

# MATERIAL MATTERS

1. No material litigation or arbitration were pending or threatened against the Group during the year.
2. The Group had no acquisition, merger or assets restructuring during the year.
3. Significant connected transactions of the Group

(1) Significant connected transactions of the Group during the year:

(a) Significant connected transactions under applicable laws and regulations of the PRC:

During the reporting period, the Company made no purchases from any of its connected persons that represented more than 5% of the audited net assets of the Company. For details on connected transactions under applicable PRC laws and regulations, please refer to note 7 to the financial statements prepared in accordance with PRC GAAP.

(b) Continuing connected transactions under the Hong Kong Stock Exchange Listing Rules:

Following the listing of the Company's H shares on the Hong Kong Stock Exchange, the Group will continue certain transactions that constitute continuing connected transactions within the meaning of the Hong Kong Stock Exchange Listing Rules as set out in the table below. With respect to the continuing connected transactions, the Hong Kong Stock Exchange has granted to the Group certain waivers from announcement and/or independent shareholders' approval requirements under the Hong Kong Stock Exchange Listing Rules. Details of such waiver have been disclosed in the prospectus of the Company dated 29 November 2004.

Details of the continuing connected transactions are as follows:

1. Purchases of handset batteries by ZTE Kangxun from Shenzhen Ruide Electronic Industrial Company, Limited ("Ruide")

- Description of the connected relationship between the parties to the transaction:

The Company holds a 90% stake in ZTE Kangxun:

The Company holds a 63.2% stake in Ruide through its subsidiaries, being Shenzhen Changfei Investment Company, Limited and ZTEIC Design Co., Ltd. The other substantial shareholder of Ruide is Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited ("Zhongxing Xindi") with approximately a 23.0% stake. The remaining approximately 13.8% stake in Ruide is held by an individual shareholder who is a director of Ruide and a connected person of the Group (while not at the level of the Company). Zhongxing Xindi is a non-wholly owned subsidiary of Zhongxingxin and is therefore an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 60% stake in Zhongxing Xindi. Given that Zhongxingxin is a controlling shareholder of the Company (and also a promotor of the Company), Zhongxing Xindi, being an associate of Zhongxingxin, constitutes a connected person of the Company at the level of the Company (and not at the level of the Company's subsidiaries). In addition, given that

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Zhongxing Xindi is a substantial shareholder of Ruide, Ruide itself constitutes a connected person of the Group under the Hong Kong Stock Exchange Listing Rules.

- Total transaction amount for 2004:

Approximately RMB95,568,000

- Pricing and other terms:

ZTE Kangxun has entered into a framework purchase agreement dated 19 November 2004 with Ruide expiring on 31 December 2006. Ruide will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Ruide succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to Ruide pursuant to the framework agreement entered into with it. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by Ruide for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- Reasons for such transactions

The Group's handset products have become a key driver of our revenue growth and the Group expects handset sales will continue to drive our demand for handset batteries. The Directors of the Company consider it an important strategy to have a co-operative and reliable supplier for handset batteries. The Group's investment in Ruide was

made with this purpose in mind. Through the Group's qualification and bidding procedures, Ruide was selected as one of our suppliers.

2. Sales of liquid crystal displays (LCD) and electronic components by ZTE Kangxun to Shenzhen Lead Communications Company, Limited ("Lead")

- Description of the connected relationship between the parties to the transaction:

The Company is a major shareholder of Lead with a 62.5% stake. Zhongxingxin is a substantial shareholder of Lead with a 22.5% stake while an individual holds the remaining 15% stake. Given that Zhongxingxin is a connected person of the Group at the level of the Company (and not at the level of the Company's subsidiaries) and is a substantial shareholder of Lead, Lead itself constitutes a connected person of the Group under the Hong Kong Stock Exchange Listing Rules.

- Total transaction amount for 2004:

Approximately RMB110,994,000

- Pricing and other terms:

ZTE Kangxun has entered into a framework agreement dated 19 November 2004 with Lead expiring on 31 December 2006. Pursuant to the framework agreement, Lead is to issue purchase orders to ZTE Kangxun from time to time, specifying product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as

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contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by the Group for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- Reasons for such transactions

The Group's handset products have become a key driver of our revenue growth and the Group expects handset sales will continue to drive our demand for liquid crystal modules and electronic components. Liquid crystal modules are required for the production of handsets and the Group does not produce such components. The production of liquid crystal modules involves the assembly of liquid crystal displays with various electronic components. As this involves merely low cost assembly work, the Directors of the Company consider it suitable for outsourcing the production of liquid crystal modules to Lead and other independent third parties. Lead was selected as our supplier through the Group's qualification and bidding procedures. As Lead does not produce the said components required for the production of liquid crystal modules, ZTE Kangxun purchases liquid crystal displays and various electronic components from independent third party suppliers for onward supply to Lead. The Directors of the Company consider it to be convenient and cost-effective to include Lead's requirements in ZTE Kangxun's procurements for such parts.

components comprising primarily telecommunications cabinets, enclosures and racks, and distribution frames by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi and Shenzhen Zhongxing Xinyu FPC Company, Limited ("Zhongxing Xinyu")

- Description of the connected relationship between the parties to the transaction:

Zhongxingxin is a controlling shareholder of the Company.

Given that Zhongxing Xindi is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xindi is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 60% stake in Zhongxing Xindi. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xindi, as an associate of Zhongxingxin, constitutes a connected person of the Group. Given that Zhongxing Xinyu is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xinyu is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 55.0% stake in Zhongxing Xinyu. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xinyu, as an associate of Zhongxingxin, constitutes a connected person of the Group.

- Total transaction amount for 2004:

### 3. Purchases of raw materials and

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Approximately RMB472,834,000

- Pricing and other terms:

ZTE Kangxun has entered into framework purchase agreements dated 19 November 2004 with Zhongxingxin, Zhongxing Xindi and Zhongxing Xinyu, respectively. The framework agreements will expire on 31 December 2006.

Zhongxingxin and its relevant subsidiaries will each still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If any one of them succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to the successful bidder pursuant to the relevant framework agreement entered into with that bidder. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations and on normal commercial terms.

- Reasons for such transactions

Zhongxingxin, Zhongxing Xindi and Zhongxing Xinyu were selected through the Group's qualification and bidding procedures, and the Group believes that they have consistently been able to meet the Group's stringent demands for fast product turnaround time, high product quality and timely delivery. By virtue of the foregoing, Zhongxingxin and Zhongxing Xindi were selected as the suppliers of

distribution frames and packaging materials and Zhongxing Xinyu was selected as the supplier of flexible printed circuit boards. As the Group considers that having reliable and co-operative suppliers is important and beneficial to us, purchasing from Zhongxingxin, Zhongxing Xindi and Zhongxing Xinyu allows us to secure essential control over most of the components of our production by being able to ensure timely delivery of such components while maintaining product quality.

#### 4. Purchases of liquid crystal modules (LCM) by ZTE Kangxun from Lead

- Description of the connected relationship between the parties to the transaction:

Lead constitutes a connected person of the Group as its substantial shareholder; Zhongxingxin, is a connected person at the level of the Company (and not at the level of the subsidiaries of the Company). Please see above for further details of Lead.

- Total transaction amount for 2004:

Approximately RMB295,386,000

- Pricing and other terms:

ZTE Kangxun has entered into a framework purchase agreement dated 19 November 2004 with Lead expiring on 31 December 2006. Lead will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Lead

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succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to Lead pursuant to the framework agreement entered into with it. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by Lead for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- Reasons for such transactions

The Group expects handset sales will continue to be a driver of our revenue growth. In order to capture the growing market demand, the Group requires steady, reliable and quality supplies of liquid crystal modules for the Group's handset products. As the production of these liquid crystal modules involves merely low value-added assembly work, there are few suppliers of raw materials and components that are able to undertake such large-scale production as required by the Group for the prices we offer. Lead was established to handle large-scale production at low unit cost and to specialize in the supply of liquid crystal modules. The Group believes that it has also been able to provide us a fast production turnaround time, consistent product quality and timely delivery. The Group has now taken a majority stake in Lead as the Directors of the Company consider that having Lead as our subsidiary

allows us to secure steady supplies of quality liquid crystal modules in large volumes from a co-operative, reliable and specialized supplier that would not otherwise be easily available from other suppliers for comparable prices.

(2) The independent non-executive Directors of the Company have reviewed the connected transactions and confirmed that:

- the transactions were conducted in the ordinary course of business of the Company;
- the transactions were entered into on normal commercial terms; and
- the transactions were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the connected transactions and confirmed to the Board of Directors of the Company that the transactions:

- were approved by the Board of Directors of the Company;
- were conducted in accordance with the pricing policies of the Company;
- were conducted in accordance with the terms of the agreements governing them; and
- within the relevant annual caps as agreed by the Hong Kong Stock Exchange.

Note: the Company found the following when

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reviewing its continuing connected transactions:

- The total transaction amounts for 2004 for each of the categories of connected transactions listed below entered into between the Group and its connected persons in compliance with the de minimis provision under Rule 14A.33 of the Hong

Kong Stock Exchange Listing Rules as disclosed in the Company's prospectus dated 29 November 2004 exceeded the estimated total transaction amounts for 2004 for such connected transactions as disclosed in the prospectus. The details are as follows:

Notwithstanding the total transaction

Number	Parties to the transaction	Nature of the transaction	2004 estimated total transaction amount	
			disclosed in the prospectus (RMB10,000)	2004 actual total transaction amount (RMB10,000)
1	Lead as one party Shenzhen Zhongxing Xinyu FPC Company, Limited ("Zhongxing Xinyu") as another party	Purchases of flexible printed circuit board materials by Lead from Zhongxing Xinyu	220	267
2	Beijing Zhongxing Intelligent Transportation Systems Ltd. ("Beijing Intelligent") as one party Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited ("Zhongxing Xindi") as another party	Purchases of distribution frames by Beijing Intelligent from Zhongxing Xindi	60	99
3	ZTE Kangxun as one party Chung Hing (Hong Kong) Development Limited as another party	Purchases of printers and other electronic equipment by ZTE Kangxun from Chung Hing (Hong Kong)	70	150

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amounts for 2004 for each of the categories of connected transactions listed above exceeded the estimated total transaction amounts as disclosed in the prospectus, the above connected transactions remain within the threshold specified for de minimis transactions under Rule 14A.33 of the Hong Kong Stock Exchange Listing Rules, that is, the percentage ratios (other than profits ratio) calculated by reference to Rule 14.07 of the Hong Kong Stock Exchange Listing Rules on an annual basis for 2004 were less than 0.1%.

- During 2004, ZTEIC Design Co., Ltd., a subsidiary of the Company, purchased handset batteries from Zhongxing Xindi for an annual total amount of RMB7.20 million. Such category of connected transaction was not disclosed in the prospectus. However, this falls within the de minimis provision of Rule 14A.33 of the Hong Kong Stock Exchange Listing Rules, that is, the percentage ratio (other than profits ratio) calculated by reference to Rule 14.07 of the Hong Kong Stock Exchange Listing Rules on an annual basis for 2004 were less than 0.1%. Such category of transactions is not subject to the relevant disclosure, announcement and independent shareholders' approval requirements. The Company confirms that such category of transactions will not be conducted starting from 2005.

## 4. Material contracts of the Group

(1) During the year, the Company did not materially put on trust, subcontract, or lease any assets of other companies nor did other companies put on trust, subcontract or lease any of the Company's assets.

(2) Corporate guarantee by the Company:

A. The Company's external guarantees were made in strict compliance with the "Notice Regarding Listed Companies Providing Guarantees for Other Persons" (Zheng Jian Gong Si Zi [2000]61) and "Notice of Regulating Several Issues of Funds Uses with Connected Parties and External Guarantees of Listed Companies". The Company made the guarantees mainly for the purpose of market development. The approval procedure included a written application and related materials in respect of the external guarantee be submitted by the marketing and funding personnel to the Company's funding department. After review by the funding department together with the legal, investment, finance and other related departments, submissions shall be made to the Company's chief financial controller and the President for examination and approval. Finally, submission shall be made to the Board of Directors. Any guarantee involving a substantial sum of money shall be submitted to the shareholders' general meeting for consideration.

B. As at the end of the reporting period, the Company had the following external guarantees:

Number	Party for which guarantee is granted	Amount	Term	Status
1	Chengdu Information Port Company Limited	RMB4 million	15/7/2004-15/1/2005	Obligation performed
2	ZTE Kangxun	USD28.51 million	23/4/2004-1/7/2004	Obligation performed
3	ZTE Kangxun	USD21.00 million	27/9/2004-13/12/2004	Obligation performed

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Notes:

The guarantee issued in favour of Chengdu Information Port Company Limited ("Chengdu Information Port") in favor of the China Construction Bank, Minjiang, Chengdu Branch. Juyou Network Industrial Group Limited ("Juyou Network"), being a shareholder of Chengdu Information Port, provided a counter-guarantee for the guarantee. Upon maturity, Chengdu Information Port could not settle the entire loan and only repaid RMB500,000. The Company repaid RMB3.5 million for Chengdu Information Port. As Juyou Network is liable under the counter-guarantee, the Company entered into the Settlement Plan Agreement with Juyou Network ("Settlement Agreement"). Pursuant to the Settlement Agreement, Juyou Network paid RMB200,000 and RMB300,000 to the Company in January and February respectively, totalling RMB500,000 together with interest (more than RMB10,000). Juyou will continue to repay the Company RMB300,000 per month with interest from March to December under the Settlement Agreement.

The Company and its controlling subsidiary, ZTE Kangxun, may jointly utilize the facilities provided by banks including Minsheng Bank and Bank of Communications to the Company. It was agreed that ZTE Kangxun may independently sign loan contracts with the banks within the scope of facilities. In respect of all debts incurred by ZTE Kangxun under the loan, the Company will assume and guarantee all of ZTE Kangxun's liabilities. ZTE Kangxun utilised the loan in foreign currency based on production and operational needs. ZTE Kangxun repaid the principal and interest to the banks on time. Hence, the Company did not incur any loss.

(3) During the year, the Company did not have any entrusted investments.

(4) Other material contracts:

On 14 February 2004, an announcement was issued by the Company in China Securities Journal, Securities Times and Shanghai Securities News that it entered into an Export Purchaser Loan Agreement with Export-Import Bank of China, whereby Export-Import Bank of China shall provide export purchaser credit facilities to the extent of USD500 million to those foreign organisations that intend to cooperate with the Company.

On 14 February 2004, an announcement was issued by the Company in China Securities Journal, Securities Times and Shanghai Securities News that it entered into an Equipment Supply and Service Contract with an Indonesian company, PT Indonesian Satellite Corporation TBK (hereinafter referred to as "INDOSAT Corporation") valued at approximately USD47.6 million.

On 20 March 2004, an announcement was issued by the Company in China Securities Journal, Securities Times and Shanghai Securities News that it entered into a contract with Guangdong Telecommunications Company Limited for the supply of wireless local access service system in the amount of RMB647,565,595.

On 29 May 2004, an announcement was issued by the Company in China Securities Journal, Securities Times and Shanghai Securities News that ZTE do Brasil Ltda, a subsidiary of the Company, entered into a Handsets Supply Contract with VIVO, a Brazilian telecommunications services provider, with a contract value of approximately USD100 million.



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### (5) Undertakings

During the reporting period, neither the Company nor its shareholders having an interest of more than 5% (inclusive) in the Company provided any undertakings, nor was there any undertaking subsisting during the reporting period.

### 5. Engagement of reporting accountants/auditors by the Company

Shenzhen Dahua Tiancheng Certified Public Accountants and Ernst & Young are the Company's domestic and international auditors respectively. The Company appointed for the first time an international auditor outside the PRC for its initial public offering of H shares in 2004.

Item	Amount	Auditing firm
Auditing fees	RMB480,000	Shenzhen Dahua Tiancheng Certified Public Accountants
Auditing fees	HKD3.45 million (including related disbursements)	Ernst & Young

Note: The above fees do not include fees for the H share offering by the Company in 2004.

### 6. Replacement of reporting accountants/auditors for the last three years

Upon expiry of the term of appointment of Shenzhen Nanfang-Minhe Certified Public Accountants, the original domestic auditors of the Company, the Board of Directors organized a tender for the appointment of new domestic auditors for the Company, pursuant to which Shenzhen Dahua Tiancheng Certified Public Accountants was, after competitive tendering, appointed as new domestic auditors of the Company. Upon approval granted at the third extraordinary meeting, the Company resolved to appoint Shenzhen Dahua Tiancheng Certified Public Accountants as the new domestic auditors of the Company for a term of one year.

### 7. During the reporting period, the Company was not involved in any significant events as specified under Rule 62 of the Securities Law of the People's Republic of China and Rule 17 of the Public Listing Share Information (Provisional) promulgated by the China Securities Regulatory Commission.

#### (1) Amendments to the Articles of Association

At the two extraordinary meetings held on 15 January 2004 and 30 June 2004 respectively, amendments were made to the Articles of Association.

#### (2) Changes in the registered capital of the Company

Changes in the registered capital of the Company are set out on page 21 of this annual report.

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### 8. Confirmation of independence of the independent Directors

The Company confirms that it has received written confirmations from all the independent non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Stock Exchange Listing Rules. The Company considers that the independent non-executive Directors are independent based on the guidelines set out in Rule 3.13 of the Hong Kong Stock Exchange Listing Rules.

### 9. Designated publications for information disclosure

China Securities Journal, Securities Times and Shanghai Securities News have been selected by the Board of Directors as designated newspapers for corporate information disclosure within PRC.

South China Morning Post and Hong Kong Economic Times have been selected by the Board of Directors as designated newspapers for corporate information disclosure in English and Chinese respectively outside PRC.