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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)

Announcement on The Proposed Interest Rate Swap Transactions by A Wholly-owned Subsidiary

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.

Summary:

1. In order to further optimise the long-term and short-term debt structure of ZTE Corporation ("ZTE" or the "Company") and the subsidiaries included in its consolidated financial statements (the "Group"), reduce exposure of assets and liabilities denominated in foreign currency and meet additional working capital requirements of the Company's medium- to long-term development at appropriate finance costs, ZTE proposes to conduct medium / long-term debt financing in 2014 with ZTE (H.K.) Limited ("ZTE (H.K.)"), a wholly-owned subsidiary, as the principal. To avoid interest rate risks associated with the aforesaid debt financing, ZTE (H.K.) proposes to conduct interest rate swap transactions with a nominal principal amount of not more than USD600 million at selected timing.
2. The proposed conduct of interest rate swap transactions by ZTE (H.K.) with a nominal principal amount of not more than USD600 million was considered and unanimously approved at the Seventh Meeting of the Audit Committee of the Sixth Session of the Board of Directors of the Company. Submission of such matter to the Board of Directors of the Company for consideration was approved.
3. The proposed conduct of interest rate swap transactions by ZTE (H.K.) with a nominal principal amount of not more than USD600 million was considered and unanimously approved at the Sixteenth Meeting of the Sixth Session of the Board of Directors of the Company. Directors attending the meeting have conducted thorough discussions of the aforesaid matter and are aware of the background, operating procedures and risk management procedures of the interest rate swap transactions, as well as its relevance to the day-to-day operations of the Company, and have approved the submission of such matter to the general meeting of the Company for consideration.

4. Any speculative activities are strictly forbidden by the Company. Interest rate swap transactions are subject to revaluation risks, settlement risks, credit risks and other risks.

I. Statement on the performance of valid voting procedures in respect of the derivative investments

In order to further optimise the Group's long-term and short-term debt structure, reduce exposure of assets and liabilities denominated in foreign currency and meet additional working capital requirements of the Company's medium- to long-term development at appropriate finance costs, ZTE proposes to conduct medium / long-term debt financing in 2014 with ZTE (H.K.), a wholly-owned subsidiary, as the principal. To avoid interest rate risks associated with the aforesaid debt financing, ZTE (H.K.) proposes to conduct interest rate swap transactions with a nominal principal amount of not more than USD600 million at selected timing.

The proposed conduct of interest rate swap transactions by ZTE (H.K.) with a nominal principal amount of not more than USD600 million was considered and approved at the Sixteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 26 March 2014. Such matter is subject to approval by the general meeting of the Company. The Board of Directors of the Company proposed to submit such matter to the 2013 Annual General Meeting to be held on 29 May 2014. The Independent Non-Executive Directors of the Company, namely, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Richard Xike Zhang, have reviewed such matter and furnished an independent opinion in relation thereto. The five Independent Non-Executive Directors are of the unanimous view that the interest rate swap transactions proposed to be conducted by ZTE (H.K.) are closely related to the day-to-day operations of the Company with controllable risks, and are in compliance with pertinent provisions of relevant laws and regulations.

The matter does not constitute a connected transaction and therefore is not subject to the voting procedures applicable to connected transactions.

II. Interest rate swap

An interest rate swap is a financial derivative product designed for the management of interest rate risks, operating in the form of a financial contract whereby interest

amounts are swapped on the basis of an agreed nominal principal amount in the same currency within a designated period in future as agreed between two parties in a market transaction. Interest rate swaps are most commonly conducted by way of swaps between fixed interest rates and floating interest rates.

III. Principal terms of interest rate swap transactions

1. Principal of transaction: ZTE (H.K.);
2. Type of transaction: Interest rate swap;
3. Principal amount of transaction: Nil. The nominal principal amount shall be the amount confirmed in the agreement, subject to a maximum nominal principal amount of not more than USD600 million (There shall be no physical swap of principal amounts between the two parties to the transaction. The nominal principal amount is set as a basis for calculation only);
4. Period of transaction: to match the term of the medium / long-term debt financing;
5. Benchmark currency: US Dollar;
6. Method of payment: interest spread payable in US Dollars on the interest payment date;
7. Other terms: Interest rate swap transactions conducted by the Company shall be non-standardised over-the-counter contracts; benchmark interest rates, interest payment dates and interest rate settlement dates, etc shall be determined through negotiations between the two parties.

IV. Justification of interest rate swap transactions

With a view to avoid interest rate risks associated with ZTE (H.K.)'s medium / long-term debt financing, ZTE (H.K.) proposes to enter into an interest rate swap agreement for a nominal principal amount of not more than USD600 million with banks at an appropriate timing for the swap between floating interest rates and fixed interest rates, which is conducive to further reductions in finance costs and reasonable control over interest rate risks.

V. Preparations for derivative investments

1. The Company has formulated the "System for Risk Control and Information Disclosure relating to Derivative Investments" (《衍生品投資風險控制及信息披露

制度》) and “Measures for the Administration of Derivative Investments” (《衍生品投資管理辦法》) to lay down specific provisions relating to risk controls, review procedures and subsequent management for the Company’s derivative investments, so that derivative investment activities will be subject to effective regulation and risks associated with derivative investments will be duly controlled.

2. The Company has formed an investment work group headed by the chief financial officer and comprising professional personnel for investment decision-making as well as trade operations, who will be specifically responsible for conducting derivative investments and drawing up relevant investment plans to be implemented subject to the scope of authorisation mandated by the Board of Directors or the general meeting.

3. The members of the investment work group of the Company are fully aware of the characteristics and potential risks of derivative investments and are operating in strict compliance with the operational and risk management systems for derivative investments.

VI. Risk analyses in respect of interest rate swap transactions

The following risks may occur in the conduct of interest rate swap transactions:

1. Revaluation risks

Revaluation risks refer to the change in market value to which an interest rate swap product is subject as a result of changes in market price parameters during the revaluation period. A change in the fair value of the interest rate swap at the end of the reporting period versus the beginning of the reporting period will affect the profit and loss of the Company for the period.

2. Settlement risks

An interest rate swap transaction does not involve the swap of the principal amount. The two parties to the transaction swap interest amounts based on the nominal principal amount agreed in the contract, and the transaction is subject to settlement risks only to the extent of the amount of interest payable. Through effective treasury planning by the Company, it is assured that there would be sufficient funds for settlement upon completion.

3. Credit risks

Credit risks refer to risks of the Company associated with the failure of counterparties to honour payment of swap earnings in fulfillment of their contractual obligations. As

counterparties selected for the interest rate swap transactions of ZTE (H.K.) are typically banks with a long-term credit rating of “A” or the equivalent of “A” or above given by international credit rating agencies and who have established long-standing business relationships with the Company, the interest rate swap transactions basically give rise to no credit risk.

4. Other risks

Failure of personnel in charge to operate interest rate swaps in accordance with stipulated procedures or fully understand information regarding interest rate swaps may result in operational risks in actual operation; Obscure terms in the trade contract may result in legal risks.

VII. Risk management strategy for derivative investments

1. Stringent risk assessment and risk tracking will be conducted in respect of the interest rate swap transactions. Any investments shall be limited to the authorised cap approved by the Board of Directors or the general meeting. The interest rate swaps conducted by the Company shall aim at controlling debt financing costs on the basis of comparable interest rate levels.
2. The investment work group of the Company conducts derivative investment risk analyses prior to any interest rate swap transactions and draw up investment plans (including investment duration, amounts and counterparty banks, etc) and feasibility analysis reports to the Risk Management Committee of the Company for risk examination, all of which shall be subject to the final approval of the chief financial officer.
3. All interest rate swap contracts of the Company shall be submitted by the investment work group to the chief financial officer for approval before execution.
4. The Company enters into contracts with clear and precise terms with counterparty banks and stringently implements the risk management system to prevent legal risks.
5. The Risk Management Committee of the Company will track changes in the open market prices or fair values of the derivative products, conduct timely assessment of changes in the risk exposures of invested interest rate swaps, and report to the Audit Committee of the Board of Directors on a regular basis. If any irregularities are identified, they will promptly be reported to the Audit Committee of the Board of Directors and reminders will be given to the investment work group for the application of contingency measures.

6. Regular auditing of derivative investments shall be undertaken by the internal audit department of the Company to ensure compliance.

VIII. Fair value analysis in respect of interest rate swaps

The USD interest rate swaps to be conducted by ZTE (H.K.) are traded in highly transparent markets. The fair values of the interest rate swaps can be sufficiently reflected in traded prices and daily settlement unit prices, which will be determined by the Company based on prices quoted by or obtained from service providers such as banks and the Reuters system.

IX. Accounting policy and subsequent disclosures regarding interest rate swap transactions

1. The fair value of the interest rate swap contract is determined by the Company in accordance with “ASBE No. 22 – Recognition and Measurement of Financial Instruments,” “ASBE No. 24 – Hedging for Valuation Protection” and “ASBE No. 39 – Fair Value Measurement,” and interest rate swaps are presented and disclosed in accordance with “ASBE No. 37 – Presentation of Financial Instruments.”

2. The Risk Management Committee of the Company will report to the Board of Directors when the aggregate loss or variable loss of the invested derivative products of the Company (representing the sum of the fair value impairment of the invested derivative products and the change in value of the assets used for risk hedging (if any)) exceeds RMB10 million and publish an interim announcement for timely disclosure when such loss reaches 10% of the latest audited net assets of the Company.

3. Relevant information on derivative investments in force will be disclosed in the regular reports of the Company.

X. Opinion of the Independent Non-executive Directors

The Independent Non-Executive Directors of the Company, namely, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Richard Xike Zhang, have reviewed the proposed conduct of interest rate swap transactions by ZTE (H.K.) with a nominal principal amount of not more than USD600 million at selected timing and have furnished an independent opinion in relation thereto as follows:

Given ZTE (H.K.)’s proposed medium / long-term debt financing and with a view to avoid the interest rate risks associated with the aforesaid medium / long-term debt

financing, it has resolved to enter into an interest rate swap agreement for a nominal principal amount of not more than USD600 million with banks for the swap between floating interest rates and fixed interest rates, which is conducive to further reductions in finance costs and better control over interest rate risks. The Company has conducted stringent internal assessment of its derivative operations and established a mechanism to regulate such operations. We are of the view that the interest rate swap transactions that ZTE (H.K.) proposes to conduct are closely related to the day-to-day operations of the Company with controllable risks, and are in compliance with pertinent provisions of relevant laws and regulations.

By Order of the Board
Hou Weigui
Chairman

Shenzhen, the PRC
26 March 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.