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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)**

## **CONNECTED TRANSACTION – ESTABLISHMENT OF PARTNERSHIP**

The Board announces that on 11 June 2014, Xinghe Capital (as general partner), and the Company, Mr. Yin and other 28 investors as limited partners entered into the Partnership Agreement pursuant to which the parties agreed to establish Xinghe Partnership with a total investment amount of RMB346,000,000.

As at the date of this announcement, Mr. Yin, being one of the parties to the Partnership Agreement, is an executive Director and is therefore a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios for the Partnership Agreement exceed 0.1% but are less than 5%, the Partnership Agreement constitutes a connected transaction of the Company subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

### **1. INTRODUCTION**

On 11 June 2014, Xinghe Capital (as general partner), and the Company, Mr. Yin and other 28 investors as limited partners entered into the Partnership Agreement pursuant to which the parties agreed to establish Xinghe Partnership.

### **2. PARTNERSHIP AGREEMENT**

The principal terms of the Partnership Agreement are summarized as follows:

*a. Parties*

- (1) General partner: Xinghe Capital; and

(2) Limited partners: the Company, Mr. Yin and other 28 investors.

*b. Subject matter*

The parties to the Partnership Agreement agreed to establish Xinghe Partnership with capital contribution as below:

<b>Parties</b>	<b>Subscription Amount</b>	<b>Percentage of Total Commitment</b>
<b>General Partner</b>		
Xinghe Capital	RMB10,000,000	2.9%
<b>Limited Partners</b>		
Company	RMB100,000,000	28.9%
Mr. Yin	RMB10,000,000	2.9%
Other 28 investors	RMB226,000,000	65.3%
<b>Total</b>	<b>RMB346,000,000</b>	<b>100%</b>

*c. Details of Xinghe Partnership*

<b>Fund size</b>	RMB 300 million to RMB 500 million
<b>Term of operation</b>	The term of operation is five years. If investments made by Xinghe Partnership are not withdrawn upon the expiry of five years, the term of operation of Xinghe Partnership can be extended for another three years (“ <b>First Extended Period</b> ”) at the discretion of investment decision committee which is established by the general partner. If investments made by Xinghe Partnership are not withdrawn upon expiry of the First Extended Period, the term of operation of the Xinghe Partnership can be extended for another one year (“ <b>Second Extended Period</b> ”) as proposed by the investment decision committee and approved by the investment consulting committee of Xinghe Partnership. Upon the expiry of the Second Extended Period, the term of operation of the Xinghe Partnership can be further extended as approved by the general partner and approved by the limited partners with two thirds voting rights at the partners’ meeting.
<b>Scope of investment</b>	The purpose of Xinghe Partnership is focused on the equity investment of unlisted companies within the TMT industry (technology, media and telecommunication), and to allow partners to obtain satisfactory returns through investment in the equity, shares, business or assets of companies, enterprises or other economic organizations with potential and conducting other investment activities as the general partner considers appropriate and in compliance with PRC laws and regulations.

<b>Profit distribution to partners</b>	After returning the principal in proportion to relevant capital contribution of each partner, 20% of the remaining profit made by Xinghe Partnership will be distributed to the general partner and 80% will be distributed to the limited partners.
<b>Mechanism of fund operation</b>	In line with the market practice, Xinghe Partnership shall entrust a fund manager to conduct investment operations, and shall entrust a trustee to oversee the account of such operations.
<b>Management fee</b>	2.5% per annum
<b>Carried interest</b>	20% of net revenue of Xinghe Partnership

*d. Payment of Subscription Amount*

Each of the parties agrees to make the capital contribution by cash in Renminbi.

The general partner shall issue a payment notice within 10 business days after the signing of the Partnership Agreement. Upon receipt of the payment notice, each of the partners shall pay its subscribed capital contribution in full to the partnership enterprise account as described in the payment notice in one lump sum within 10 business days after receipt of the payment notice.

**3. REASONS FOR AND BENEFITS OF ENTERING INTO THE PARTNERSHIP AGREEMENT**

The subscription amounts payable by the partners to the Partnership Agreement were arrived at after arm's length negotiations by making reference to proposed investment scope and scale of Xinghe Partnership and their own judgment.

The Company and Xinghe Capital intend to fund the total subscription amount of RMB110,000,000 from their self-owned funds. The entering into of the Partnership Agreement allows the Company to take advantage of abundant opportunities within the TMT industry, release its business potential and obtain profits from market segment.

The Board believes that the establishment of Xinghe Partnership would enable the Group to obtain an above average level of profit from the relevant market segment, and improve the competitiveness of its main business. The major risks are associated with the fund-raising plan and projects to be invested.

Upon its establishment, Xinghe Partnership will be included in the consolidated statements of the Company.

#### **4. BOARD APPROVAL**

The Partnership Agreement was approved by the Board on 17 April 2014. Mr. Yin, who is one of the parties to the Partnership Agreement, had abstained from voting on the resolution to approve the Partnership Agreement. Other than Mr. Yin, none of the Directors have a material interest in the Partnership Agreement, nor are they required to abstain from voting in the relevant board resolutions pursuant to the Hong Kong Listing Rules and/or the articles of association of the Company.

The Board (including the independent non-executive Directors) takes the view that the Partnership Agreement are entered into on normal commercial terms, and such terms are fair and reasonable and in the interests of the Company and its shareholders as a whole.

#### **5. INFORMATION OF THE PARTIES INVOLVED**

The Company and its subsidiaries are principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications systems and equipment, including carriers' networks, terminals and telecommunications software systems, services and other products.

Xinghe Capital is a company established in the PRC held as to 100% by Shenzhen ZTE Capital Management Company Limited (深圳市中興創業投資基金管理有限公司), which is 45% held by Shenzhen Hekang and 55% by the Company. Its principal business is capital management and consulting services, participation in establishment of capital management enterprises and consulting institutes in capital management.

Mr. Yin has been an executive Director of the Company since November 1997.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, other than Mr. Yin, the parties to the Partnership Agreement are independent of the Company and connected persons (as defined in the Hong Kong Listing Rules) of the Company.

#### **6. HONG KONG LISTING RULES IMPLICATIONS**

As at the date of this announcement, Mr. Yin, being one of the parties to the Partnership Agreement, is an executive Director and is therefore a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios for the Partnership Agreement exceed 0.1% but are less than 5%, the Partnership Agreement constitutes a connected transaction of the Company subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

## 7. DEFINITIONS

In this announcement, unless the context otherwise requires the following expressions have the following meanings:

“Board”	the board of directors of the Company
“Company”	ZTE Corporation, a company incorporated in the PRC, whose shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Mr. Yin”	殷一民 (Yin Yimin)
“Partnership Agreement”	the partnership agreement dated 11 June 2014 entered into by, amongst others, the Company, Xinghe Capital and Mr. Yin, in relation to the establishment of Xinghe Partnership
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Shenzhen Hekang”	深圳市和康投資管理有限公司(Shenzhen Hekang Investment Management Company Limited*), a company established in the PRC
“Xinghe Capital”	嘉興市興和創業投資管理有限公司(Jiaying Xinghe Capital Management Company Limited*), a company established in Jiaying, the PRC and a non-wholly owned subsidiary of the Company
“Xinghe Partnership”	嘉興市興和股權投資合夥企業(有限合夥)(Jiaying Xinghe Equity Investment Partnership (Limited Partnership) *), a partnership to be formed under the laws of the PRC

By Order of the Board

**Hou Weigui**

*Chairman*

Shenzhen, the PRC

12 June 2014

*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, Zhang Jianheng, Xie Weiliang, Wang Zhanchen, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Richard Xike Zhang.*

*\*for identification purposes only*