

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

CONTINUING CONNECTED TRANSACTIONS PROVISION OF FINANCIAL SERVICES

At the Thirtieth Meeting of the Fifth Session of the Board held on 26 June 2012, the Board approved the Continuing Connected Transactions as set out in this announcement, the terms of the Connected Transaction Agreements for such transactions and the relevant annual caps for the year ending 31 December 2012.

As one or more of the applicable percentage ratios of the proposed annual caps of in the Continuing Connected Transactions, on an aggregated basis, exceed 0.1% but are less than 5%, the Continuing Connected Transactions are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

1. INTRODUCTION

ZTE Group Finance is a non-bank financial institute wholly-owned by the Company. It was established with the approval of the CBRC in 2011 with a view to provide centralized and efficient financial management services to the ZTE Group.

Ruide and Lead are indirect non-wholly owned subsidiaries of the Company and members of the ZTE Group. Zhongxingxin, the controlling shareholder of the Company, holds (indirectly through its non-wholly-owned subsidiary, Zhongxing Xindi, and directly by itself) 23% and 22.5% equity interests in Ruide and Lead, respectively. Therefore, both Ruide and Lead are connected persons of the Company pursuant to Rule 14A.11(5) of the Hong Kong Listing Rules.

On 26 June 2012, ZTE Group Finance entered into the Ruide Finance Services Agreement with Ruide and the Lead Financial Services Agreement with Lead in relation to the provision of certain financial services by ZTE Group Finance to Ruide and Lead respectively for a term from the date of the Connected Transaction Agreements to 31 December 2012.

2. CONTINUING CONNECTED TRANSACTIONS

Nature of transactions:

Pursuant to the Connected Transaction Agreements, ZTE Group Finance will provide Ruide and Lead with certain financial services, including the following:

- (a) cash deposit services;
- (b) credit services; and
- (c) settlement services and any other financial services as allowed by the PRC governmental authorities.

Pricing and Annual caps:

(a) Cash deposit services

Under the Connected Transaction Agreements, ZTE Group Finance has agreed to accept deposits from Ruide and Lead with interest at rates to be determined with reference to the relevant rates quoted by the PBOC. In the event the relevant rates quoted by the PBOC are not applicable, ZTE Group Finance shall pay interest at the rate not higher than that quoted by other independent financial institutions.

Since the deposit of cash by Ruide and Lead with ZTE Group Finance is for the benefit of the Company and its subsidiaries on normal commercial terms or terms that are even more favorable to the Company and its subsidiaries and no security over assets of the Company and its subsidiaries is required to be granted, the Company is exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.65 of the Hong Kong Listing Rules.

(b) Credit services

Under the Connected Transaction Agreements, ZTE Group Finance has agreed to provide loans, to purchase discounted notes and to provide other financing services to Ruide and Lead. Interest rates for loans and discounted notes will be payable by Ruide or Lead depending on the terms of the loan agreements or discounted notes agreements (as the case may be) to be entered into between the parties and subject to the relevant guidelines and regulations of the PBOC. To comply with such guidelines and regulations, ZTE Group Finance will set its interest rates at the prevailing market rate with reference to the standard rates quoted by the PBOC from time to time.

The proposed annual caps for the year ending 31 December 2012, which are the maximum daily balance of all outstanding loans and discounted notes (including accrued interest and any applicable fees) to be granted by ZTE Group Finance to each of Ruide and Lead, are RMB369,270,000 and RMB612,138,000 respectively. There is no historical transaction amount for the provision of credit services by ZTE Group Finance to Ruide and Lead as it is a new transaction. The Directors have determined the proposed annual caps based on, among other factors, the current standard interest rates quoted by the PBOC for loans and discounted notes, the development strategies of ZTE Group Finance and the Company's estimation of the financial needs of Ruide and Lead.

As one or more of the applicable percentage ratios of the proposed annual caps on an aggregated basis exceed 0.1% but are less than 5%, the provision of credit services is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

(c) Settlement services and any other financial services as approved by the PRC governmental authorities such as the PBOC and the CBRC

Under the Connected Transaction Agreements, ZTE Group Finance has agreed to provide Ruide and Lead with settlement services approved by the PRC governmental authorities such as the PBOC and the CBRC, whereby ZTE Group Finance will settle any relevant amounts

payable by Ruide and Lead to third parties on behalf of Ruide and Lead with the funding deducted from the cash deposit maintained by Ruide or Lead with ZTE Group Finance.

ZTE Group Finance has also agreed to provide Ruide and Lead with other financial services which are subject to approval by the PRC governmental authorities such as the PBOC and the CBRC from time to time, including, inter alia, financial and financing consultancy services such as advising on corporate finance matters, acquisitions and financial management systems.

The service fees for settlement services will be charged with reference to the applicable rates set by the PRC government and the service fees for other financial services will be charged upon provision of such services at rates which are not lower than that those charged by other independent financial institutions in the PRC.

The proposed annual caps for the year ending 31 December 2012 in respect of the service fees payable for provision of the settlement services and other financial services to Ruide and Lead are both RMB2,000,000. There is no historical transaction amount for the provision of settlement services and other financial services by ZTE Group Finance to Ruide and Lead as it is a new transaction. The Directors have determined the proposed annual caps based on, among other factors, the estimated aggregated amount required to be settled on behalf of each of Ruide and Lead by using the settlement services for the year ending 31 December 2012 and the estimated demand of other different types of financial services of Ruide and Lead.

As one or more of the applicable percentage ratios of the proposed annual caps on an aggregated basis exceed 0.1% but are less than 5%, the provision of settlement services and other financial services is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

Risk control measures for provision of financial services under the Connected Transaction Agreements:

The Company and ZTE Group Finance believe that the following key measures in place will serve to minimize the possible financial exposures resulted from the Continuing Connected Transactions:

- (a) The establishment of ZTE Group Finance as a non-bank financial institute was authorized by the CBRC, and the operation of ZTE Group Finance is subject to ongoing stringent supervision by the PBOC and the CBRC. ZTE Group Finance is required to provide reports to the PBOC and the CBRC on a regular basis;
- (b) Under the guidance and supervision of the PRC governmental authorities such as the PBOC and the CBRC, ZTE Group Finance has established a comprehensive risk management system and internal control policies which effectively control risks associated with loans and protect the assets of ZTE Group Finance;
- (c) ZTE Group Finance has established a risk management committee under its board of directors and has set up a loan review committee and an independent risk management department within its corporate structure to review loan applications and to control risks associated with loans. ZTE Group Finance's loan approval process is subject to the CBRC's review and supervision with a view to ensure that ZTE Group Finance will remain independence when approving loans without influence from any connected persons, like Ruide or Lead;
- (d) ZTE Group Finance will only provide loans to, and purchase discounted notes from, connected persons which are under sound management, with solid financial position and good business prospect. Provision of such services by ZTE Group Finance to connected persons is

to support the trading business between such connected persons and the Company and its subsidiaries, and the associated risks can be reduced by pledge over receivables provided by such connected persons; and

(e) When providing settlement services as allowed by the PRC governmental authorities such as the PBOC and the CBRC to a connected person, ZTE Group Finance will settle the relevant amount payable by such connected person to a third party only with the funding deducted from the cash deposit maintained by such connected person with ZTE Group Finance, and will not apply its own funding to settle any amount payable by such connected person.

Reasons for and benefits of entering into the Continuing Connected Transactions:

(a) Make full use of a restricted customer base at relatively low risk

Under the relevant PRC regulations, ZTE Group Finance can provide financial services to members of the ZTE Group. If ZTE Group Finance is unable to provide financial services to connected persons within the ZTE Group, like Ruide and Lead, the client base of ZTE Group Finance will be reduced, thereby affecting ZTE Group Finance's future business development and profitability. Provision of such services by ZTE Group Finance to Ruide and Lead is to support the trading business between Ruide or Lead and the Company and its subsidiaries and the associated risks can be reduced by pledge over receivables to be provided by Ruide and/or Lead.

(b) Reduce financing cost and improve financial performance

By providing financial services to connected persons, like Ruide and Lead, ZTE Group Finance will benefit from economies of scale and flexibility. Through ZTE Group Finance, the capital surplus of certain members of the ZTE Group can be transferred to other members of the ZTE Group with capital deficiency problem, so that can maximize the efficient use of funding of the ZTE Group. Also, through ZTE Group Finance, the ZTE Group can participate in interbank leading and access to low cost funds which can reduce the overall financing cost of the ZTE Group and thus benefit the ZTE Group and the Shareholders as a whole.

3. BOARD APPROVAL

At the Thirtieth Meeting of the Fifth Session of the Board held on 26 June 2012, the Board approved the Continuing Connected Transactions as set out in this announcement, the terms of the Connected Transaction Agreements for such transactions and the relevant annual caps for the year ending 31 December 2012.

All of the independent non-executive Directors have reviewed the Connected Transactions Agreements prior to the meeting of the Board, and agreed to submit the Connected Transactions Agreements to the Board for consideration. The independent non-executive Directors issued an independent opinion regarding the Connected Transactions Agreements that the Continuing Connected Transactions, having been reviewed under proper procedures, are necessary, in compliance with ordinary commercial terms and conducted at fair pricing, and are in the interests of the Company.

The Directors take the view that the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Company on normal commercial terms, and such terms and the relevant annual cap for each of the Continuing Connected Transactions for the year ending 31 December 2012 are fair and reasonable and in the interests of the Company and its Shareholders as a whole. None of the Directors have a material interest in the Continuing Connected Transactions nor are they required to abstain from voting in the relevant board resolutions.

4. GENERAL INFORMATION

The Company and its subsidiaries are principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including carrier networks, handsets and telecommunications software systems and services. ZTE Group Finance is a non-bank financial institute wholly-owned by the Company. It was established with the approval of the CBRC and its principal business is provision of financial services to the ZTE Group. The operations of ZTE Group Finance are subject to the on-going supervision of the PRC governmental authorities such as the PBOC and the CBRC.

Ruide and Lead are indirect non-wholly owned subsidiaries of the Company and members of the ZTE Group. Zhongxingxin, the controlling shareholder of the Company, holds (indirectly through its non-wholly-owned subsidiary, Zhongxing Xindi, and directly by itself) 23% and 22.5% equity interests in Ruide and Lead, respectively. Therefore, both Ruide and Lead are connected persons of the Company pursuant to Rule 14A.11(5) of the Hong Kong Listing Rules. Ruide is primarily engaged in the production and sale of handset batteries, rechargers and data cables. Lead is principally engaged in the production and sale of liquid crystal modules (LCM).

5. DEFINITIONS

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

“associate”	has the meaning given to it by the Hong Kong Listing Rules
“Board”	the board of directors of the Company
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Company”	ZTE Corporation, a company incorporated in the PRC, whose shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Connected Transaction Agreements”	the agreements in respect of the Continuing Connected Transactions, meaning the Ruide Financial Services Agreement and the Lead Financial Services Agreement
“Continuing Connected Transactions”	the continuing connected transactions as described in this announcement, namely, the provision of cash deposit services, credit services, settlement services and other financial services by ZTE Group Finance to Ruide and Lead
“Directors”	the director(s) of the Company
“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
“Lead”	深圳市立德通訊器材有限公司 (Shenzhen Lead Communications Company, Limited*), a company established under the laws of the PRC with limited liability

“Lead Financial Services Agreement”	the financial services agreement dated 26 June 2012 between ZTE Group Finance and Ruide in relation to the provision of cash deposit services, credit services, settlement services and other financial services by ZTE Group Finance to Lead
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Ruide”	深圳市睿德電子實業有限公司 (Shenzhen Ruide Electronic Industrial Company, Limited*), a company established under the laws of the PRC with limited liability
“Ruide Financial Services Agreement”	the financial services agreement dated 26 June 2012 between ZTE Group Finance and Ruide in relation to the provision of cash deposit services, credit services, settlement services and other financial services by ZTE Group Finance to Ruide
“Shareholders”	the shareholders of the Company
“ZTE Group Finance”	中興通訊集團財務有限公司 (ZTE Group Finance Co., Ltd.*), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“ZTE Group”	the Company and certain of its domestic subsidiaries, associates and joint ventures which are business entities in fulfillment of basic operating conditions in accordance with the standard form of articles of association and established by law and which have applied to and been approved by the Board of the Company to become a member of the ZTE Group, details of the members of the ZTE Group can be referred to the “Announcement of Resolutions of the Eleventh Meeting of the Fifth Session of the Board of Directors” published on 12 October 2010 and “Announcement of Resolutions of the Twenty-ninth Meeting of the Fifth Session of the Board of Directors” published on 25 April 2012
“Zhongxing Xindi”	深圳市中興新地通信器材有限公司 (Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited), a company established under the laws of the PRC with limited liability, which is held as to 70% by Zhongxingxin
“Zhongxingxin”	深圳市中興新通訊設備有限公司 (Shenzhen Zhongxingxin Telecommunications Equipment Company Limited*), a company established under the laws of the PRC with limited liability and is the controlling shareholder of the Company

By Order of the Board
Hou Weigui
Chairman

Shenzhen, the PRC

26 June 2012

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyou; six non-executive directors, Hou Weigui, Zhang Jianheng, 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.

** English translation denotes for identification purposes only.*