per share after index weight adjustment increased by 11.53 times, while SSE index only grew by 3.38 times, 3.41 times higher than the average market level. Seen from the compound annual growth rate (CAGR), CAGR of SSE index was 13.7%, however, CAGR of ZET price per share reached 29.3%.

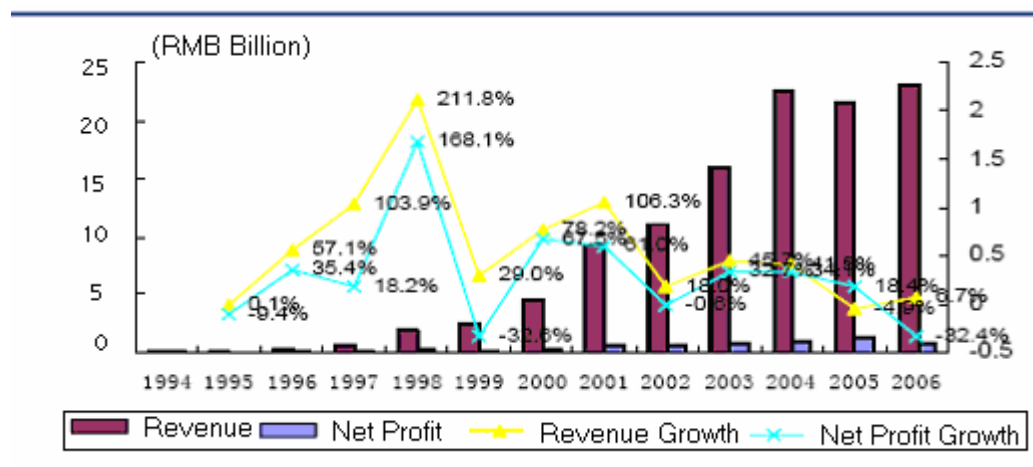
Figure 1: ZTE Business Operation Status and Forecast, 2005-2009

Item/Year	2005	2006	2007E	2008E	2009E
Revenue (RMB Million)	21,576	23,032	30,430	42,338	48,378
YoY Growth (%)	-4.9	6.8	32.1	39.1	14.3
Operating Profit (RMB Million)	7,525	7,749	10,170	14,711	17,058
Net Profit (RMB Million)	1,194	807	1,330	2,153	2,947
YoY Growth (%)	18.4	-32.4	64.7	61.9	36.9
Earnings Per Share (RMB)	1.24	0.84	1.38	2.21	2.95
Gross Profit Margin (%)	35.4	34.1	33.9	35.2	35.7
P/E	49	72	44	27	20
P/B	5.72	5.42	5.07	4.74	4.43

Note: Stock price is the closing price on June 12, 2007.

A Small Company Grew into A Large Company through Several Years' Fast-growing Development

Figure 2: Revenue and Profit Growth of ZTE, 1994-2006



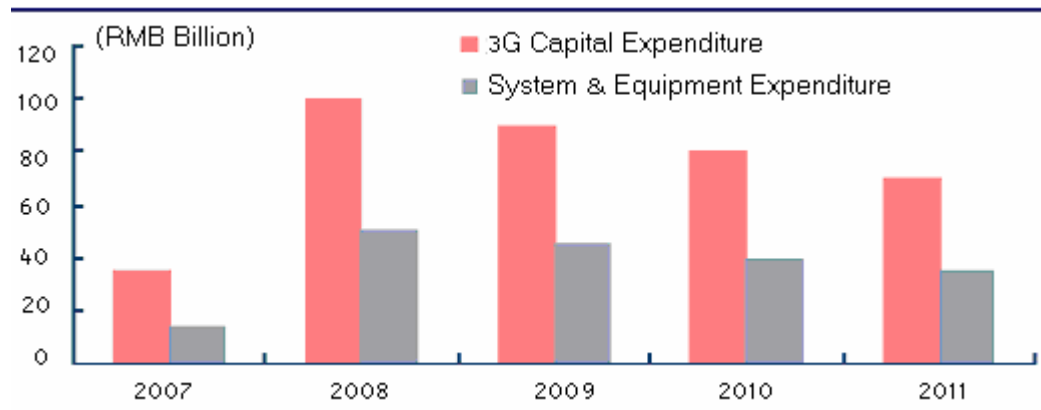
The business revenue of ZTE increased to RMB 23 billion in 2006 from RMB 197 million in

1994, with CAGR up to 49%. Its net profit increased from RMB 80 million in 1994 to RMB 807 million in 2006, with CAGR reaching 21%.

From the growth cycle of ZTE's revenue and profit, the year 1999, 2002 and 2006 witnessed the lowest level of development. After the profit declined 33% in 1999, it rose by over 60% for consecutive two years. In 2006, the decrease of profits was almost the same as that of in 1999. It is forecast the net profit growth of ZTE is expected to reach over 40% in 2007 and 2008 respectively.

ZTE will resume developing in 2007. The investment in 3G will gradually enter a peak period in the next few years, together with TD-SCDMA drawing the curtain. Future capital expenditures on 3G are expected to show as follows:

Figure 3: Forecast of 3G Investment



The investment of 3G operators will enter a peak period in the next few years. From 2007 to 2009, the investment growth of China telecom industry will reach more than 15%.

Figure 4: Forecast and Growth of Telecom Investment, 1996-2009

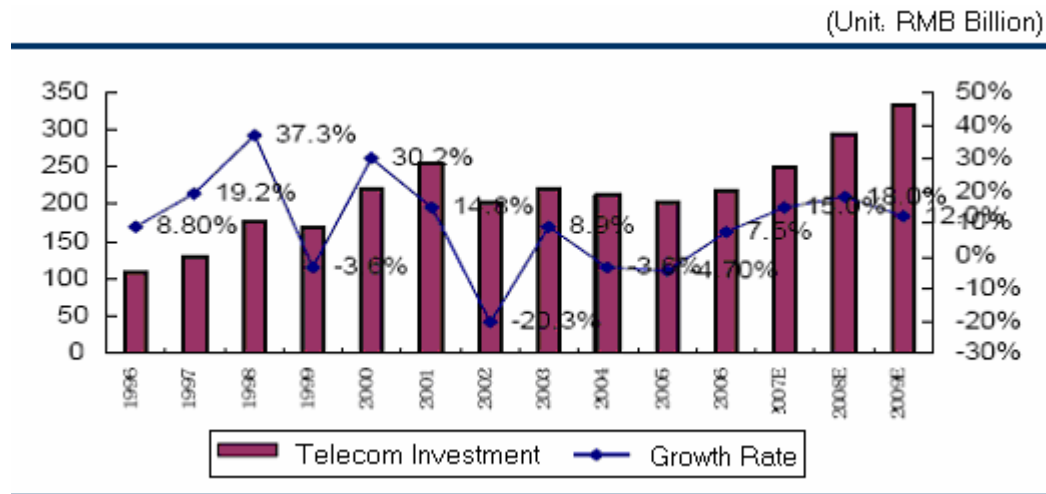
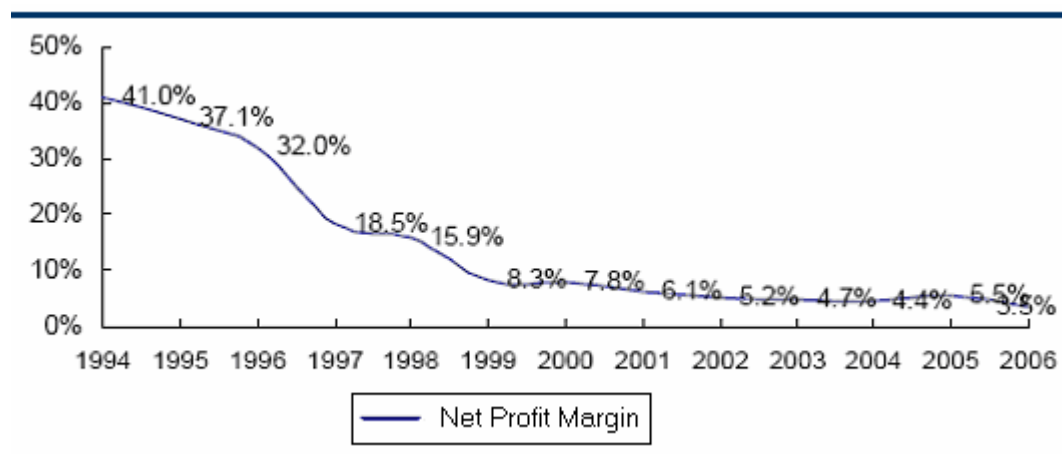


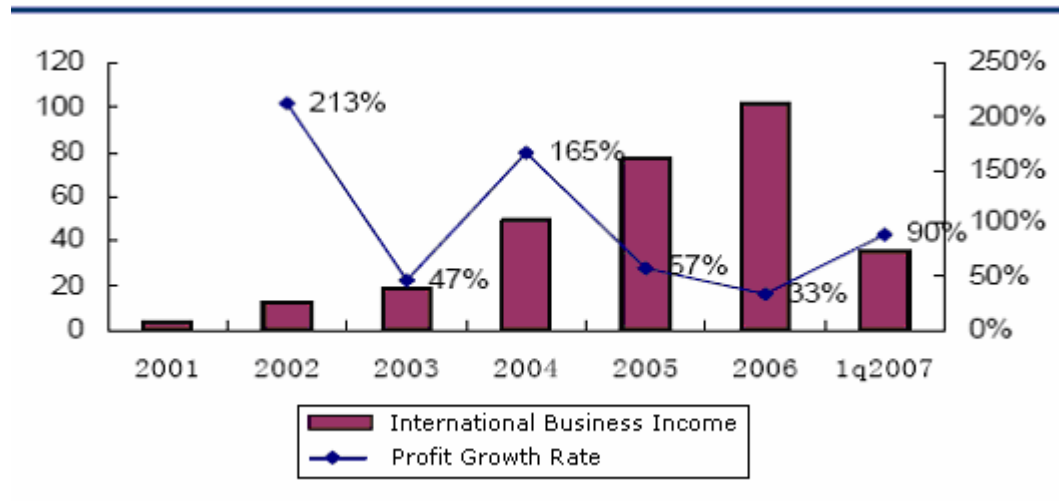
Figure 5: Net Profit Margin Changes of ZTE, 1994-2006



The fast growth of international business becomes a long-term guarantee for its business growth. Except for high growth of investment demand in Asia-Pacific, India and Africa, the growth of China's economic strength is also a potential engine for the development of ZTE international business.

Figure 6: International Business Income and Profit Growth of ZTE, 2001-Q1 2007

(Unit: RMB 100 million)



ZTE announced, TD-SCDMA purchase contract with China Mobile worthy of RMB 2.37 billion opened the business of TD-SCDMA. In GSM system equipment field, ZTE business is expected to have a significant growth. Among China Mobile's anticipated equipment purchase contract worthy of RMB 35 billion, it is estimated that ZTE market share is expected to rise to 6-7% from 1-2%. In addition, the market share of ZTE is expected to increase to about 15% in China Unicom's GSM equipment purchase.

Table: Important Contracts or Events of ZTE, 2006-2007

Date	Region/Company	Contracts or Big Events
2006-1-5	Shanghai Telecom	NGN
2006-1-23	Mali	The first CDMA2000 1X network in Mali
2006-1-23	China Unicom	Exclusively contracted voice SP access platform
2006-2-9	China Telecom	ADSL million-lines order
2006-2-16	Hellenic Telecom	ADSL equipment
2006-3-1	China Telecom Shanghai International Gateway Exchange	NGN
2006-3-10	9 Provinces in North China, China Telecom	"114" upgraded into "number access service"
2006-3-16	Hungary	Successfully commercial operation of NGN
2006-3-17	Yunnan Telecom	Number access service

2006-3-21	Beijing Netcom	The first order of IPTV
2006-4-7	Morocco	Optical transmission network across Morocco
2006-4-25	Columbia	GSM project
2006-4-28	China TieTong	Northwest loop backbone transmission network
2006-4-30	Six Provinces, China Mobile	WAP gateway
2006-5-26	Weifang, Shandong	GOTA project
2006-6-7	Mongolia	CDMA2000EV-DO
2006-6-8	Indian TATA Telecom	Construction of CDMA 2000 network nationwide
2006-6-12	Henan Netcom	Integrated solutions of access network
2006-6-16	Zambia	Backbone optical transmission network
2006-7-10	Tietong Group	Direct access service
2006-7-11	Shanghai Telecom	IPTV project
2006-7-20	Morocco	Won a bid for CDMA 2000 network nationwide
2006-7-25	Ghana	The first long-distance education system
2006-8-9	The World	Sales volume of CDMA handsets peaked 10 million
2006-8-15	Armenia	CDMA450 network
2006-8-17	Canada	3G terminals supply for Canada
2006-8-23	Sri Lanka	IPCDMA2000 network expansion project
2006-8-23	China Telecom	Intelligent network
2006-8-26	Inner Mongolia Netcom	Intelligent optical network transmission project
2006-8-28	Sri Lanka	WCDMA becomes a mainstream equipment supplier
2006-8-28	Nigeria	10 million-lines WCDMA core network project
2006-8-30	Algeria	GSM network expansion contract
2006-8-31	Beijing	GOTA
2006-8-31	Algeria	Largest G network operator, optical transmission network
2006-9-1	Shanghai Telecom	IPTV
2006-9-13	India BSNL	CDMA supply contract

2006-9-13	The World	Accumulated CDMA equipment peaked 40 million
2006-9-13	Ethiopian Telecommunications Corporation(ETC)	Signed a contract worthy of USD 2.4 billion shared with Huawei and CITCC
2006-9-16	North America	CDMA entered North America
2006-10-9	China Unicom	800G wavelength division national truck line project
2006-10-18	Libya	The number of WCDMA users reached 100,000
2006-10-25	Armenia, Vietnam	DSL
2006-11-6	China Unicom	GPRS orders from 12 provinces of China
2006-11-6	Russia	NGN
2006-11-14	China Unicom	WAP in 19 provinces of China
2006-11-29	China Netcom	Long-distance transmission wavelength division truck line project, 2006
2006-12-4	Libya	The number of WCDMA users reached 300,000
2006-12-22	USA	CDMA20001XEV-DO
2006-12-26	Czech	The first CDMA20001 XEV-DO network nationwide in Europe
2006-12-27	Esthonia	The first CDMA20001 XEV-DO commercial network
2007-1-10	Malaysia	GOTA
2007-1-17	Libya	300,000-lines CDMA2000 network
2007-2-8	China Unicom	Purchased 2 million handsets and won a bid of 900,000 sets
2007-2-13	VODAFONE	Handset customized service
2007-2-15	Spain	3G WCDMA handset
2007-3-14	Bolivia	Data Products
2007-3-19	Bengal	Value-added service
2007-3-21	Hubei Telecom	IPTV
2007-3-30	The World	Over 40% of CDMA contracts, the first in the world
2007-4-4	Rwanda	Backbone transmission network
2007-4-26	SPIRIT	SPIRIT WIMAX project
2007-4-30	Six Provinces, China	WAP

Mobile		
2007-5-16	China Mobile	GSM network expansion contract worthy of RMB 3.5 billion shared with Huawei
2007-5-30	Georgia	100,000-lines CDMA network
2007-6-5	Poland	A leading mobile operator POLKOMTEL strategic cooperation agreement
2007-6-11	China Mobile	TD commercial contract worthy of RMB 2.37 billion

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