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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 the investment by CDB Development Fund Co., Ltd. in Xi'an Zhongxing New Software Company Limited, a wholly-owned subsidiary of the Company

The Company and all the 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 and misleading statement or material omission in this announcement.

I. Overview of the capital increase

1. To meet the requirements of business development, ZTE Corporation (the “**Company**” or “**ZTE**”) and Xi'an Zhongxing New Software Company Limited* (西安中興新軟件有限責任公司) (“**Xi'an New Software**”), its wholly-owned subsidiary, has proposed to enter into the “CDB Development Fund Investment Agreement” (the “**Investment Agreement**”) with CDB Development Fund Co., Ltd.* (國開發展基金有限公司) (“**CDB Development Fund**”), pursuant to which CDB Development Fund has proposed to invest RMB675 million in Xi'an New Software by way of capital increase (the “**Capital Increase**”), and ZTE shall have waive its preferential right of subscription and capital contribution in connection with the Capital Increase. The term of investment of CDB Development Fund shall be 11 years from the date of completion of the capital increase payment. The required investment return rate for the investment of CDB Development Fund in Xi'an New Software shall be: 1.2% per annum. At the same time, ZTE shall repurchase all equity interests in Xi'an New Software held by CDB Development Fund in accordance with the provisions of the Investment Agreement. In respect of the obligation for the payment of investment gains, obligation for the refund of capital contributions and obligation for repurchase, ZTE and Xi'an New Software shall assume joint liability to each other for a total guarantee amount of RMB754.22 million for a term commencing on the date on

which the Investment Agreement becomes effective and ending on the date on which the fulfillment of the obligations of the Company and Xi'an New Software under the Investment Agreement is completed in full. The capital increase amounts contributed by CDB Development Fund shall be applied to the "Xi'an Zhongxing New Software Company Limited Integrated Circuit Design Industrial Base Project", and CDB Development Fund shall delegate China Development Bank Corporation to exercise with full authority all rights entitled in relation to ZTE and Xi'an New Software following the Capital Increase.

2. The aforesaid matter was considered and passed at the Eighth Meeting of the Seventh Session of the Board of Directors held on 25 August 2016. Approval by shareholders of the Company at its general meeting is not required.

3. The Capital Increase does not constitute a connected transaction or a significant asset reorganisation under the "Rules for the Administration of Significant Asset Reorganisation of Listed Companies*" (《上市公司重大資產重組管理辦法》).

II. Details of Xi'an New Software (subject of transaction)

Name of company: Xi'an Zhongxing New Software Company Limited* (西安中興新軟件有限責任公司)

Date of incorporation: 31 December 2008

Registered address: 1 Dongxi No. 4 Road, Chang'an Communications Industry Park, Gaoxin District, Xi'an* (西安市高新區長安通訊產業園東西四號路 1 號)

Legal representative: Zhao Xianming (趙先明)

Current registered capital: RMB600 million

Amount and method of the Capital Increase: CDB Development Fund has proposed to make a cash capital contribution of RMB675 million, and the Company will waive its preferential right of subscription and capital contribution in respect of the Capital Increase. If the Company does not waive its preferential right of subscription and capital contribution, it will have to make a payment of RMB 675 million. Following the Capital Increase, Xi'an New Software will continue to be a subsidiary reported in the consolidated financial statements of the Company.

Shareholding structure before and after the Capital Increase: Prior to the Capital Increase, ZTE held 100% equity interests in Xi'an New Software. The shareholding percentage of CDB Development Fund following the Capital Increase shall be confirmed under the seals of the parties in the "Shareholding Percentage Confirmation" or amended articles of association of Xi'an New Software.

Scope of business: development, manufacturing and sales of software and hardware

for electronic equipment, value-added services, network planning, terminal equipment, network management systems, communication equipment system drivers, and communication services; other software development and consultation services; property leasing, property management, leasing of hotel facilities; import and export of in-house products and related components.

Key financial data of Xi'an New Software for the most recent three years and six months are set out as follows: (Unit: RMB ten thousands)

Item	2013 (Audited)	2014 (Audited)	2015 (Audited)	First six months of 2016 (Unaudited)
Operating revenue	241,779.32	148,324.77	166,965.40	109,234.80
Operating profit	2,507.07	4,638.95	-6,080.80	-3,635.39
Net profit	19,361.27	17,522.66	24,972.67	13,191.82
Net cash flows from operating activities	7,983.50	94,266.97	2,924.60	2,464.05
Item	31 December 2013 (Audited)	31 December 2014 (Audited)	31 December 2015 (Audited)	30 June 2016 (Unaudited)
Net assets	95,956.89	113,479.55	138,452.22	151,644.04
Total assets	437,093.01	283,212.35	277,983.67	224,567.33
Total liabilities	341,136.12	169,732.80	139,531.45	72,923.29

III. Information on the investor

Name of investor: CDB Development Fund Co., Ltd.* (國開發展基金有限公司)

Date of incorporation: 25 August 2015

Registered address: China Development Bank, 18 Fuxingmen Inner Avenue, Xicheng District, Beijing* (北京市西城區復興門內大街 18 號)

Legal representatives: Wang Yongsheng (王用生)

Registered capital: RMB50 billion

Shareholding structure: 100% held by China Development Bank Corporation

Scope of business: investment in non-securities businesses, investment management, consultation.

CDB Development Fund is not related to the Company and Xi'an New Software.

IV. Principal terms of the Investment Agreement

1. Investment project

Xi'an Zhongxing New Software Company Limited Integrated Circuit Design Industrial Base Project

2. Investment amount, duration and shareholding percentage

Within 5 business days following the fulfillment or waiver by CDB Development Fund in writing of all precedent conditions for payment, CDB Development Fund shall increase the capital of Xi'an New Software by way of a one-off cash contribution of RMB675 million, comprising RMB196.62 million as registered capital and RMB478.38 million as capital reserve. The term of investment shall be 11 years from the date of completion of the capital increase payment (the "Investment Term"). The shareholding percentage of CDB Development Fund following the Capital Increase shall be confirmed under the seals of the parties in the "Shareholding Percentage Confirmation" or amended articles of association of Xi'an New Software (based on preliminary computation, CDB Development Fund and ZTE shall hold 24.68% and 75.32% equity interests, respectively, after the Capital Increase). If ZTE and Xi'an New Software fail to complete the valuation and confirmation of equity interests or the procedures for amending the industrial and commercial registration, or if the parties fail to agree on the shareholding percentage of CDB Development Fund within 3 months from the date of execution of the Investment Agreement, CDB Development Fund may demand the full refund of the investment amount from Xi'an New Software together with a fund appropriation cost, which is equivalent to: the total amount of the CDB Development Fund's investment \times 4% \times actual duration of investment (number of days) / 360. ZTE shall assume joint liability for the obligation of Xi'an New Software for refund.

3. Post-investment management

Following the completion of the Capital Increase, CDB Development Fund will not appoint any director, supervisor or senior management of Xi'an New Software.

4. Recoup of investment

Following the expiry of the extended period (namely, 4 years after the date on which the payment of the capital increase amount is completed), CDB Development Fund shall have the right to recoup its investment in one and/or more than one of the following methods (with an preferential option to choose Method I):

Method I: repurchase

CDB Development Fund shall have the right to demand ZTE to repurchase equity interests in Xi'an New Software according to the following schedule and at the following prices: the payment of RMB10 million, RMB20 million, RMB50 million, RMB50 million, RMB50 million, RMB217.5 million, RMB217.5 million and RMB60 million, respectively, prior to the repurchase date (the exact date of which will be confirmed pending the completion date of the capital increase payment) of each year from 2020 to 2027. Following the completion of the repurchase of equity interests, the shareholding percentage of CDB Development Fund in Xi'an New

Software shall be zero. In respect of the aforesaid obligation for repurchase, Xi'an New Software and ZTE shall assume joint liability to each other.

Method II: capital reduction

The total investment amount of CDB Development Fund in Xi'an New Software shall be recouped through the reduction of registered capital or capital reserve of Xi'an New Software ("Capital Reduction"). Xi'an New Software shall reduce its capital by RMB10 million, RMB20 million, RMB50 million, RMB50 million, RMB50 million, RMB217.5 million, RMB217.5 million and RMB60 million, respectively, prior to the capital reduction date (the exact date of which will be confirmed pending the completion date of the capital increase payment) of each year from 2020 to 2027. If Xi'an New Software fails to reduce its capital in accordance with the Investment Agreement, ZTE shall conduct repurchase of equity interests in accordance with the aforesaid capital reduction plan.

Method III: market-based approaches

If ZTE is incapable of or unable to repurchase, CDB Development Fund may divest through market-based approaches, such as the public listing of Xi'an New Software, acquisition by third parties other than the principals signing the Investment Agreement, and asset securitization. In the event that CDB Development Fund divests through market-based approaches, the rate of the transfer premium will not be subject to the average annualised return rate under the Investment Agreement. In the event that CDB Development Fund proposes to transfer the equity interests in Xi'an New Software held by it to third parties other than the principals signing the Investment Agreement, other shareholders of Xi'an New Software shall have first right of refusal under the same terms. Other parties who have acquired the equity interests in Xi'an New Software held by CDB Development Fund shall have the same shareholders' rights and perform the same obligations as does ZTE, without being subject to the restrictions in shareholders' rights applicable to CDB Development Fund under the Investment Agreement.

5. Investment gains

Investment gains received by CDB Development Fund each year by way of cash distribution or otherwise during the Investment Term shall be calculated on the basis of an investment return rate of 1.2% per annum. The investment gain of CDB Development Fund for each accounting period = balance of the total amount of CDB Development Fund's investment for the accounting period × investment return rate × the actual duration of the accounting period (number of days) / 360. Investment gains that CDB Development Fund is entitled to for each accounting period = investment gains for the accounting period + investment gains accrued but not settled for

previous accounting periods.

ZTE and Xi'an New Software have given a joint undertaking to make payments of investment gains to CDB Development Fund in accordance with the Investment Agreement by way of, among others, cash distribution by Xi'an New Software, ZTE's payment to CDB Development Fund to make up investment gains, and ZTE's payment of repurchase premium to CDB Development Fund. In respect of the obligation to pay for investment gains, ZTE and Xi'an New Software shall assume joint liability to each other. The aforesaid investment gains shall be computed annually, and the investment gains accounting date shall be 20 September each year after the date of completion of the capital increase payment. The investment gains payment date shall be the first business day following the accounting date.

V. Opinion of the Board of Directors and the Independent Non-executive Directors

1. Opinion of the Board of Directors

In connection with the Capital Increase, if the Company does not waive the preferential right of subscription and capital contribution and its shareholding ratio of 100% remains unchanged, the Company will be required to make a capital contribution of RMB675 million based on the price of the Capital Increase. The shareholding percentage of CDB Development Fund in Xi'an New Software following the Capital Increase is lower than the shareholding percentage of CDB Development Fund in Xi'an New Software that a one-off capital increase of RMB675 million by CDB Development Fund should have translated into based on the audited net assets of Xi'an New Software for 2015, hence the interest of the Company has not been compromised. The Board of Directors of the Company agrees to waive the preferential right of subscription and capital contribution in respect of the Capital Increase of Xi'an New Software. At the same time, the aforesaid guarantee will enable the Company to reduce its risk and cost in capital investment and meet the requirements of the Company's business expansion in the integrated circuit sector and is hence in the interest of the Company as a whole. As Xi'an New Software is a subsidiary of the Company, the risk of the guarantee is within control.

2. Opinion of the Independent Non-executive Directors

The decision making procedures relating to the Company's waiver of its preferential right of subscription and capital contribution to the Capital Increase are in compliance with the Articles of Association, the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange and other pertinent provisions, and the interests of the Company and its shareholders, in particular the minority shareholders, have not been

compromised. The Independent Non-executive Directors of the Company unanimously agree to the Company's waiver of the preferential right of subscription and capital contribution. The Independent Non-executive Directors of the Company are of the view that the aforesaid guarantee is in compliance with pertinent provisions including the [2005] No. 120 "Notice on Regulating Third-party Guarantees of Listed Companies" of the China Securities Regulatory Commission and the Articles of Association of ZTE Corporation, and the decision making procedures have been legal and valid.

VI. Cumulative amount of outstanding third-party guarantees and overdue guarantees of the Company

As at the date of this announcement, the aggregate amount of third-party guarantees (including the aforesaid guarantee and the guarantee provided by the Company for ZTE (Heyuan) Company Limited* (中興通訊(河源)有限公司), a wholly-owned subsidiary, which was also submitted to the Eighth Meeting of the Seventh Session of the Board of Directors for approval) provided by the Company is approximately RMB6,610,553,200 (of which guarantees provided for subsidiaries amounted to approximately RMB6,280,548,200), representing 22.29% of the net asset attributable to holders of ordinary shares as set out in the audited consolidated accounting statement of the Company as at 31 December 2015. The aforesaid guarantees are in compliance with relevant provisions of China Securities Regulatory Commission. There are no guarantees provided in violation of relevant regulations.

The Company has no overdue guarantees.

VII. Impact on the Company

The Capital Increase will help to alleviate the financial pressure of Xi'an New Software and reduce its capital costs, expand its financing channel and facilitate the further development of Xi'an New Software. Meanwhile, through the Capital Increase, the Company will foster a sound cooperative relationship with CDB Development Fund, which will be positive to the Company's effort to expand and enhance its integrated circuit business and pave the way for further in-depth cooperation in the future. Moreover, Xi'an New Software will remain a subsidiary of the Company following the Capital Increase and a subordinate enterprise reported in the consolidated financial statements of the Company, hence the Capital Increase will have no material impact on the financial condition and operating results of the Company.

VIII. Documents for inspection

1. Resolutions of the Eighth Meeting of the Seventh Session of the Board of Directors of the Company
2. Resolutions of the Sixth Meeting of the Seventh Session of the Board of Supervisory Committee of the Company
3. Opinion of the Independent Non-executive Directors
4. CDB Development Fund Investment Agreement

By Order of the Board
Zhao Xianming
Chairman

Shenzhen, the PRC
25 August 2016

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Zhao Xianming, Yin Yimin and Wei Zaisheng; six non-executive directors, Zhang Jianheng, Luan Jubao, Shi Lirong, Wang Yawen, Tian Dongfang and Zhan Yichao; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.

**for identification purposes only*