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**ZTE CORPORATION**

**中興通訊股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 763)**

## **Announcement**

### **on External Investment and Connected Transaction**

*The Company and all members of the Board of Directors confirm that all the information contained in this announcement is true, accurate and complete and that there is no false or misleading statement or material omission in this announcement.*

Definitions:

In this announcement, the following expressions shall have the following meaning unless otherwise specified :

“**Company**” or “**ZTE**” shall mean ZTE Corporation;

“**Hekang Co.**” shall mean Hekang Investment Management Company Limited\* of Shenzhen (深圳市和康投資管理有限公司);

“**ZTE Capital Management Company(中興創業投資基金管理公司)**” shall mean ZTE Capital Management Company Limited\* of Shenzhen (深圳市中興創業投資基金管理有限公司);

“**Shenzhen Listing Rules**” shall mean the *Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange\** (深圳證券交易所股票上市規則);

“**Hong Kong Listing Rules**” shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

#### **I. General information of the external investment and connected transaction**

##### **1. Overview of the external investment and connected transaction**

In order to fully utilize available social resources and leverage ZTE's strong expertise and resources at the same

time, ZTE proposes to co-invest RMB30 million with Hekang Co. for the establishment of ZTE Capital Management Company, which will engage in the raising and management of venture capital funds. ZTE and Hekang Co. shall respectively hold 55% and 45% of the shares of ZTE Capital Management Company. Such establishment of ZTE Capital Management Company by way of co-investment constitutes a connected transaction under the Shenzhen Listing Rules.

Meanwhile, ZTE also proposes to subscribe for the ZTE Venture Capital Fund (中兴创投基金) with a capital contribution of RMB300 million. Such investment does not constitute a connected transaction under the Shenzhen Listing Rules.

## 2. Description of the connected relationship

Mr. Yin Yimin, director of the Company, is concurrently an executive director of Hekang Co. According to Rule 10.1.3 (III) of the Shenzhen Listing Rules, Hekang Co. is a connected person of the Company. Hekang Co. is not a connected person of the Company as defined under the Hong Kong Listing Rules.

Accordingly, the establishment of ZTE Capital Management Company by way of co-investment constitutes a connected transaction as defined under the Shenzhen Listing Rules.

## 3. Consideration by the Board of Directors and abstention of connected Directors

The aforesaid external investment and connected transaction has been considered and passed at the Tenth Meeting of the Fifth Session of the Board of Directors of the Company. As an executive director of the connected party Hekang Co., Mr. Yin Yimin has abstained from voting at the Board meeting in respect of the establishment of ZTE Capital Management Company by the Company.

## 4. Prior approval (prior consent) and independent opinion of Independent Directors

Prior to the meeting, Independent Directors of the Company Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert have reviewed the connected transaction in relation to the Company's establishment of ZTE Capital Management Company and agreed to submit the same to the Board of Directors for consideration, and have furnished an independent opinion on the connected transaction as follows:

The procedures for the establishment of and co-investment in ZTE Capital Management Company by ZTE and Hekang Co. are in compliance with the provisions of relevant laws and regulations such as the *Company Law*, the Shenzhen Listing Rules, the Hong Kong Listing Rules and the Articles of Association. The aforesaid transaction is based on normal commercial terms, according to the principles of fairness and impartiality and in the interests of the Company and the shareholders. The connected Director abstained from voting during the consideration of such resolution at the Board of Directors of the Company and the voting procedures are legal and valid.

#### 5. Other information

As the amount of the said connected transaction is less than 5% of the latest audited absolute net asset value of the Company, approval of the general meeting of the Company is not required for such connected transaction under the Articles of Association and the Shenzhen Listing Rules.

## **II. Basic information of the connected party and the other investor in the establishment of ZTE Capital Management Company**

Basic information of Hekang Co., the party to the investment agreement for the establishment of ZTE Capital Management Company other than the Company is as follows:

1. Legal representative: Yin Yimin
2. Registered capital: RMB30,000
3. Form of corporation: company with limited liability
4. Date of establishment: 17 September 2010
5. Address: No. 55 Ke Yuan East Road, South Zone, Gaoxin District, Shenzhen
6. Scope of principal operation: Equity investment, investment consultancy and investment management (excluding finance, securities, insurance and human resource intermediaries and other controlled projects)
7. Connected relationship: Mr. Yin Yimin, Director of the Company, is concurrently an executive director of Hekang Co. Hekang Co. has a connected relationship with the Company according to Rule 10.1.3 (III) of the Shenzhen Listing Rules. Hekang Co. is not a connected person of the Company as defined under the Hong Kong Listing Rules.
8. 22% of the shares of Hekang Co., is held by Mr. Yin Yimin, Director of the Company.

### III. Basic information of the external investment and connected transaction

#### (I) Basic information of the investment and establishment of ZTE Capital Management Company

The Company proposes to make a capital contribution of RMB16.50 million in cash in a co-investment with Hekang Co. to establish ZTE Capital Management Company, which will engage in the raising and management of venture capital funds. Information of the company proposed to be established is set out as follows:

1. Proposed company name: ZTE Capital Management Company Limited\* (中兴创业投资基金管理有限公司) (subject to the final name as registered);
2. Form of corporation: company limited with liability;
3. Address: No. 55 Ke Yuan East Road, South Zone, Gaoxin District, Shenzhen;
4. Scope of operation: industrial (equity interest) investment fund management; sponsoring and establishment of industrial (equity interest) investment funds; investment consultation; and other businesses as may be approved by competent authorities (subject to the finalised scope as approved by authorities for administration of industry and commerce);
5. Registered capital: RMB30 million;
6. Form of capital contribution: 40% of the capital contribution to be made by each shareholder in the first tranche, with the balance to be paid up by each shareholder within 2 years;
7. Names of, amounts and percentages of capital contribution made by shareholders to ZTE Capital Management Company:

<b>Name of shareholder</b>	<b>Amount of capital contribution (RMB10,000)</b>	<b>Percentage of capital contribution</b>
ZTE	1,650	55%
Hekang Co.	1,350	45%

8. Plan for the utilization of the capital contributed: The capital contributed by the parties will be used in, among others, equity investments and day-to-day operation;
9. Personnel arrangement for the decision-making body and the management: the board of directors of ZTE Capital Management Company shall comprise 5 directors and the supervisory committee shall comprise 3 supervisors. The general manager of the company shall be subject to appointment and removal by the board of directors based on the nomination by the chairman of the board of directors;

10. Accumulated amount of various kinds of connected transactions with the connected party incurred during the period from the beginning of the year to the date of disclosure: the amount of connected transaction between the Company and Hekang Co incurred during the period from 1 January 2010 to the date of disclosure is nil.

(II) Basic information of subscriptions for the ZTE Venture Capital Fund

ZTE proposes to contribute RMB300 million to subscribe for the ZTE Venture Capital Fund and the basic information of the ZTE Venture Capital Fund is tentatively set out as follows (subject to the terms of the finalised partnership agreement as signed);

1. Name of fund: ZTE Venture Capital Fund (tentative name, subject to finalisation as approved by the industrial and commercial registration authorities);
2. Fund size: RMB1 billion;
3. Term of operation: 5+3 years;
4. Method of fund raising and targets: raising funds from specific investors, targeting at institutional investors and individual investors;
5. Fund partners: ZTE Capital Management Company Limited\* of Shenzhen is the sole general partner of ZTE Venture Capital Fund and other investors are limited partners;
6. Target of fund investment: leaders in sub-segments of high-growth industries supported by the industrial policy of the State and related to the restructuring of the economy, with a special focus on the TMT sector which is expected to account for no less than 70% of investments to be made by the fund;
7. Mechanism of fund operation: in line with customary market practice, investment managers will be appointed to carry out investments of the assets and custodians will be appointed to monitor such investments.

**IV. Principal terms of the connected transaction**

ZTE and Hekang Co. shall make capital contributions in cash of RMB16.50 million and RMB13.50 million, respectively, representing capital contribution ratios of 55% and 45%. 40% of the capital contribution of each shareholder will be made in the first tranche, with the balance to be paid up by each shareholder within 2 years. Each capital contributor shall be entitled to rights and assume obligations in proportion to its amount and proportion of capital contribution, following the principals of openness, fairness and impartiality. The Company is not dependent on the connected party and the aforesaid connected transaction will not affect the independence

of the Company.

#### **V. Objective and inherent risks of the external investment**

ZTE Capital Management Company (the sole general partner of the ZTE Venture Capital Fund) serves as a management platform for the ZTE Capital Management Company Fund. This platform will allow the Company to explore new financing options and external resources, which will enable the Company to leverage the inherent strengths of ZTE, forge a complete integration of the industrial chain of the communications sector to drive the development of the Company's principal business. Meanwhile, revenue will be generated through asset management in the effective interaction between the primary market and secondary market. Through participation in the subscription for the ZTE Venture Capital Fund, the Company should be benefited by additional revenue derived from relevant sub-segments of the industry and enhance the competitiveness of its principal business.

The major risks of such external investment of the Company are mainly concerned with fund raising plans and investment projects. ZTE Capital Management Company will establish a comprehensive internal control system and risk control system and conduct full assessment of risks associated with investment projects with reference to systems and regulations governing the investment sectors.

#### **VI. Objective of the connected transaction and its impact on the Company**

By investing and establishing ZTE Capital Management Company and participating in the subscription for the ZTE Venture Capital Fund, the Company will be able to further optimise its external investment structure, be benefited by additional revenue derived from relevant sub-segments of the industry, enhance future investment gains and develop new niche for profit growth. The Directors of the Company are of the view that such connected transaction is based on normal commercial terms and in the interests of the Company and the shareholders.

#### **VII. Opinion of the Independent Directors**

Independent Directors of the Company Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert have furnished an independent opinion on the connected transaction of establishment of ZTE Capital Management Company by the Company as follows:

The procedures for the establishment of and co-investment in ZTE Capital Management Company by ZTE and Hekang Co. are in compliance with the provisions of relevant laws and regulations such as the *Company Law*, the Shenzhen Listing Rules, the Hong Kong Listing Rules and the Articles of Association. The aforesaid transaction is based on normal commercial terms, according to the principles of fairness and impartiality and in the interests of the Company and the shareholders. The connected Director abstained from voting during the consideration of such resolution at the Board of Directors of the Company and the voting procedures are legal and valid.

#### **VIII. Subsequent events**

The Company will promptly make announcements on the sponsoring and establishment of the ZTE Venture Capital Fund and the Company's actual subscription for the fund in accordance with relevant regulations.

#### **IX. Documents for inspection**

1. Resolutions of the Tenth Meeting of the Fifth Session of the Board of Directors of the Company;
2. The independent directors' opinion furnished by the Independent Directors of the Company in respect of the aforesaid connected transaction.

By Order of the Board

**Hou Weigui**

*Chairman*

Shenzhen, PRC  
27 September 2010

*As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyong; six non-executive directors, Hou Weigui, Lei Fanpei, Xie Weiliang, Wang Zhancheng, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Timothy Alexander Steinert.*