

SPECIAL EXPLANATORY STATEMENT

Specific Report Relating to Share of Funds by The Controlling Shareholder and its Connected Parties of ZTE CORPORATION

Shen Hua (2005) Zhuan Shen Zi No. 102

To: Shenzhen Securities Regulatory Committee, CSRC

We, as the certified public accountants responsible for auditing the consolidated financial statements of ZTE Corporation ("ZTE") for 2004, have issued this specific report relating to share of funds by the controlling shareholder and its connected parties in accordance with "Notice on Certain Issues Relating to Standardization of Fund Transfer between Listed Companies and Their Connected Parties and Guarantees Provided by Listed Companies" (Zheng Jian Fa [2003] No.56) issued by CSRC.

I. We noted the following information relating to funds shared by the connected parties of ZTE:

1. As at 31 December 2004, the balance of listed company's funds shared by connected parties was RMB11.43 million.
2. Listed company's funds misused by connected parties:
 - (1) There was no misuse of listed company's funds by connected parties as at 31 December 2004;
 - (2) Listed company's funds misused by the substantial shareholder and its controlled enterprises:

Neither the substantial shareholder nor its controlled enterprises have misused any funds at the beginning or end of period, nor have the substantial shareholder and its controlled enterprises misused any funds during the reporting period.

This report has been prepared in accordance with the requirements of CSRC and its representative organization and cannot be used for any other purpose. The certified public accountants and accounting firm preparing this report shall not be responsible for any consequences arising from the inappropriate use of this report.

Shenzhen Dahua Tiancheng Certified Public Accountants

Shenzhen, the PRC

Wu Jianhui
Certified Public Accountants in the PRC

Liu Yaohui
Certified Public Accountants in the PRC

10 April 2005

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Statements Relating to the Share of Funds of Listed Company by Connected Parties

Unit: in '000 RMB

Name of Connected Party	Relationship with the Listed Company	Accounting entry	Balance at Beginning of Period	Transaction amounts of Borrower	Transaction amounts of Lender	Balance at End of Period	Provision for Bad Debts	Method and Reason of Share of Funds repayment	Whether it amounts to misuse of funds as prohibited by Rule No. 56	
A	B	C	D	E	F	G	H	I	J	K
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	Controlling shareholder of the Company	Prepayment	700	660	1,360	-	-	Normal purchase and sales	Assets	No
Shenzhen Zhongxing Information Technology Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Account receivables	2,180	4,020	4,950	1,250	-	Normal purchase and sales	Cash	No
Shenzhen Zhongxing Information Technology Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Prepayment	5,260	-	2,590	2,670	-	Normal purchase and sales	Assets	No
Shenzhen Zhongxing Information Technology Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Other receivables	1,040	-	-	1,040	-	Deposit	Outstanding	No
Beijing Zhongxing Telecom Equipment Ltd.	A jointly-controlled entity of the Company	Account receivables	1,340	12,760	14,940	(840)	-	Normal purchase and sales	Cash	No
Beijing Zhongxing Yuanjing Technology Co., Ltd.	An associate of the Company	Account receivables	4,020	16,320	17,150	3,190	-	Normal purchase and sales	Cash	No
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	A subsidiary of the controlling shareholder of the Company	Account receivables	-	70	70	-	-	Normal purchase and sales	Cash	No
Shenzhen Zhongxing WXT Equipment Company, Ltd.	A shareholder of the Company's controlling shareholder	Prepayment	1,000	-	490	510	-	Normal purchase and sales	Assets	No
Lishan Microelectronics Technology Research Institute	A shareholder of the Company	Other receivables	570	-	-	570	-	Deposit	Outstanding	No
Shenzhen Zhongxing Development Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Account receivables	-	3,490	510	2,980	-	Normal purchase and sales	Cash	No
Beijing Xieli Chaoyue Science Technology Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Account receivables	-	270	270	-	-	Normal purchase and sales	Cash	No
Xi'an Microelectronics Technology Research Institute	A shareholder of the Company's controlling shareholder	Other receivables	60	-	-	60	-	Deposit	Outstanding	No