ZTE中兴

# 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)**

# SUPPLEMENTARY NOTICE OF EX TEMPORE MOTION AT THE ANNUAL GENERAL MEETING OF 2009

**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.**

Reference is made to the notice of annual general meeting dated 19 April 2010 (the "**AGM Notice**") of ZTE Corporation ("**ZTE**" or the "**Company**") which set out details relating to the time, venue and agenda of the Annual General Meeting of 2009 to be convened by the Company (the "**AGM**") on 3 June 2010.

On 14 May 2010, the Board of Directors of the Company received an ex tempore motion submitted by its shareholder, Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited ("Zhongxingxin", holding 620,214,413 A shares or 32.45% of the total share capital of the Company), requesting the Board of Directors of the Company to table the same for consideration at the EGM. Details of the motion are as follows:

**"RESOLUTION ON THE APPLICATION FOR THE 2010 INVESTMENT QUOTA FOR FIXED-INCOME DERIVATIVES"**

The "Resolution on the Application for the 2010 Investment Quota for Fixed-income Derivatives" was considered and approved by the Board of Directors of the Company at the Third Meeting of the Fifth Session of the Board of Directors on 27 April 2010. Details of the resolution are as follows:

**I Basic information on fixed-income derivatives**

Given market opportunities arising from the presence of different deposit and loan interest rates at given timeframes, as well as the difference between spot/forward exchange rates in different currency markets, and in view of the significant foreign currency payments required by its import activities, the Company will make risk-free investments in fixed income derivatives utilising financial portfolio products provided by financial institutions. This investment operation mainly involves domestic deliverable forward (DF) contracts, overseas non-deliverable forward (NDF) contracts and foreign currency payables negotiation under guarantee.

A common formula for the calculation of investment income of such fixed-income derivatives upon maturity (using RMB as example) is set out as follows: Investment income of fixed-income derivatives upon maturity = foreign currency payments for imports * foreign currency to RMB spot exchange rate * (1 + RMB deposit interest rate) – loans with amounts equivalent to foreign currency payments for imports * (1 + foreign currency loan interest rate) * foreign currency to RMB forward contract exchange rate.

The gains from fixed-income derivatives comprise two portions: income from the interest spread between RMB pledged deposits and USD loan interests, and income from the purchase of foreign currency for offsetting forward foreign currency debts (by way of DF or NDF). From the perspective of a portfolio of fixed-income derivative contracts, there is a constant yield rate upon maturity. However, as the NDF contracts among the portfolio contracts are entered into by the Company's overseas subsidiaries, losses and payment obligations may be incurred when settlement is made in respect of the difference between the market exchange rate prevailing at the time and location of completion of an individual NDF contract and the NDF contract exchange rate. As a result, it might be necessary to provide an undertaking of guaranteed repayment to the signatory bank.

***1. Necessity of the fixed-income derivative operation***

The fixed-income derivative operation started by the Company and/or its subsidiaries (the "**Group**") is closely related to day-to-day operation. The Group is currently required to make substantial foreign currency payments each year for its significant imports of raw materials and equipment. The reduction of exchange losses and lock-up of trading costs through reasonable use of derivative financial instruments to avoid the risk associated with foreign currency payments for imports in anticipation of a floating RMB exchange rate would be conducive to lowering risks and enhancing competitiveness.

***2. Preparations for the fixed-income derivative operation***

(1) The "System for Risk Control and Information Disclosure relating to Investments in Derivatives of ZTE Corporation", containing specific provisions for risk control, review procedure and subsequent management relating to derivative investments by the Company and its subsidiaries, has been formulated to ensure that risks associated with the Group's fixed-income derivative operations are controllable. Please refer to the appendix to this notice for the provisions of the said system.

(2) An investment working group has been set up under the leadership of the chief financial officer and other relevant officers. Members of the derivative investment working group are responsible for the actual operation of fixed-income derivative investments. The investment working group formulates plans for fixed-income derivative investments and implement such plans according to the scope mandated by the Board of Director or the general meeting.

(3) Personnel involved in fixed-income derivative operations are fully aware of the characteristics and risks of this type of investment, and are operating in strict compliance with the operational and risk management systems for such investments.

***3. Risk analysis of fixed-income derivative investments***

The Group will receive a fixed income upon maturity for each fixed-income derivative investment made, so there is no volatility in income. The Group's fixed-income derivative operations are subject to the following potential risks:

(1) Possible closedown of banks: in the event that a bank where our pledged deposits are placed is closed down, it might be difficult to recover the pledged deposits in full;

(2) Possible closedown of banks providing fixed-income derivatives, in which case we might be unable to receive the income that might have been generated from the fixed-income derivatives.

As the Group chooses to deal with large banks with high investment grades, such as the Bank of China and HSBC, etc, in its fixed-income derivative operations, the possibility of losses arising from bank closedowns can basically be ruled out given the sound operations and strong credit standing of such banks and the minimal possibility of their closedown.

***4. Risk management strategy***

In connection with the Group's fixed-income derivative operations, all variables are determined on the date of operation and therefore its income upon maturity is pre-determined without any unforeseeable exposures or risks.

***5. Fair-value analysis of fixed-income derivatives***

The Group's fixed-income derivatives generate pre-determined income upon maturity, and the fair value of the investment is determined in accordance with the Accounting Standards for Business Enterprises.

***6. Accounting policies and principles***

The Group shall adopt accounting methods for it fixed-income derivative operations in accordance with the Accounting Standards for Business Enterprises.

**II. Scope of the Approval and Authorisation regarding the 2010 Investment Quota for Fixed-income Derivatives**

It is hereby submitted to the shareholders at AGM to consider and, if thought fit,

(a) to approve and authorize the Company to be engaged in fixed-income derivative operations subject to a quota of USD1 billion or equivalent in total secured bank loans (such quota covering subsidiaries), taking into account projections on foreign currency payments for imports to be made by the Company and its subsidiaries. The approval and authorisation shall be effective from the date on which it is passed at the general meeting by way of resolution until the conclusion of the next annual general meeting of the Company or the modification or revocation of the authorisation at a general meeting, whichever is earlier; and

(b) to approve the Company and its subsidiaries to provide undertaking of repayment to the signing bank in respect of potential losses arising from the fixed-income derivative DF/NDF contract.

As permitted by Rule 13.36(4)(e) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, no Shareholder shall abstain from voting at the AGM.

Pursuant to Rule 103 of the Company Law of the People's Republic of China (the "PRC Company Law"), "shareholders individually or collectively holding more than 3% of the shares of the Company may propose ex tempore motions no later than ten days prior to the convening of the general meeting by submitting the same in writing to the Board of Directors; the Board of Directors should notify other shareholders within two days after the receipt of the motions and table the same at the general meeting for consideration."

Further, pursuant to Article 78 of the Articles of Association of ZTE Corporation, "shareholders individually or collectively holding more than 3% of the shares of the Company may propose ex tempore motions no later than ten days prior to the convening of the general meeting by submitting the same in writing to the convener. The convener should issue a supplementary notice of general meeting within two days after the receipt of the motions to announce the details of such motions."

Having examined the aforesaid ex tempore motion, the full Board of Directors of the Company is of the view that it is in compliance with the relevant provisions of the PRC Company Law and the Articles of Association, with Zhongxingxin meeting the requirements for proposing ex tempore motion and the motion carrying specific subjects and matters to be resolved that fall within the scope of authority of the General Meeting. Accordingly, the Board of Directors of the Company has approved the tabling of the ex tempore motion at the Annual General Meeting of 2009 of the Company in accordance with the Rules of Procedure for General Meetings of Listed Companies.

Save for the aforesaid additional ex tempore motions, other details such as the time, venue and record date for the Annual General Meeting of 2009 of the Company will remain unchanged. A revised Proxy Form has been published on the even day with this notice.

By Order of the Board of Directors
**Hou Weigui**
*Chairman*

Shenzhen, PRC
18 May 2010

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

(Annex)

# ZTE Corporation

# Rules for Risk Control and Information Disclosure relating to Investments in Derivatives

*(Approved at the Third Meeting of the Fifth Session of the Board of Directors of the Company on 27 April 2010)*

## Chapter 1 General Rules

**Rule 1** These Rules have been formulated to regulate the derivative investment activities of ZTE Corporation (the "Company") and control the risks associated with derivative investments, in accordance with relevant provisions of laws, regulations and regulatory documents including the Securities Law of the People's Republic of China, Accounting Law of the People's Republic of China, Administrative Rules Governing Information Disclosure by Listed Companies, Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, Working Guide for Information Disclosure by Companies Listed on the Shenzhen Stock Exchange — No. 8: Derivative Investments, Hong Kong Financial Reporting Standards and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as well as the Articles of Association of ZTE Corporation (the "Articles") and Administrative Rules on Information Disclosure of ZTE Corporation, taking into account the specific conditions of the Company.

**Rule 2** These Rules are applicable to derivative investments conducted by the Company or its subsidiaries. Subsidiaries of the Company shall not make any derivative investment without the approval of the Company.

**Rule 3** Derivatives referred to in these Rules shall mean traded or non-traded products in the exchange markets or over-the-counter markets, which are in substance products such as futures, options, forwards, swaps, or portfolios of such products. The underlying assets of derivatives may include securities, indices, interest rates, exchange rates, currencies, commodities and other subject assets, or a combination of the above; derivative transactions may be settled by way of deliveries of physical assets or cash settlement of price difference; and may take the form of leveraged transactions backed by surety or guarantees/charges, or credit transactions without any or charges.

**Rule 4** The Company shall disclose relevant information on its commencement of derivative investment in its interim or regular reports in accordance with relevant provisions of the securities supervisory and regulatory authorities.

## Chapter 2 Risk Control for Derivative Investments

**Rule 5** Prior to making any derivative investments, the Risk Management Committee of the Company (the "Risk Management Committee") shall assess the investment risks associated with derivatives, conduct analyses on the feasibility and necessity of the derivative investments, and shall report any contingencies and changes in risk assessment in a timely manner based on the actual operations of the business departments.

**Rule 6** Prior to making any derivative investments, the Company shall formulate corresponding accounting policies and determine the measurement and accounting methods in respect of derivative investments.

**Rule 7** Prior to making any derivative investments, an investment execution team that comprises the responsible persons including the Chief Financial Officer (the "Investment Team") shall be set up by the Company. The Investment Team shall consist of personnel specialized in investment decision-making, business operations and risk control. Personnel engaged in the investments shall have sufficient understanding of the risks involved in and operate in strict accordance with the business operation and risk management systems for derivative investments.

**Rule 8** Derivative investments shall be considered and approved by the Board of Directors of the Company (the "Board") within the limit of authority prescribed in the Articles. Derivative investments which exceed such limit shall be submitted to the general meeting for consideration. The Audit Committee of the Board (the "Audit Committee") shall be responsible for examining the necessity of derivative investments and the related risk controls. The consent of the Audit Committee shall be obtained before a derivative investment is submitted to the Board for consideration and approval.

**Rule 9** The Investment Team shall be responsible for the relevant operation of derivative investments within the specific scope of delegation determined by way of Board resolutions. The Investment Team may determine specific investment amounts and timing only within the caps authorized by the general meeting or the Board.

**Rule 10** The Legal Department of the Company shall be responsible for vetting the terms of any derivative investment contracts and related documents and analyzing the legal risks involved.

**Rule 11** The Company shall exercise stringent control over the types and sizes of derivative investments to be made. Investments in sophisticated derivatives beyond actual business needs and speculative derivative investments on the excuse of hedging purposes are prohibited.

## Chapter 3 Procedures for the Review of Derivative Investments

**Rule 12** Derivative investments shall be considered and approved by the Board within the limit of authority prescribed in the Articles. Derivative investments which exceed such limit of authority of the Board shall be submitted to the general meeting for consideration. Derivative investments which constitute connected transactions shall be subject to the voting procedures for connected transactions.

**Rule 13** The Investment Team shall prepare feasibility analysis reports in respect of derivative investments within the limit of the Board's approval authority or derivative investments proposed for hedging purposes and submit such reports to the Board for consideration. The derivative investments may be made only upon the review and approval by the Board.

**Rule 14** Derivative investments exceeding the limit of the Board's approval authority and not made for hedging purposes shall require the review and approval of the Board, the furnishing of a specific opinion by the Independent Directors, and the consideration and approval by the general meeting before implementation.

Prior to the issuance of the notice of general meeting, a specific analysis report on the necessity, feasibility and related risk management measures of the derivative investment proposed by the Company, containing the conclusions of such analysis, shall be furnished by the Company or a consultant engaged by the Company.

**Rule 15** Connected transactions on derivatives to be entered into between the Company and connected parties shall be submitted to the general meeting for review and announcements shall be made thereafter.

## Chapter 4 Requirements for Subsequent Management and Information Disclosures

**Rule 16** The Finance Department of the Company shall be responsible for establishing an account for inspection for each derivative investment and processing registration and administrative procedures.

**Rule 17** The Internal Audit Department of the Company shall be responsible for the audit of derivative investments.

**Rule 18** The Securities and Investor Relations Department of the Company shall be responsible for vetting the decision-making procedures for derivative investments in accordance with relevant requirements of the securities supervisory and regulatory authorities to ensure legal compliance and conducting necessary information disclosure.

**Rule 19** The Risk Management Committee shall track changes in the open market prices or fair values of the derivatives, assess in a timely manner any changes in the risk exposure of derivatives in which the Company has invested and report to the Audit Committee on a regular basis. The Risk Management Committee shall report to the Board when the aggregate of the fair-value impairment of the derivatives in which the Company has invested and the value change in assets applied in risk hedging (if any) results in total losses or variable losses in an amount exceeding RMB10 million; the Securities and Investor Relations Department of the Company shall make timely disclosure in the form of an announcement when such losses amount to 10% of the latest audited net assets of the Company.

**Rule 20** In respect of the derivative investments which are not settled and cleared on a consolidated basis at the exchange, the Investment Team shall closely monitor the changes in the credit risk profile of counterparties and conduct, on a regular basis, tracking and assessment of the credit status and contract performance of counterparties. The positions of the collaterals for the contract performance of counterparties shall be adjusted accordingly.

**Rule 21** The Investment Team shall determine appropriate stop-loss limits for various types of derivatives or different counterparties according to the characteristics of the derivatives in which the Company has invested, and shall formulate clear procedures for handling stop-loss operations and strictly implement stop-loss regulations.

**Rule 22** The Investment Team shall furnish risk analysis reports to the management of the Company and the Board in a timely manner. Such reports shall cover, among others, the status of the execution of derivative investment delegation, positions of derivative transactions, risks assessment results, gains/losses from derivative investments for the current period and execution of stop-loss limits.

**Rule 23** The Investment Team shall formulate practicable contingency plans by taking into account the characteristics of derivatives in which the Company has invested, so that any significant contingency events that may occur in the course of derivative investments can be addressed in a timely manner.

## Chapter 5 Supplemental Provisions

**Rule 24** Matters not specified in these Rules shall be dealt with in accordance with relevant provisions of relevant laws, rules and regulations, regulatory documents of the State and the Articles, which shall prevail in case that these Rules are inconsistent therewith.

**Rule 25** The authority for the interpretation of these Rules shall be vested with the Board.

**Rule 26** These Rules shall be implemented with effect from the date of approval by the Board.

Board of Directors
ZTE Corporation

27 April 2010

*This English version of the Rules on Risk Control and Information Disclosure relating to Investments in Derivatives is for reference only. In case if there is any discrepancy between the Chinese and English versions, the Chinese version shall prevail.*