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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 participation in the establishment of Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)

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.

I. Overview of the investment

1. To drive the development of the government and corporate business and related operations of ZTE Corporation (“**ZTE**” or the “**Company**”) and to fulfill funding requirements for project investment and financing, ZTE Xingyun Industrial Investment Management (Hangzhou) Company Limited* (中興興雲產業投資管理(杭州)有限公司) (“**ZTE Xingyun**”), a majority-owned subsidiary of ZTE Group Financial Holdings (Hangzhou) Limited* (中興通訊集團金融控股(杭州)有限公司) (“**ZTE FH**”), which is in turn a wholly-owned subsidiary of ZTE, has proposed to establish by way of promotion, together with Guangfa Hexin Industrial Investment Management Company Limited* (廣發合信產業投資管理有限公司) (“**Guangfa Hexin**”) as joint general partners, Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)* (廣興雲合股權投資產業基金(有限合伙)) (tentative name subject to the final approval of the industrial and commercial administrative authorities, hereinafter referred to as the “**Industrial Fund**” or the “**Fund**”). ZTE FH will also make a capital contribution of RMB400 million to participate in the subscription for the shares of the Industrial Fund as a subordinate limited partner.

2. At the Ninth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 October 2016, the “Resolution on the participation in the establishment of Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)* (廣興雲合股權投資產業基金(有限合伙))” was considered and approved. Pursuant to the Articles of Association of ZTE Corporation, the Rules Governing the Listing of Stocks on the Shenzhen

Stock Exchange, “Shenzhen Stock Exchange Memorandum on Main Board Information Disclosure No. 8 – Joint Investment by Listed Companies and Professional Investment Institutions”* (《深圳證券交易所主板信息披露業務備忘錄第 8 號——上市公司與專業投資機構合作投資》) and other pertinent rules and regulations, the said investment is not subject to consideration and approval by shareholders at the general meeting. The said investment does not involve any connected transactions, nor does it constitute a significant asset restructuring of a listed company under the Measures for the Administration of Significant Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》).

3. The Company’s controlling shareholders, de facto controller, shareholders owning 5% shares or above, Directors, Supervisors and senior management shall not participate in the share subscription for the Industrial Fund or take up any positions in the Fund.

II. General information on the parties

(I) Guangfa Hexin Industrial Investment Management Company Limited* (廣發合信產業投資管理有限公司)

1. Name of company: Guangfa Hexin Industrial Investment Management Company Limited* (“Guangfa Hexin”) (廣發合信產業投資管理有限公司)
2. Date of incorporation: 27 August 2015
3. Registered address: Unit 105-5649, 6 Baohua Road, Hengqin New District, Zhuhai* (珠海市橫琴新區寶華路 6 號 105 室-5649)
4. Registered capital: RMB100 million
5. Legal representative: Zhang Wei (張威)
6. Controlling shareholders: Guangfa Qianhe Investment Company Limited* (廣發乾和投資有限公司) (holding 100% equity interests in Guangfa Hexin), a wholly-owned subsidiary of GF Securities Co., Ltd.
7. Scope of business: investment management, asset management, project investment, equity investment, establishment by way of promotion and management of industrial funds, entrusted fund management, investment consultation (projects requiring relevant approvals under the law shall be duly approved by relevant authorities prior to commencing operations).
8. Guangfa Hexin has completed all registration and filing procedures stipulated in the “Provision Measures for the Supervision and Administration of Private Investment Funds”* (《私募投資基金監督管理暫行辦法》) and “Measures for the Registration of Private Investment Fund Manager and Filing of Funds (Trial)”* (《私募投資基金管理人登記和基金備案辦法(試行)》).

(II) Guangfa Hexin (Shandong) Industrial Investment Management Company Limited*

(廣發合信(山東)產業投資管理有限公司)

1. Name of company: Guangfa Hexin (Shandong) Industrial Investment Management Company Limited* (“Hexin Shandong”)
2. Date of incorporation: 15 December 2015
3. Registered address: Unit 401 Building No. 10, 129 Yingxiongshan Road, Central District, Ji’nan Shandong Province
4. Registered capital: RMB10 million
5. Legal representative: Li Maonian (李茂年)
6. Controlling shareholders: Guangfa Hexin holds 100% equity interests in Hexin Shandong
7. Scope of business: management of equity-invested enterprises as trustee investment management, investment in third-parties with internal funds and investment management (provided that financial businesses such as deposit-taking, financing guarantee and investment management for clients are not permitted without the approval of financial regulatory authorities) (projects requiring relevant approvals under the law shall be duly approved by relevant authorities prior to commencing operations).

Guangfa Hexin and Hexin Shandong are not related to or under any beneficial arrangements with the Company, or directly or indirectly interested in shares of the Company, or related to and under any beneficial arrangements with the Company’s controlling shareholders, de facto controller, Directors, Supervisors, senior management.

III. Description of the Industrial Fund and the Joint Management Agreement

On 27 October 2016, ZTE Xingyun and Guangfa Hexin entered into the Agreement for the Joint Management of Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)* (tentatively named) (廣興雲合股權投資產業基金(有限合夥)(暫名)合作管理協議) (the “Joint Management Agreement”) for the establishment of an industrial fund by way of promotion as general partners to invest in smart cities, underground pipe networks and data centre projects in the government and corporate business with the aim of procuring mutual benefit and interests, engaging in resource-sharing and complementing each other with their own advantages. Concurrently, ZTE Xingyun, Guangfa Hexin, ZTE FH and Hexin Shandong also entered into the Partnership Agreement for Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)* (tentatively named) (廣興雲合股權投資產業基金(有限合夥)(暫名)合夥協議) (the “Partnership Agreement”). The principal terms of the Industrial Fund and the aforesaid agreement are set out as follows:

1. Name of the Fund: Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)* (廣興雲合股權投資產業基金(有限合夥)) (tentative name subject to the finalised name as approved by authorities for industrial and commercial administration).

2. Organisation of the Fund: the Industrial Fund shall be formed as a limited partnership in accordance with the provisions of the “Laws on Joint Ventures Enterprises of the People’s Republic of China”* (《中華人民共和國合夥企業法》), including ZTE Xingyun and Guangfa Hexin as general partners, ZTE FH and Hexin Shandong (or its concerted party) as limited partners. The fund manager shall be Guangfa Hexin.

3. Size of the Fund, form of capital contribution and schedule of capital contribution: The size of the Fund shall be RMB5,001 million (subject to the actual amount raised). All partners shall make capital contributions by way of cash. ZTE Xingyun and Guangfa Hexin, as general partners, shall each pay an initial capital contribution of RMB500,000 within 45 business days after the registration of the Industrial Fund with authorities for industrial and commercial administration. Subject to the fulfillment of the precedent conditions for capital contribution stipulated in the Partnership Agreement, the limited partners shall pay their respective capital contribution amounts in instalments according to the payment notice issued by Guangfa Hexin, which may determine the timing and amounts of the capital contribution instalments based on the requirements of investment projects and demand the partners to pay their capital contributions accordingly. ZTE FH has proposed to make a capital contribution of RMB400 million to participate in the subscription for the shares of the Industrial Fund as a subordinate limited partner. Hexin Shandong (or its concerted party) has proposed to make a capital contribution of RMB100 million to participate in the subscription for the shares of the Industrial Fund as a subordinate limited partner. The remaining issue amount to be raised through share subscription by preferential limited partners shall be sought from external investors by Hexin Shandong according to the development of the Industrial Fund and the progress of the investment projects.

4. Term of the Fund: 30 years, which can be extended with the unanimous approval of all partners.

5. Investment scope of the Fund: smart cities, underground pipe networks and data centre projects in connection with government and corporate businesses recommended by general partners, investment in other projects shall require the unanimous approval of the Investment Committee.

6. The Industrial Fund is prohibited from engagement in the following activities:

- (1) Investment in stocks in the secondary market with the aim of earning short-term gains from price differences; investment in futures, foreign exchange and real estate project;
- (2) Incurrence of borrowings from third parties, or provision of guarantees for third parties;
- (3) Committing fund properties to sponsorships and donations (unless unanimously approved by all partners);

- (4) Investment in third parties which carries unlimited joint liability;
- (5) Investment in restricted industries under national and autonomous regional regulations, such as industries subject to high pollution, high energy consumption and surplus production capacity businesses, and industries otherwise prohibited under national laws and regulations;
- (6) Investment in projects of which investment directions are not in line with the requirements of shareholders of the Fund and its competent regulatory authorities;
- (7) Other activities prohibited under laws, administrative regulations and regulatory policies.

7. Management of the Fund

(1) Guangfa Hexin and ZTE Xingyun shall jointly act as executive partners to be responsible for the daily management of the Industrial Fund. ZTE Xingyun shall direct various tasks related to project operations. Specifically, such tasks include but are not limited to: the collection, identification, assessment, screening, preliminary project listing, due diligence and valuation of investment projects, and the design and business negotiations for investment plans. Guangfa Hexin shall be responsible for fundraising, filing, investment decision-making, implementation of investment plan, financial management, administrative management and file management. (2) Remuneration received by the executive partners shall be payable by all partners at an annual rate equivalent to 1% of the paid-up shares. (3) An Investment Committee shall be set up as the investment decision-making body of the Industrial Fund. It is proposed that the Investment Committee shall have 5 seats, each entitled to 1 vote. Guangfa Hexin, Hexin Shandong and ZTE Xingyun shall appoint 1, 1 and 3 members, respectively, and Hexin Shandong and Guangfa Hexin shall each have a veto vote. Pursuant to the mandate of the partners' meeting, the Investment Committee shall be responsible for reviewing and approving investment plans and divestitures of investment projects and other related matters, and is vested with the power of making final decisions in respect of such matters. Investments in any third parties by the Industrial Fund shall require the approval of more than ½ of the members of the Investment Committee.

8. Distribution of the Fund: The executive partner shall divest all investment projects corresponding to each tranche of paid up capital contribution before the corresponding date in the corresponding month and corresponding day upon the expiry of 10 years (or as extended with the unanimous approval of the partners) after the actual payment of such tranche of paid up capital contribution. Detailed methods for distribution shall be specifically agreed and separately determined based on the actual conditions of the investment projects.

9. Divestiture mechanism of the Fund: divestiture shall be realised primarily through the listing, equity transfer, merger and acquisition and liquidation of project companies invested by the Fund.

10. Accounting of the Fund: the accounting of the Fund shall be conducted independently

with the Fund as the accounting subject with standalone accounts and independently prepared financial statements.

The information set out above shall be subject to the relevant partnership agreements to be signed by the partners and finalised information as approved by authorities for industrial and commercial administration.

IV. Statement on possible horizontal competition or connected transactions resulting from investments by the Industrial Fund

The Industrial Fund will not be involved in the operation of specific businesses in the capacity of a principal, but will mainly be engaged in equity investment. As the Industrial Fund will primarily invest in smart cities, underground pipe networks and data centre projects, it will not be involved in horizontal competition and connected transactions at the present stage, although the risk of incurring competition in the same businesses and connected transactions with the Company in the future cannot be ruled out. The Company will avoid horizontal competition through fair and impartial negotiations in strict accordance with the provisions of pertinent laws, regulations and regulatory documents and the requirements of regulatory authorities; in the event that a connected transaction is constituted, the Company will fulfill its obligations in information disclosure in accordance with the law and fulfill relevant internal procedures for decision-making and submission for approval in strict accordance with the provisions of pertinent laws, regulations, regulatory documents and the Articles of Association, in order not to compromise the interests of the Company and its shareholders, especially those of the minority shareholders.

V. Objectives and inherent risks of the Industrial Fund

The Industrial Fund will primarily invest in smart cities, underground pipe networks and data centre projects in connection with government and corporate businesses. Through equity / debt investments, it will provide the social capital required by government and corporate project of the Company. As the Industrial Fund is still at the stage of preparations, it is subject to uncertainties arising primarily from risks associated with fund issuance, post-investment management, and government policies on investment funds. At the stage of establishment, the Industrial Fund is subject to the risk of being unable to raise sufficient funds in a timely manner to ensure its successful establishment. At the stage of operation, the Industrial Fund is subject to the risk of being unable to identify appropriate targets for investment. Moreover, the operation of the Industrial Fund will also be affected by a number of factors, such as macro-economic conditions, industry cycle, investment targets, transaction plans and the operation and management of companies, as well as the risk of incurring investment failures or losses such that projected income cannot be realised. In the process of the establishment and operation of the Industrial Fund, the Company and ZTE Xingyun will exercise due care to prevent any risks, and will use their best efforts to ensure the security of the Company's investment funds and alleviate investment risks through stringent risk control in accordance

with the provisions of pertinent laws and regulations.

VI. Impact of the establishment of the Industry Fund on the Company

The establishment of the Industrial Fund will provide the social capital required by the Company's government and corporate projects and provide effective support for the Company's government and corporate businesses. Falling within the scope of the national policy, the investment will allow us to seize opportunities arising from strong policy support by the government and invest in smart cities, underground pipe networks and data centre projects with sound growth potential and development prospects. This will benefit the Company's development in relevant industries and generate sound capital gains for the Company to increase its profitability, realise the integration of industry and finance and enhance its competitiveness in core segments such as government and corporate sectors.

Through the establishment of the Industrial Fund, we will be able to solicit investors with cutting-edge innovative abilities, align our financial resources in a more effective manner and capitalise fully on our partner's experience in professional investment management and comprehensive risk control regimes. The standard of our investment decisions will be enhanced as a result, while our investment risks will be diversified.

VII. Documents for inspection

1. Resolutions of the Ninth Meeting of the Seventh Session of the Board of Directors of the Company
2. Partnership Agreement for Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)* (tentatively named) (廣興雲合股權投資產業基金(有限合夥)(暫名)合夥協議》)
3. Agreement for the Joint Management of Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)* (tentatively named) (廣興雲合股權投資產業基金(有限合夥)(暫名)合作管理協議)

By Order of the Board
Zhao Xianming
Chairman

Shenzhen, the PRC
27 October 2016

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Zhao Xianming, Yin Yimin and Wei Zaisheng; six non-executive directors, Zhang Jianheng, Luan Jubao, Shi Lirong, Wang Yawen, Tian Dongfang and Zhan Yichao; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.

** For identification purposes only*