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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 TRANSACTIONS
INCREASE OF INTEREST IN FIVE SUBSIDIARIES
BY WAY OF
CAPITAL REDUCTIONS AND EQUITY ACQUISITION

At the Thirty-first Meeting of the Fifth Session of the Board held on 16 July 2012, the Board approved (1) the Capital Reductions by ZTE Kangxun, Zhongxing Microelectronics, Zhongxing Software and Changfei Investment (all are non wholly-owned subsidiaries of the Company), pursuant to which 10%, 10%, 1.92% and 7.5% registered capital of the respective companies owned by Juxian Investment will be reduced; and (2) the Equity Acquisition, pursuant to which the Company will acquire 10% equity interest in Guangdong New Pivot (a non wholly-owned subsidiary of the Company) from Juxian Investment. Upon completion of the Capital Reductions and the Equity Acquisition, ZTE Kangxun, Zhongxing Microelectronics and Zhongxing Software will become wholly-owned subsidiaries of the Company, and the Company's interest in Changfei Investment and Guangdong New Pivot will increase 4.135% and 10% respectively, which are still non wholly-owned subsidiaries of the Company.

As at the date of this announcement, Juxian Investment is the substantial shareholder of ZTE Kangxun, Zhongxing Microelectronics and Guangdong New Pivot, all are subsidiaries of the Company, and is therefore a connected person of the Company pursuant to Rule 14A.11(1) of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios for the Capital Reductions and the Equity Acquisition, on an aggregated basis, exceed 0.1% but are less than 5%, the Capital Reductions and the Equity Acquisition constitute connected transactions of the Company and 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

On 16 July 2012, the Company entered into the capital reduction agreements for the Capital Reductions and the equity transfer agreement for the Equity Acquisition.

2. CAPITAL REDUCTIONS

On 16 July 2012, the Company and the other existing shareholders of the Target Subsidiaries (save for Guangdong New Pivot) entered into the capital reduction agreements for the Capital Reductions with the principal terms as follows:

a. Subject matters

The parties to each capital reduction agreement have conditionally agreed the Capital Reductions to the effect that:

- (1) 10% registered capital of ZTE Kangxun owned by Juxian Investment will be reduced;
- (2) 10% registered capital of Zhongxing Microelectronics owned by Juxian Investment will be reduced;
- (3) 1.92% registered capital of Zhongxing Software owned by Juxian Investment will be reduced; and
- (4) 7.5% registered capital of Changfei Investment owned by Juxian Investment will be reduced.

b. Consideration

The considerations for the Capital Reductions are payable to Juxian Investment in cash within one year after obtaining the new business licence of the relevant Target Company upon completion of the Capital Reductions:

- (1) by ZTE Kangxun in an amount of RMB221,719,795, which was arrived at after arm's length negotiation between the parties by making reference to the audited net asset value and the undistributed profit of ZTE Kangxun as at 31 December 2011;
- (2) by Zhongxing Microelectronics in an amount of RMB4,655,763, which was arrived at after arm's length negotiation between the parties by making reference to the audited net asset value and the undistributed profit of Zhongxing Microelectronics as at 31 December 2011;
- (3) by Zhongxing Software in an amount of RMB8,543,419, which was arrived at after arm's length negotiation between the parties by making reference to the audited net asset value and the undistributed profit of Zhongxing Software as at 31 December 2011; and
- (4) by Changfei Investment in an amount of RMB37,040,158, which was arrived at after arm's length negotiation between the parties by making reference to the audited net asset value of Changfei Investment as at 31 December 2011.

c. Conditions precedent

Completion of each of the Capital Reductions is conditional upon the fulfilment of the following conditions:

- (1) the approval from the shareholders of the relevant Target Subsidiaries (save for Guangdong New Pivot) in respect of the relevant Capital Reductions having been obtained; and
- (2) all necessary approvals, registrations and filings from the relevant PRC regulatory bodies in respect of the relevant Capital Reductions having been obtained.

d. Completion

Completion of each of the Capital Reductions will take place on the date when the last condition precedent mentioned above has been fulfilled.

3. EQUITY ACQUISITION

On 16 July 2012, the Company and Juxian Investment entered into the equity transfer agreement for the Equity Acquisition with the principal terms as follows:

a. Subject matter

The Company has conditionally agreed to acquire, and Juxian Investment has conditionally agreed to transfer, 10% equity interest in Guangdong New Pivot.

b. Consideration

The consideration for the Equity Acquisition payable by the Company to Juxian Investment is RMB2,109,986 which will be paid within 15 days from the date of the equity transfer agreement.

The consideration for the Equity Acquisition was arrived at after arm's length negotiation between the Company and Juxian Investment by making reference to the audited net asset value of Guangdong New Pivot as at 31 December 2011.

c. Conditions precedent

Completion of the Equity Acquisition is conditional upon the fulfilment of the condition of having obtained all necessary approvals, registrations and filings from the relevant PRC regulatory bodies in respect of the Equity Acquisition.

d. Completion

Completion of the Equity Acquisition will take place on the date when the condition precedent mentioned above has been fulfilled.

4. INFORMATION OF THE TARGET SUBSIDIARIES

4.1 ZTE Kangxun

ZTE Kangxun is principally engaged in production of electronic products and accessories. As at the date of this announcement, ZTE Kangxun is held as to 90% by the Company and as to 10% by Juxian Investment. Upon completion of the relevant Capital Reduction, ZTE Kangxun will become a wholly-owned subsidiary of the Company.

Set out below is a summary of the audited accounts of ZTE Kangxun prepared in accordance with PRC GAAP for the two years ended 31 December 2011, and the attributable value to the 10% registered capital owned by Juxian Investment:

Unit:RMB

	For the year ended 31 December 2010	For the year ended 31 December 2011	Attributable value to the 10% registered capital owned by Juxian Investment
Profit before taxation	493,728,981	186,236,030	18,623,603
Profit after taxation	392,291,063	149,413,009	14,941,301
Net asset value	2,202,675,925	2,352,088,934	235,208,893

4.2 Zhongxing Microelectronics

Zhongxing Microelectronics is principally engaged in production, design and sales of integrated circuit. As at the date of this announcement, Zhongxing Microelectronics is held as to 90% by the Company and as to 10% by Juxian Investment. Upon completion of the relevant Capital Reduction, Zhongxing Microelectronics will become a wholly-owned subsidiary of the Company.

Set out below is a summary of the audited accounts of Zhongxing Microelectronics prepared in accordance with PRC GAAP for the two years ended 31 December 2011, and the attributable value to the 10% registered capital owned by Juxian Investment:

Unit:RMB

	For the year ended 31 December 2010	For the year ended 31 December 2011	Attributable value to the 10% registered capital owned by Juxian Investment
Profit before taxation	159,381,679	114,794,924	11,479,492
Profit after taxation	131,894,941	100,844,924	10,084,492
Net asset value	178,452,568	279,297,492	27,929,749

4.3 Zhongxing Software

Zhongxing Software is principally engaged in software development. As at the date of this announcement, Zhongxing Software is held as to 74.08% by the Company, as to 24% by ZTE HK (a wholly-owned subsidiary of the Company) and as to 1.92% by Juxian Investment. The Company is acquiring the 24% equity interest from ZTE HK in order to convert Zhongxing Software from a sino-foreign equity joint venture into a domestic company. Upon completion of the relevant Capital Reduction, Zhongxing Software will become a wholly-owned subsidiary of the Company.

Set out below is a summary of the audited accounts of Zhongxing Software prepared in accordance with PRC GAAP for the two years ended 31 December 2011, and the attributable value to the 1.92% registered capital owned by Juxian Investment:

Unit:RMB

	For the year ended 31 December 2010	For the year ended 31 December 2011	Attributable value to the 1.92% registered capital owned by Juxian Investment
Profit before taxation	2,047,186,607	1,706,505,675	32,764,909
Profit after taxation	1,721,661,009	1,579,727,067	30,330,760
Net asset value	3,218,663,759	1,818,390,825	34,913,104

4.4 Changfei Investment

Changfei Investment is principally engaged in industrial investment (specific items shall be declared otherwise), and sales in electronic and communication equipments. As at the date of this announcement, Changfei Investment is held as to 51% by the Company, as to 25.9% by Liu Weili, as to 15.6% by Zhu Weimin and as to 7.5% by

Juxian Investment. Upon completion of the relevant Capital Reduction, the Company's interest in Changfei Investment will increase 4.135% and Changfei Investment is still a non wholly-owned subsidiary of the Company.

Set out below is a summary of the audited consolidated accounts of Changfei Investment and its subsidiaries prepared in accordance with PRC GAAP for the two years ended 31 December 2011, and the attributable value to the 7.5% registered capital owned by Juxian Investment:

Unit:RMB

	For the year ended 31 December 2010	For the year ended 31 December 2011	Attributable value to the 7.5% registered capital owned by Juxian Investment
Profit before taxation	142,778,773	188,644,312	14,148,323
Profit after taxation	129,781,934	153,057,702	11,479,328
Net asset value	382,457,793	493,868,774	37,040,158

4.5 Guangdong New Pivot

Guangdong New Pivot is principally engaged in production, design and sales of ,calculating software and hardware. As at the date of this announcement, Guangdong New Pivot is held as to 80% by the Company, as to 10% by Juxian Investment and as to 10% by other shareholders. Upon completion of the Equity Acquisition, the Company's interest in Guangdong New Pivot will increase 10% and Guangdong New Pivot is still a non wholly-owned subsidiary of the Company. Set out below is a summary of the audited accounts of Guangdong New Pivot prepared in accordance with PRC GAAP for the two years ended 31 December 2011, and the attributable value to the 10% registered capital owned by Juxian Investment:

Unit:RMB

	For the year ended 31 December 2010	For the year ended 31 December 2011	Attributable value to the 10% registered capital owned by Juxian Investment
Profit before taxation	2,892,496	6,302,254	630,225
Profit after taxation	2,479,998	5,017,434	501,743
Net asset value	16,082,426	21,099,860	2,109,986

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE CAPITAL REDUCTIONS AND THE EQUITY ACQUISITION

Following completion of the Capital Reductions and the Equity Acquisition, Juxian Investment will no longer be a substantial shareholder of any subsidiaries of the Company and therefore will not be a connected person of the Company. This will reduce the number of connected transactions of the Company and therefore facilitate and enhance the standard operations of the Company.

6. BOARD APPROVAL

At the Thirty-first Meeting of the Fifth Session of the Board held on 16 July 2012, the Board approved (1) the Capital Reductions by ZTE Kangxun, Zhongxing Microelectronics, Zhongxing Software and Changfei Investment (all are non wholly-owned subsidiaries of the Company), pursuant to which 10%, 10%, 1.92% and 7.5% registered capital of the respective companies owned by Juxian Investment will be reduced; and (2) the Equity Acquisition, pursuant to which the Company will acquire 10% equity interest in Guangdong New Pivot (a non wholly-owned subsidiary of the Company) from Juxian Investment.

The Directors (including the independent non-executive Directors) take the view that the Capital Reductions and the Equity Acquisition are entered into in the ordinary and usual course of business of the Company 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 Capital Reductions and the Equity Acquisition nor are they required to abstain from voting in the relevant board resolutions.

7. INFORMATION OF THE COMPANY AND JUXIAN INVESTMENT

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.

Juxian Investment is engaged in industrial investments (specific items shall be declared otherwise), and technological developments in machinery equipments, electronic equipments and communication equipments

8. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, Juxian Investment is the substantial shareholder of ZTE Kangxun, Zhongxing Microelectronics and Guangdong New Pivot, all are subsidiaries of the Company, and is therefore a connected person of the Company pursuant to Rule 14A.11(1) of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios for the Capital Reductions and the Equity Acquisition, on an aggregated basis, exceed 0.1% but are less than 5%, the Capital Reductions and the Equity Acquisition constitute connected transactions of the Company and are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

9. 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
“Capital Reductions”	collectively, (i) the reduction of the 10% registered capital of ZTE Kangxun owned by Juxian Investment

pursuant to the terms and conditions of a capital reduction agreement dated 16 July 2012 by the Company, Juxian Investment and ZTE Kangxun; (ii) the reduction of the 10% registered capital of Zhongxing Microelectronics owned by Juxian Investment pursuant to the terms and conditions of a capital reduction agreement dated 16 July 2012 by the Company, Juxian Investment and Zhongxing Microelectronics; (iii) the reduction of the 1.92% registered capital of Zhongxing Software owned by Juxian Investment pursuant to the terms and conditions of a capital reduction agreement dated 16 July 2012 by the Company, ZTE HK, Juxian Investment and Zhongxing Software; and (iv) the reduction of the 7.5% registered capital of Changfei Investment owned by Juxian Investment pursuant to the terms and conditions of a capital reduction agreement dated 16 July 2012 by the Company, Liu Weili, Zhu Weimin, Juxian Investment and Changfei Investment

“Changfei Investment”	深圳市長飛投資有限公司 (Shenzhen Changfei Investment Company, Limited*), a company established under the laws of the PRC with limited liability and a 51%-owned subsidiary of the Company as at the date of this announcement
“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
“Equity Acquisition”	the acquisition of 10% equity interest in Guangdong New Pivot by the Company from Juxian Investment pursuant to the terms and conditions of an equity transfer agreement dated 16 July 2012 by the Company as purchaser and Juxian Investment as vendor
“Guangdong New Pivot”	廣東新支點技術服務有限公司 (Guangdong New Pivot Technology & Service Company Limited*), a company established under the laws of the PRC with limited liability and a 80%-owned subsidiary of the Company as at the date of this announcement
“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
“Juxian Investment”	深圳市聚賢投資有限公司 (Shenzhen Juxian Investment Company Limited*), a company established under the laws of the PRC with limited liability
“PRC”	the People’s Republic of China
“PRC GAAP”	generally accepted accounting principles in the PRC
“RMB”	Renminbi, the lawful currency of PRC

“Target Subsidiaries”	collectively, ZTE Kangxun, Zhongxing Microelectronics, Zhongxing Software, Changfei Investment and Guangdong New Pivot
“Zhongxing Microelectronics”	深圳市中興微電子技術有限公司 (Shenzhen Zhongxing Microelectronics Technology Company Limited*), a company established under the laws of the PRC with limited liability and a 90%-owned subsidiary of the Company as at the date of this announcement
“Zhongxing Software”	深圳市中興軟件有限責任公司 (Shenzhen Zhongxing Software Company Limited*), a company established under the laws of the PRC with limited liability and a 98.08% subsidiary of the Company as at the date of this announcement
“ZTE HK”	ZTE (H.K.) Limited, a company established under the laws of the Hong Kong with limited liability and a wholly-owned subsidiary of the Company as at the date of this announcement
“ZTE Kangxun”	深圳市中興康訊電子有限公司 (Shenzhen ZTE Kangxun Telecom Company Limited*), a company established under the laws of the PRC with limited liability and a 90%-owned subsidiary of the Company as at the date of this announcement

By Order of the Board
Hou Weigui
Chairman

Shenzhen, the PRC

16 July 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 Zhanchen, 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.*