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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)**

**DISCLOSEABLE TRANSACTION  
DISPOSAL OF 81% EQUITY INTEREST IN  
SHENZHEN ZNV TECHNOLOGY CO., LTD.**

At the Thirty-eighth Meeting of the Fifth Session of the Board held on 28 December 2012, the Board approved (a) the First Disposal Agreement, pursuant to which the Company has agreed to dispose its 65% equity interest in the Target Company to Ocean Delight; and (b) the Second Disposal Agreement, pursuant to which ZTE HK, a wholly-owned subsidiary of the Company, has agreed to dispose its 16% equity interest in the Target Company to Ocean Delight.

Upon completion of the Disposal, the Company will retain an indirect 9% equity interest in the Target Company through ZTE HK, and the Target Company will cease to be a subsidiary of the Company.

As one or more of the applicable percentage ratios for the Disposal, on an aggregated basis, exceed 5% but are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

**1. INTRODUCTION**

On 28 December 2012, the Company, the Target Company and Ocean Delight entered into the First Disposal Agreement and ZTE HK, the Target Company and Ocean Delight entered into the Second Disposal Agreement.

**2. DISPOSAL AGREEMENTS**

**2.1 First Disposal Agreement**

The principal terms of the First Disposal Agreement are summarized as follows:

*a. Parties*

- (1) the Company as vendor;
- (2) Ocean Delight as purchaser; and

(3) the Target Company.

*b. Subject matter*

Ocean Delight has agreed to acquire, and the Company has agreed to transfer, 65% equity interest in Target Company.

*c. Consideration and payment*

The consideration under the First Disposal Agreement shall be the US\$ equivalent of RMB1,036,790,000, payable as follows:

- (i) Subject to the terms and conditions of the First Disposal Agreement, after the change in foreign exchange registration with SAFE by the Target Company with respect to the First Disposal, the Company shall establish a designated foreign exchange account for the receipt of the consideration, and shall provide written payment instruction and account details to Ocean Delight within two business days of the establishment of such account.
- (ii) Subject to the fulfilment of the conditions precedent to payment of the consideration as set out in paragraph 2.1 d. below, Ocean Delight shall pay the US\$ equivalent of the consideration in one lump sum (at the exchange rate on the day of payment) to the designated account within 10 business days of the receipt of written payment instruction. At the same time, the Company shall deliver the following to Ocean Delight (a) the Letter of Credit; and (b) the instruction from the beneficiary to the confirming bank of the Letter of Credit to return and cancel the Letter of Credit and to notify the issuing bank that the Letter of Credit has been cancelled.
- (iii) Subject to the fulfilment of the conditions precedent to the delivery of the Letter of Credit set out in paragraph 2.1 e. below, after receipt of the documents required under the First Disposal Agreement, Ocean Delight shall deliver to the Company the Letter of Credit in the amount of no less than US\$50,000,000. If Ocean Delight fails to pay the consideration in accordance with sub-paragraph 2.1 c.(ii) above, the Company or its nominated beneficiary shall have the right to draw the whole amount under the Letter of Credit in accordance with its terms and conditions as settlement of part of the consideration, and shall have the right to require the payment of the remainder of the consideration by Ocean Delight.

*d. Conditions precedent to the payment of the consideration*

The payment of the consideration under the First Disposal Agreement shall be subject to the following conditions precedent (unless otherwise waived in writing by Ocean Delight):

- (i) the completion of the change of registration procedures with the relevant Administration of Industry and Commerce department for the First Disposal and the amendment of the Target Company's articles of association, and the receipt of the amended business registration certificate of the Target Company;
- (ii) the completion of the foreign exchange registration by the Target Company in relation to the First Disposal; and
- (iii) the establishment of a designated foreign exchange account by the Company.

*e. Conditions precedent to the delivery of the Letter of Credit*

The obligation of Ocean Delight to deliver the Letter of Credit to the Company as described in sub-paragraph 2.1 c.(iii) above is subject to the fulfilment of the following conditions precedent (unless otherwise waived in writing by Ocean Delight):

- (i) the representations and warranties of the Company and the Target Company under the First Disposal Agreement are true and correct in all respects from the date of the First Disposal Agreement to the date of the delivery of the Letter of Credit;
- (ii) the undertakings and obligations required to be fulfilled by the Company and the Target Company on or prior to the date of delivery of the Letter of Credit have been fulfilled;
- (iii) the board of directors of the Target Company has approved the First Disposal and the amendment of the articles of association of the Target Company in the specified form;
- (iv) the other shareholders of the Target Company have agreed to the First Disposal and waived their right of first refusal to purchase the 65% equity interest in the Target Company to be transferred under the First Disposal Agreement and have signed the amended joint venture contract in the specified form with Ocean Delight;
- (v) Ocean Delight and the Target Company have received all necessary government approvals (excluding the change of registration with relevant Administration of Commerce and Industry department and the foreign exchange registration) and other third parties' consents (other than those as disclosed in the First Disposal Agreement), including but not limited to the approval of the relevant Ministry of Commerce department for the First Disposal, the amendment of the articles of association of the Target Company and the amended joint venture contract, and the granting of the foreign invested enterprise approval certificate reflecting the First Disposal;
- (vi) the Target Company has signed the labour contracts with the designated senior management and core technological personnel of the Target Company in the specified form; and
- (vii) the Purchasing Cooperation Agreement and the Business Cooperation Agreement in the specified forms have been executed.

*f. Completion*

The Company, the Target Company and Ocean Delight shall use their reasonable best endeavours to secure the approval by the relevant Ministry of Commerce department for the First Disposal within ten business days of the date of the First Disposal Agreement, and to complete the change of registration with the relevant Administration of Industry and Commerce department within five business days from the approval.

*g. Transfer restrictions*

Ocean Delight has agreed, after the Administration of Industry and Commerce department has approved the change of registration in respect of the First Disposal, not to transfer its equity interest in the Target Company or the business of the Target

Company and agreed not to procure the Target Company to transfer or grant licenses over its intellectual properties rights in certain of its businesses to certain specified entities without the prior written consent of the Company, subject to the conditions as set out in the First Disposal Agreement.

In the event the Company proposes to transfer its equity interest in the Target Company to persons other than the specified entities, the proposed purchaser shall provide the same restrictive undertakings on the transfer of the equity interest in the Target Company, its business and its intellectual property rights applicable to the Company as set out in the First Disposal Agreement.

*h Termination*

The First Disposal Agreement shall terminate upon the occurrence of any of the following events:

- (i) the parties to the First Disposal Agreement agree in writing to the termination of the First Disposal Agreement;
- (ii) the failure to obtain the approval from the relevant Ministry of Commerce department for the First Disposal within three months from the date of the First Disposal Agreement, upon which any party to the First Disposal Agreement shall have the right to terminate the First Disposal Agreement by way of written notice, unless the failure is due to or caused by the breach of any of its obligations under the First Disposal Agreement; and
- (iii) the failure of Ocean Delight to pay the consideration in full within 60 days after 10 business days from the date when the written payment instruction set out in sub-paragraph 2.1 c.(i) above has been given, the Company shall have the right to terminate the First Disposal Agreement by way of written notice.

**2.2 Second Disposal Agreement**

The principal terms of the Second Disposal Agreement are summarized as follows:

*a. Parties*

- (1) ZTE HK as vendor;
- (2) Ocean Delight as purchaser; and
- (3) the Target Company.

*b. Subject matter*

Ocean Delight has agreed to acquire, and ZTE HK has agreed to transfer, 16% equity interest in Target Company.

*c. Consideration and payment*

The consideration under the Second Disposal Agreement shall be the US\$ equivalent of RMB255,210,000. Subject to the fulfilment of the conditions precedent to payment of the consideration as set out in paragraph 2.2 d. below, Ocean Delight shall pay the US\$ equivalent of the consideration in one lump sum (at the exchange rate on the day of payment) to the account designated by ZTE HK in writing at the same time when Ocean Delight pays the consideration under the First Disposal Agreement.

If Ocean Delight fails to pay the condition under the Second Disposal Agreement, ZTE HK has a right to withdraw an amount of not exceeding the consideration under the Second Disposal Agreement from the Letter of Credit issued under the First Disposal Agreement as settlement of such consideration.

*d. Conditions precedent to the payment of the consideration*

The payment of the consideration under the Second Disposal Agreement shall be subject to the following conditions precedent (unless otherwise waived in writing by Ocean Delight):

- (i) the representations and warranties of ZTE HK and the Target Company under the Second Disposal Agreement are true and correct in all respects from the date of the Second Disposal Agreement to the date of payment of the consideration;
- (ii) the undertakings and obligations required to be fulfilled by ZTE HK and the Target Company on or prior to the date of payment of the consideration have been fulfilled;
- (iii) the board of directors of the Target Company has approved the Second Disposal and the amendment of the articles of association of the Target Company in the specified form;
- (iv) the other shareholders of the Target Company have agreed to the Second Disposal and waived their right of first refusal to purchase the 16% equity interest proposed to be transferred under the Second Disposal Agreement and have signed the amended joint venture contract in the specified form with Ocean Delight;
- (v) Ocean Delight and the Target Company have received all necessary government approvals and other third parties' consents (other than those as disclosed in the Second Disposal Agreement), including but not limited to the approval of the relevant Ministry of Commerce department for the Second Disposal, the amendment of the articles of association of the Target Company and the amended joint venture contract, and the granting of the foreign invested enterprise approval certificate reflecting the Second Disposal, and the Target Company has completed the change of registration for the Second Disposal with the relevant Administration of Commerce and Industry department and has obtained the amended business license, and the completion of the foreign exchange registration by the Target Company in relation to the Second Disposal; and
- (vi) the fulfilment (or waived by Ocean Delight) of all of the conditions precedent to the payment of the consideration of the First Disposal Agreement as set out in paragraph 2.1 d. above.

*e. Completion*

ZTE HK, the Target Company and Ocean Delight shall use their reasonable best endeavours to secure the approval by the relevant Ministry of Commerce department for the Second Disposal within ten business days of the date of the Second Disposal Agreement, and to complete the change of registration with the relevant Administration of Industry and Commerce department within five business days from the approval.

*f. Termination*

The Second Disposal Agreement shall terminate upon the occurrence of any of the following events:

- (i) the parties to the Second Disposal Agreement agree in writing to the termination of the Second Disposal Agreement;
- (ii) the failure to obtain the approval from the relevant Ministry of Commerce department for the Second Disposal within three months from the date of the Second Disposal Agreement, upon which any party to the Second Disposal Agreement shall have the right to terminate the Second Disposal Agreement, unless the failure is due to or caused by the breach of any of its obligations under the Second Disposal Agreement; and
- (iii) the failure of Ocean Delight to pay the consideration in full within 60 days after 10 business days from the date when the written payment instruction set out in sub-paragraph 2.1 c.(i) above has been given, ZTE HK shall have the right to terminate the Second Disposal Agreement by way of written notice.

**2.3 Purchasing Cooperation Agreement and Business Cooperation Agreement**

On 28 December 2012, the Company and the Target Company have also entered into the Business Cooperation Agreement to regulate the business cooperation as to the video surveillance products and snap ring monitoring products between the Company and the Target Company after completion of the Disposal.

On 28 December 2012, Shenzhen ZTE Kangxun Telecom Company Limited\* (深圳市中興康訊電子有限公司), a wholly-owned subsidiary of the Company, and the Target Company have also entered into the Purchasing Cooperation Agreement to regulate the pricing principles, payment cycle and other terms as to the purchase of materials or services by the Target Company from Shenzhen ZTE Kangxun Telecom Company Limited\* (深圳市中興康訊電子有限公司) after completion of the Disposal.

**3. INFORMATION OF THE TARGET COMPANY**

The Target Company is principally engaged in dynamic environmental monitoring and visual monitoring businesses. Dynamic environmental monitoring is primarily used in monitoring systems for telecommunications operators, and in electricity, petroleum, railway transportation, finance and other industries. Visual monitoring is primarily used in monitoring platforms for telecommunication operators, enterprises, and electricity, petroleum, environmental protection, education industries, small and medium enterprises, individual households and other areas.

As at the date of this announcement, the Target Company is held as to 65% by the Company, 25% by ZTE HK, and 10% by Shenzhen Qunxian Technology Co., Ltd.\* (深圳市群賢科技有限公司). Upon completion of the Disposal, the Target Company will be held as to 81% by Ocean Delight, 9% by ZTE HK, and 10% by Shenzhen Qunxian Technology Co., Ltd.\* (深圳市群賢科技有限公司) and the Target Company will cease to be a subsidiary of the Company.

Set out below is a summary of the consolidated accounts of the Target Company and its subsidiaries prepared in accordance with PRC GAAP for the two years ended 31 December 2011 and the nine months ended 30 September 2012:

Unit: RMB in ten thousands

	<b>For the year ended 31 December 2010 (audited)</b>	<b>For the year ended 31 December 2011 (audited)</b>	<b>For the nine months ended 30 September 2012 (unaudited)</b>
<b>Profit before taxation and extraordinary items</b>	13,374.69	14,688.14	9,917.73
<b>Profit after taxation and extraordinary items</b>	12,060.33	13,971.38	11,064.86
<b>Net asset value</b>	37,022.55	48,558.93	59,698.79
<b>Net asset value attributable to equity holders of the parent</b>	37,012.55	48,483.93	59,548.79

According to the PRC GAAP, the net gain in the form of investment income expected to accrue to the Company on the Disposal in 2013, assuming no material change from the financial position of the Target Company as at 30 September 2012, would be approximately RMB820,000,000 to RMB880,000,000, which was arrived at by deducting the carrying value of the 81% equity interest in the Target Company from the total consideration payable by Ocean Delight to the Company and ZTE HK and adding the gains from fair value change of the remaining 9% equity interest in the Target Company held by ZTE HK. The Company will apply the proceeds from the Disposal to the working capital of the Company so as to support the development of the Company's main business.

#### **4. REASONS FOR AND BENEFITS OF ENTERING INTO THE DISPOSAL**

The considerations payable by Ocean Delight under the Disposal Agreements were arrived at after arm's length negotiation between the relevant parties by making reference to the current financial and operating situations of the Target Company without taking into account of the asset appraisal value.

The Disposal allows the Company to concentrate and focus on its main business, which is in line with the Company's strategic development needs. The Disposal will increase the investment income by RMB820,000,000 to RMB880,000,000 in the Company and increase the Company's working capital so as to support the development of the Company's main business.

#### **5. BOARD APPROVAL**

At the Thirty-eighth Meeting of the Fifth Session of the Board held on 28 December 2012, the Board approved (a) the First Disposal Agreement, pursuant to which the Company has agreed to dispose its 65% equity interest in the Target Company to Ocean Delight; and (b) the Second Disposal Agreement, pursuant to which ZTE HK, a wholly-owned subsidiary of the Company, has agreed to dispose its 16% equity interest in the Target Company to Ocean Delight.

The Board (including the independent non-executive Directors) takes the view that the Disposal Agreements 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. None of the

Directors have a material interest in the Disposal Agreements, 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.

## **6. INFORMATION OF THE COMPANY AND OCEAN DELIGHT**

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 and other products.

Ocean Delight is principally engaged in investment holding.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Ocean Delight and its ultimate beneficial owner are independent of the Company and connected persons (as defined in the Hong Kong Listing Rules) of the Company.

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

As one or more of the applicable percentage ratios for the Disposal, on an aggregated basis, exceed 5% but are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

## **8. DEFINITIONS**

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

“Administration of Industry and Commerce”	the Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理部門)
“Board”	the board of directors of the Company
“Business Cooperation Agreement”	the business cooperation agreement dated 28 December 2012 entered into between the Company and the Target 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
“Directors”	the director(s) of the Company
“Disposal”	the First Disposal and the Second Disposal
“Disposal Agreements”	the First Disposal Agreement and the Second Disposal Agreement
“First Disposal”	the disposal of 65% equity interest in the Target Company by the Company to Ocean Delight pursuant to



	the terms and conditions of the First Disposal Agreement
“First Disposal Agreement”	an equity transfer agreement dated 28 December 2012 entered into between the Company as vendor and Ocean Delight as purchaser in respect of the sale and purchase of 65% equity interest in the Target 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
“Letter of Credit”	the irrevocable letter of credit drawable on demand by the Company or its designated beneficiary and issued by a bank outside the PRC, of an amount no less than US\$ 50,000,000, which is deliverable by Ocean Delight to the Company upon fulfillment of the conditions as set out in paragraph 2.1 e. of this announcement
“Ministry of Commerce”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Ocean Delight”	Ocean Delight Investments Limited (基宇投資有限公司), a company incorporated in Hong Kong with limited liability
“PRC”	the People’s Republic of China
“PRC GAAP”	generally accepted accounting principles in the PRC
“Purchasing Cooperation Agreement”	the purchasing cooperation agreement dated 28 December 2012 entered into between Shenzhen ZTE Kangxun Telecom Company Limited* (深圳市中興康訊電子有限公司), a wholly-owned subsidiary of the Company, and the Target Company
“RMB”	Renminbi, the lawful currency of PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)

“Second Disposal”	the disposal of 16% equity interest in the Target Company by ZTE HK to Ocean Delight pursuant to the terms and conditions of the Second Disposal Agreement
“Second Disposal Agreement”	an equity transfer agreement dated 28 December 2012 entered into between ZTE HK as vendor and Ocean Delight as purchaser in respect of the sale and purchase of 16% equity interest in the Target Company
“Target Company ”	Shenzhen ZNV Technology Co., Ltd (深圳中興力維技術有限公司), a company established under the laws of the PRC with limited liability and a non wholly-owned subsidiary of the Company as at the date of this announcement
“US\$ ”	United States dollars, the lawful currency of the United States of America
“ZTE HK” ”	ZTE (H.K.) Limited (中興通訊(香港)有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company

By Order of the Board

**Hou Weigui**

*Chairman*

Shenzhen, the PRC

28 December 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.*