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**ZTE中兴**  
**ZTE CORPORATION**  
**中兴通讯股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 763)**

**NOTICE OF THE 2010 ANNUAL GENERAL MEETING**

*The Company and all the members of the Board of Directors confirm that all the information contained in this notice is true, accurate and complete and that there is no false or misleading statement or material omission in this notice.*

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of 2010 (hereinafter referred to as the “AGM”) of ZTE Corporation (hereinafter referred to as the “Company”) will be held in accordance with the resolution passed at the Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 March 2011. Details of the AGM are set out below:

**I. INFORMATION REGARDING THE AGM**

**(I) Date and time of meeting**

The AGM will commence at 9:00 a.m. on 17 May 2011.

**(II) Venue**

The AGM will be held at the Conference Room on the 4th floor of the Company's headquarters in Shenzhen.

Address: 4th Floor, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen.

Tel: +86 (755) 26770282

**(III) Convener**

The AGM will be convened by the Board of Directors of the Company.

**(IV) Method of holding the meeting**

Voting will be carried out on-site at the AGM.

## **(V) Attendees**

1. All ZTE (000063) shareholders registered with China Securities Depository & Clearing Corporation Limited, Shenzhen Office upon the close of trading of its A shares on the Shenzhen Stock Exchange on Friday, 15 April 2011 at 3:00 p.m. (hereinafter referred to as “Domestic Shareholders”) (shareholders registered on the said registration date would be the same as those registered on 16 April 2011, as 16 April 2011 falls on a Saturday);
2. All shareholders registered on the Company’s H share register maintained by Computershare Hong Kong Investor Services Limited upon the close of trading of its H shares on The Stock Exchange of Hong Kong Limited on Friday, 15 April 2011 at 4:00 p.m. (hereinafter referred to as “H Shareholders”) (shareholders registered on the said registration date would be the same as those registered on 16 April 2011, as 16 April 2011 falls on a Saturday);
3. Directors, supervisors and senior management of the Company; and
4. Representatives of intermediaries engaged by the Company and guests invited by the Board of Directors.

## **(VI) Period of closure of H share register**

The Company will close its H share register from Monday, 18 April 2011 to Monday, 16 May 2011 (both days inclusive). Any H Shareholder who wishes to be entitled to the final dividend and bonus shares from capitalisation from capital reserve shall lodge an instrument of transfer, together with the corresponding share certificate(s) with Computershare Hong Kong Investor Services Limited at Room 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by 4:30 p.m., 15 April 2011. The record date for dividend entitlement and dividend payment method and time in respect of Domestic Shareholders shall be separately notified.

## II. MATTERS TO BE CONSIDERED AT THE AGM

The following resolutions will be considered at the AGM:

### Ordinary Resolutions

- 1 Financial statements for the year ending 31 December 2010 audited by the PRC and Hong Kong auditors;
- 2 Report of the Board of Directors of the Company for the year ending 31 December 2010;
- 3 Report of the Supervisory Committee of the Company for the year ending 31 December 2010;
- 4 Report of the President of the Company for the year ending 31 December 2010;
- 5 The final financial accounts of the Company for the year ending 31 December 2010;
6. Resolutions on the proposed applications by the Company for composite credit facilities;
  - 6.1 Resolution of the Company proposing the application to Bank of China Limited, Shenzhen Branch for a composite credit facility amounting to RMB23.0 billion

That the application by the Company to Bank of China Limited, Shenzhen Branch for a RMB23.0 billion composite credit facility be approved. The amount of composite credit facility set out above represents the amount proposed by the Company and is subject to final amount approved by the bank.

That the Board of Directors be authorised to adjust the details and actual duration of the credit facility pursuant to the Company's requirements or negotiations with the bank, subject to the cap of the aforesaid RMB23.0 billion composite credit facility within the effective term of the resolution, and the Board of Directors and other parties delegated by the Board of Directors be authorised to negotiate with the bank and sign all facilities agreements, financing agreements and other related legal contracts and documents relating to the above composite credit facility and to deal with other matters relating to such agreements.

The resolution shall be valid from the date of approval at the 2010 Annual General Meeting until the earlier of: (1) the date prior to the approval of the next new credit facility, and (2) the date prior to 31 December 2011. Any single application for financing under such credit facility within this period shall be valid. Unless otherwise required, no subsequent resolution of the Board of Directors is required with respect to any single application for financing within such cap under such credit facility. Mr. Hou Weigui, the legal representative of the Company, or the signatory authorized by Mr. Hou Weigui is hereby authorised to sign the relevant legal contracts and documents.

6.2 Resolution of the Company proposing the application to China Development Bank Corporation, Shenzhen Branch for a composite credit facility amounting to US\$4.5 billion

That the application by the Company to China Development Bank Corporation, Shenzhen Branch for a US\$4.5 billion composite credit facility be approved. The amount of composite credit facility set out above represents the amount proposed by the Company and is subject to final amount approved by the bank.

That the Board of Directors be authorised to adjust the details and actual duration of the credit facility pursuant to the Company's requirements or negotiations with the bank, subject to the cap of the aforesaid US\$4.5 billion composite credit facility within the effective term of the resolution, and the Board of Directors and other parties delegated by the Board of Directors be authorised to negotiate with the bank and sign all facilities agreements, financing agreements and other related legal contracts and documents relating to the above composite credit facility and to deal with other matters relating to such agreements.

The resolution shall be valid from the date of approval at the 2010 Annual General Meeting until the earlier of: (1) the date prior to the approval of the next new credit facility, and (2) the date prior to 31 December 2011. Any single application for financing under such credit facility within this period shall be valid. Unless otherwise required, no subsequent resolution of the Board of Directors is required with respect to any single application for financing within such cap under such credit facility. Mr. Hou Weigui, the legal representative of the Company, or the signatory authorized by Mr. Hou Weigui is hereby authorised to sign the relevant legal contracts and documents.

7. Resolutions on the appointment of the PRC auditors and the Hong Kong auditors of the Company for the year ending 31 December 2011;

7.1 Re-appointment of Ernst & Young Hua Ming as the PRC auditors of the Company for 2011 and a proposal be made to the 2010 AGM to authorise the Board of Directors to determine the audit fees of Ernst & Young Hua Ming for 2011 based on the specific audit work to be conducted;

7.2 Re-appointment of Ernst & Young as the Hong Kong auditors of the Company for 2011 and a proposal be made to the 2010 AGM to authorise the Board of Directors to determine the audit fees of Ernst & Young for 2011 based on the specific audit work to be conducted.

8. Resolution on the Application for Investment Limits in Derivative Products of the Company in 2011;
  - 8.1 Authorisation for the Company to invest in derivative products for value protection against its US Dollar risk exposure for an amount not exceeding USD800 million (such limit may be applied on a revolving basis during the effective period of the authorisation). The authorisation shall be effective from the date on which it is approved by way of resolution at the general meeting to the date on which the next annual general meeting of the Company closes or to the date on which this authorisation is modified or revoked at a general meeting, whichever is earlier.
  - 8.2 Authorisation for Company to invest in derivative products for value protection against its Euro risk exposure for an amount not exceeding EUR150 million (such limit may be applied on a revolving basis during the effective period of the authorisation). The authorisation shall be effective from the date on which it is approved by way of resolution at the general meeting to the date on which the next annual general meeting of the Company closes or to the date on which this authorisation is modified or revoked at a general meeting, whichever is earlier.
  - 8.3 Authorisation for Company to invest in fixed income derivative products for an amount not exceeding USD1,000 million (such limit may be applied on a revolving basis during the effective period of the authorisation). The authorisation shall be effective from the date on which it is approved by way of resolution at the general meeting to the date on which the next annual general meeting of the Company closes or to the date on which this authorisation is modified or revoked at a general meeting, whichever is earlier.
9. Resolution on the Company's Investment in, and the proposed investment agreement related to, the Research and Development Base in Yuhuatai District of Nanjing;
  1. That the Company be authorised to invest in the establishment of the "ZTE (Nanjing) Three Districts Research and Development Base" in Yuhuatai District, Nanjing;
  2. That Mr. Hou Weigui, the legal representative of the Company, or his authorised signatory be authorised to execute relevant legal contracts and documents related to the "ZTE (Nanjing) Three Districts Research and Development Base" project;
  3. That Mr. Hou Weigui, the legal representative of the Company, or his authorised signatory be authorised to, based on the investment agreement, further negotiate with the government of Yuhuatai District, Nanjing and determine specific matters and enter into relevant supplementary agreements in terms of the payment methods for the land use rights of the "ZTE (Nanjing) Three Districts Research and Development Base" project.

At the Sixteenth Meeting of the Fifth Session of the Board of Directors convened on 17 March 2011, the resolution was passed and approved to be submitted to the 2010 Annual General Meeting for consideration, details of which are set out in the "Announcement of External Investments" published on 17 March 2011 (Attachment 2).

## Special Resolutions

10. Resolutions on Profit Distribution and Capitalisation from Capital Reserves of the Company for 2010;

**“That:**

Proposals of profit distribution and capitalisation from capital reserves for 2010 tabled by the Board of Directors of the Company be approved.

1. Proposed profit distribution for 2010: cash dividend of RMB3 (including tax) for every 10 shares held will be paid on the basis of the total share capital of the Company as at 17 March 2011 less the number of Subject Shares remaining in lock-up under the Share Incentive Scheme as at the A share record date for the purpose of the 2010 profit distribution (the “Record Date”). As of 17 March 2011, 62,407,186 registered Subject Shares under the Share Incentive Scheme remained in lock-up. In accordance with relevant provision of the Share Incentive Scheme, restricted shares remaining in lock-up shall not be entitled to the cash dividend. The number of shares entitled to the cash dividend under the 2010 profit distribution plan will be 2,804,324,498 shares in case the third unlocking of registered Subject Shares granted under the first award of the Share Incentive Scheme (the “Third Unlocking”) is not completed by the Record Date, on which basis the 2010 profit distribution plan will be implemented. In case that the third unlocking is completed by the Record Date, the maximum of shares to be unlocked in accordance with the Share Incentive Scheme will be 45% of the Subject Shares under the first award, that is 51,680,416 shares, which will be entitled to the cash dividend.
2. The proposal of capitalisation from capital reserves for 2010: The issue of 2 bonus shares for every 10 shares by way of capitalization of capital reserves. The capitalization from capital reserve will be based on the total share capital of the Company of 2,866,731,684 shares as at 17 March 2011 and the share capital will be increased by a total of 573,346,336 shares. Fractional entitlements arising from the capitalisation of capital reserves shall be dealt with in accordance relevant rules of the stock exchange and the clearing house of the place where the stocks of the Company are listed. As a result, the actual amount of share capital increased and the actual number of shares created in aggregate after implementation of the proposed capitalisation from capital reserves might be slightly different from the aforesaid estimates.

The Board of Directors is hereby authorised by the general meeting to deal with matters relating to the profit distribution and capitalisation from capital reserves for 2010, to amend relevant clauses of the Articles of Association based on the implementation of the capitalisation from capital reserves to increase the registered capital of the Company and reflect the new capital structure after the capitalisation from capital reserves, and to process any changes in industrial and commercial registration required as a result of the alteration in registered capital.”

11. Resolution on the General Mandate for 2010 to be granted to the Board:

**“That:**

(1) Subject to the conditions set out below, the Board of Directors be hereby granted an unconditional and general mandate during the Relevant Period to separately or concurrently allot, issue and deal with additional domestic shares and overseas-listed foreign shares (“H Shares”) of the Company (including securities convertible into domestic shares and/or H Shares of the Company) and to make or grant offers, agreements or options in respect of the above:

- I. such mandate shall not extend beyond the Relevant Period (as defined below), other than in the case of the making or granting of offers, agreements or options by the Directors during the Relevant Period which might require the performance or exercise of such powers after the close of the Relevant Period;
- II. the aggregate nominal amount of domestic shares and H shares authorised to be allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board of Directors, otherwise than pursuant to (i) a Rights Issue or (ii) any option scheme or similar arrangement from time to time being adopted for the grant or issue to Directors, Supervisors, senior management and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company approved by the Board of Directors, shall not exceed 20% of the aggregate nominal amount of each of the share capital of the domestic shares and H shares of the Company in issue at the date on which this Resolution is passed; and
- III. The Board of Directors will only exercise the above authority in compliance with the Company Law of the People’s Republic of China (as amended from time to time) and Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) and with the necessary approvals of the China Securities Regulatory Commission and/or other relevant PRC government authorities;

(2) For the purpose of this resolution:

“Relevant Period” means the period from the passing of this Resolution until the earliest of:

- I. the conclusion of the next annual general meeting of the Company following the passing of this Resolution;
- II. the expiration of a 12-month period following the passing of this Resolution;  
or
- III. the revocation or variation of the authority given to the Directors under this Resolution by the passing of a special resolution of the Company at a general meeting; and

“Rights Issue” means an offer to all shareholders of the Company (except any shareholders to which the making of such offers by the Company is not permitted under the laws of the jurisdictions where they reside) and, as appropriate, holders of other equity securities of the Company who are qualified for such offers, for the allotment and issue of shares or other securities in the Company which will or might require the allotment and issue of shares in proportion to their existing holdings of such shares or other equity securities (subject to the exclusion of fractional entitlements);

- (3) Where the Board of Directors resolves to issue shares pursuant to paragraph 1 of this resolution, the Board of Directors be hereby authorised to approve and execute all documents and deeds and do all things or to procure the execution of such documents and deeds and the doing of such things necessary in their opinion for the issue of the new shares (including but not limited to determining the time and place for issue, class and number of new shares to be issued, the pricing method and/or issue prices (including price ranges) of the shares, submitting all necessary applications to relevant authorities, entering into underwriting agreements (or any other agreements), determining the use of proceeds, and fulfilling filing and registration requirements of the PRC, Hong Kong and other relevant authorities, including but not limited to registration with relevant PRC authorities of the increase in registered share capital as a result of the issue of shares pursuant to paragraph 1 of this Resolution); and
- (4) The Board of Directors be hereby authorised to amend the Company’s Articles of Association as they deem necessary to increase the registered share capital of the Company and to reflect the new capital structure of the Company following the allotment and issue of the Company’s shares contemplated in paragraph 1 of this Resolution.”

12. Resolution on the Amendment to Relevant Clauses of the Articles of Association:

**“That:**

In order to comply with the requirements of the regulation authority as to further standardise the Company’s investment practice on and control the investment risks of derivative products, the Company proposed to supplement Article 160 of the Articles of Association with the relevant statement to specify the derivative products in which the Board can exercise discretion to invest.

**It is approved to amend relevant contents in Article 160 of Chapter 10 of the Articles of Association according to laws.**

**Article 160 of Chapter 10**

**The original article which reads:** The Board of Directors shall be accountable to the general meeting of shareholders and shall exercise the following functions and powers:

. . . . .

(19) to approve to conduct an external investment which is related to the principal business of the Company and is less than 10% of the Company's most recently audited net asset value, or an external investment which is outside the principal business of the Company and is less than 5% of the Company's most recently audited net asset value;

.....

The Company shall comply with the following requirements when determining matters relating to the provision of a guarantee in favour of a third party as set out in sub-paragraph (17) of the first paragraph hereof:

**Is amended to read:** The Board of Directors shall be accountable to the general meeting of shareholders and shall exercise the following functions and powers:

.....

(19) to approve to conduct an external investment which is related to the principal business of the Company and is less than 10% of the Company's most recently audited net asset value, or an external investment which is outside the principal business of the Company and is less than 5% of the Company's most recently audited net asset value;

.....

The Company shall comply with the following requirements when determining matters relating to the provision of a guarantee in favour of a third party as set out in sub-paragraph (17) of the first paragraph hereof:

.....

The external investment made by the Company, as mentioned in the first paragraph under the sub-paragraph (19), includes securities and derivative products investments. Derivative products in which the Board can exercise discretion to invest include, in substance, products such as options, forwards, swaps or combinations of such products, with their underlying assets being interest rates, exchange rates, currencies or combinations of such underlying assets. The Company shall comply with the laws and regulations as well as rules of relevant securities exchanges when investing in securities and derivative products.

### **III. REGISTRATION AT THE AGM**

#### **(1) Registration of attendance**

1. Any legal person shareholder (including but not limited to corporate shareholders) entitled to attend the AGM shall produce for registration a duplicate of its corporate business licence, stock account card, a duly signed power of attorney and the identity card of the attendee;
2. Any individual shareholder entitled to attend the AGM shall produce for registration his own identity card, stock account card and evidence of shareholding;
3. Any shareholder intending to attend the AGM shall deliver the confirmation slip to the AGM registry by hand, post or fax.

#### **(2) Time of registration**

Time of registration for the AGM is from 18 April 2011 to 27 April 2011 (excluding statutory holidays).

#### **(3) Address for registration**

Registration for the AGM will be conducted at: 6/F, A Wing, ZTE Building, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, the PRC (postal code: 518057).

#### **(4) Requirements when registering and voting by way of proxy**

1. Any shareholder entitled to attend and vote at the meeting may entrust one or more person(s) (whether or not a shareholder) as his proxy (ies) to attend and vote at the meeting on his behalf. The shareholder may attend and vote at the meeting in person notwithstanding that he has completed and submitted the proxy form, in which case, the proxy form is deemed withdrawn. For a shareholder who entrusts two or more proxies, the voting rights to be exercised by such proxies in aggregate shall not exceed the total number of the votes that the shareholder is entitled to exercise at the meeting, and any one share may only be voted upon once by one proxy.
2. A shareholder shall appoint a proxy in writing by using the proxy form, which shall be signed by the authorising shareholder or his duly authorised attorney. The proxy form shall be notarized if it is to be signed by any person other than by the authorising shareholder himself. The proxy form is valid only if it is deposited at the registered address of the Company no less than 24 hours before the AGM.
3. If a shareholder entrusts his proxy(ies) to attend and vote at the meeting on behalf of him, such proxy(ies) shall produce for registration his own identity card, the duly signed proxy form, the stock account card of shareholder and evidence of shareholding.

#### IV. MISCELLANEOUS

- (1) The AGM is expected to last less than one day; all accommodation, travel and expenses relating to attending the meeting shall be borne by the attendees.
- (2) AGM contact person: Wang Han
- (3) Contact telephone number: +86 (755) 26770282
- (4) Contact fax number: +86 (755) 26770286

#### V. DOCUMENTS AVAILABLE FOR INSPECTION

Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors of ZTE Corporation.

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

Shenzhen, the PRC  
28 March 2011

*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, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Timothy Alexander Steinert.*

## **Attachment 1: Announcement on the Application for Derivative Investment Limits of 2011**

*The Company and all 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 or misleading statement or material omission in this announcement.*

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### **Announcement on the Application for Derivative Investment Limits of 2011**

*The Company and all the members of the Board of Directors confirm that all the information contained in this notice is true, accurate and complete and that there is no false and misleading statement or material omission in this notice.*

#### **Important notes:**

1. The “Resolution on the Application for Derivative Investment Limits of 2011 of the Company” was considered and unanimously passed at the tenth meeting of the Audit Committee of the Fifth Session of the Board of Directors of the Company, which also approved the submission of this resolution to the Board of Directors of the Company for consideration.
2. The “Resolution on the Application for Derivative Investment Limits of 2011 of the Company” was considered and unanimously passed at the Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company. The resolution was adequately discussed by the Directors attending the meeting, who were aware of the types of the product, operating processes and risk management processes of investments in derivative products that the Company intended to make and the relevance of such investments to the day-to-day operations of the Company, and approved the tabling of this resolution at the general meeting of the Company for consideration.
3. The Company invests in two types of derivative products, namely fixed-income derivatives and value-protection derivatives. Investments in fixed-income derivatives are based on the foreign exchange payments of the Company, where the investment amount will match the cash flow of the Company. Investments in value-protection derivatives are based on our day-to-day import and export businesses, where the investment amount and investment period will match expected receipts and payments. The Company is forbidden to engage in speculative activities for profit-making. Derivative investments are subject to market risks, liquidity risks and contract performance risks and other risks.

## **I. STATEMENT ON THE FULFILLMENT OF LEGAL VOTING PROCEDURES IN RESPECT OF INVESTMENTS IN DERIVATIVE PRODUCTS**

In order to mitigate the impact of exchange rate risks in the international businesses of ZTE Corporation (the “Company”) and its majority-owned subsidiaries, derivative investments within the limits authorised by the Board of Directors and general meeting of the Company were conducted during 2010, effectively mitigating the adverse impact of exchange rate volatility on the Company. As the said authorisation will expire shortly, the Company intends to apply for authorisation to invest in value-protection derivatives for an amount not exceeding USD800 million against its US Dollar risk exposure, value-protection derivatives for an amount not exceeding EUR150 million against its Euro risk exposure and fixed-income derivatives for an amount not exceeding the equivalent of USD1,000 million. Such limits may be applied on a revolving basis during the effective period of the authorisation).

At the Sixteenth Meeting of the Fifth session of the Board of Directors of the Company held on 17 March 2011, the “Resolution on the Application for Derivative Investment Limits of 2011” was considered and passed. The resolution is subject to further approval at the general meeting of the Company, and the Board of Directors of the Company intends to table such resolution for consideration at the Annual General Meeting of 2010 of the Company to be held on 17 May 2011. The Independent Non-Executive Directors of the Company, namely Ms. Qu Xiaohui, Mr. Chen Naiwei, Mr. Wei Wei, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert, have reviewed the resolution and furnished an independent opinion. The five Independent Directors are of the unanimous view that the Company’s investment in derivative products is closely related to its day-to-day operational needs and that risks involved are controllable, and that it is in compliance with relevant provisions of pertinent laws and regulations.

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

## **II. TYPES OF INVESTMENTS IN DERIVATIVE PRODUCTS**

The Company invests in two types of derivative products, namely fixed-income derivatives and value-protection derivatives. Investments in fixed-income derivatives generate guaranteed income and involve investments in a range of financial products provided by financial institutions, leveraging opportunities in interest rate markets for different currencies and differences in exchange rates quoted in different currency markets in a given timeframe. Such investments primarily involve foreign exchange forward contracts and agreements to pledge foreign exchange payables. Value-protection derivative investments seek to preserve capital value by utilising foreign exchange products provided by financial institutions, so that the Company may mitigate the impact of exchange rate volatility in day-to-day operations on its assets, liabilities and profitability. Value-protection derivative investments primarily involve foreign exchange forwards and structured forwards, complemented by foreign exchange swaps and foreign exchange options.

### **III. PRINCIPAL TERMS OF DERIVATIVE INVESTMENTS**

1. Duration of contract: not more than 1 year
2. Counterparties: banking financial institutions
3. Liquidity arrangements: Investments in fixed-income derivatives are based on the foreign exchange payments of the Company, where the investment amount will match the cash flow of the Company. Investments in value-protection derivatives are based on day-to-day import and export businesses, where the investment amount and investment period will match projected receipts and payments.
4. Other terms: Investments in derivative products will primarily be financed by the integrated bank credit facilities available to the Company without requiring any deposit payment by the Company, and shall be settled upon maturity on the basis of the principal amount or the price difference.

### **IV. JUSTIFICATION OF INVESTMENTS IN DERIVATIVES**

The derivative investment business to be conducted by the Company is closely related to its day-to-day operation. Currently, the Company has in stock a significant amount of raw materials and equipment denominated in foreign currencies. To manage the risk of exchange rate volatility associated with foreign exchange payments for imports, investments in fixed-income derivatives are conducted to lower exchange losses and enhance the Company's competitiveness. On the other hand, as the Company's foreign exchange income continues to grow, the mismatch of currencies in receipts and payments will result in increasing foreign exchange risk exposure involving mainly USD and EUR. To prevent the Company's profit and shareholders' equity from being adversely affected by exchange rate fluctuations, it is necessary for the Company to conduct value-protection derivative investments to reduce its foreign exchange risk exposure.

### **V. MANAGEMENT OF FOR DERIVATIVE INVESTMENTS**

1. The Company has formulated the "System for Risk Control and Information Disclosure relating to Investments in Derivatives" (《衍生品投資風險控制及信息披露制度》) and Measures for the Administration of Investments in Derivatives" (《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 investments in derivative products 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 investments in derivative products and are operating in strict compliance with the operational and risk management systems for derivative investments.

## **VI. RISK ANALYSIS FOR DERIVATIVE INVESTMENTS**

1. Market risks: For fixed-income derivatives, gains were recognised at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. Gains or losses arising from the difference between the agreed exchange rate for transaction and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative products. Effective gains or losses shall be represented by the cumulative gains or losses on revaluation on the maturity date.
2. Liquidity risks. Fixed-income derivative investments warrant little liquidity risks as they are based on the foreign exchange payments for imports and do not effectively take up any available funds. Value-protection derivatives are based on projected receipts and payments in foreign exchange. As they match the actual amounts of receipts and payments in foreign exchange, it is assured that there would be sufficient funds for settlement upon completion, with little impact on the Company's liquidity assets.
3. Contract performance risks. The counterparties to the Company's derivative investments are banks with sound credit ratings and long-standing business relationships with the Company, which basically give rise to no risk in terms of contract performance.
4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives 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. Any investments in derivative products conducted by the Company shall be aimed at mitigating the impact of exchange rate volatility on the Company. which is forbidden to engage in speculative activities for profit-making. Any derivatives investments of the Company shall be limited to the authorised cap approved by the Board of Directors or the general meeting. Also, the Company is not allowed to conduct any leveraged derivative investments.
2. Prior to conducting any derivative investments, the investment work group of the Company will conduct risk analyses for such investments and draw up investment plans (including investment types, duration, amounts and counterparty banks) 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. The investment work group shall submit investment contracts for derivative investment to the chief financial officer for approval and implement such contract after approval.
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 derivative products, 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 OF DERIVATIVE INVESTMENT**

The investments in derivative products to be conducted by the Company are primarily foreign exchange trading involving USD and EUR currencies, which are actively traded in highly transparent markets. The fair values of the derivatives can be sufficiently reflected in the traded prices and daily settlement prices of such currencies, 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 DERIVATIVE INVESTMENTS**

1. The accounting treatment of the Company's derivative investments shall be determined in accordance with the Accounting Standards for Business Enterprises.
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 derivatives of the Company (representing the sum of the fair value impairment of the invested derivatives 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. INDEPENDENT NON-EXECUTIVE DIRECTORS' OPINION**

The Independent Non-Executive Directors of the Company, namely, Ms. Qu Xiaohui, Mr. Chen Naiwei, Mr. Wei Wei, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert, have reviewed the Company's planned derivative investments and furnished an independent opinion in relation thereto as follows:

As the foreign exchange income of the Company and its majority-owned subsidiaries has been increasing in line with the ongoing development of their international businesses, the mitigation of exchange rate volatility risks associated with foreign exchange operations by locking up currency translation costs through the reasonable application of financial derivative instruments is beneficial to the enhancement of the financial stability and competitiveness of the Company. The Company has conducted meticulous internal assessment in respect of the investment in derivative products and has established relevant regulatory regimes. We are of the view that the engagement of derivative investments by

the Company is closely related to its day-to-day operation needs and that risks involved are controllable, and that it is in compliance with relevant provisions of pertinent laws and regulations.

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

Shenzhen, the PRC  
17 March 2011

*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, Lei Fanpei, 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.*

## **Attachment 2: Announcement of External Investment**

*The Company and all 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 or misleading statement or material omission in this announcement.*

# **ZTE中兴**

## **ZTE CORPORATION**

### **中兴通讯股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 763)**

## **Announcement of External Investment**

*The Company and all the members of the Board of Directors confirm that all the information contained in this notice is true, accurate and complete and that there is no false and misleading statement or material omission in this notice.*

### **I. OVERVIEW OF THE EXTERNAL INVESTMENT**

#### **1. Basic information of the external investment**

To provide support for the future business development of ZTE Corporation (“ZTE” or the “Company”), the Company proposes to invest in and construct the “ZTE (Nanjing) Area No. 3 R&D Base” project (the “Project”) in Yuhuatai District, Nanjing, and further proposes to enter into an investment agreement with Nanjing Yuhuatai District People’s Government (“Yuhuatai Government”) in the near future. The investment agreement does not constitute a connected transaction of the Company.

#### **2. Consideration by the Board of Directors and approval procedures**

The “Resolution of the Company on the Investment in a Research and Development Base Project in Yuhuatai District of Nanjing and the Proposed Execution of an Investment Agreement” was considered and passed at the Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 March 2011.

In accordance with Article 160 of the Articles of Association of ZTE Corporation: “The Board of Directors shall be accountable to the general meeting and exercise the following duties and powers: (XIX) to approve external investments with an amount not exceeding 10% of the latest audited net assets of the Company if such investments are related to the principal business of the Company, or with an amount not exceeding 5% of the latest audited net assets of the Company if such investments are not related to the principal business of the Company.” As the total investment in the Project is expected to be RMB16 billion, which is beyond the scope of approval authority of the Board of Directors, the Project and the investment agreement is subject to approval by the general meeting.

## **II. BASIC INFORMATION OF THE COUNTERPARTY TO THE INVESTMENT AGREEMENT**

1. Name: Nanjing Yuhuatai District People's Government
2. Legal (authorised) representative: Zhang Yixin (張一新)
3. Address: No. 2 Yuhua South Road, Yuhuatai District, Nanjing

Yuhuatai District is in the southwestern part of the urban area of Nanjing. It is the "Southern Gate" of Jinling (historical name of Nanjing) and the geographical hub of Nanjing's urban development, as well as an important area for development in the extension of Nanjing's main city zone to the East and the South. The planned and utilised landuse of Yuhuatai District has a total area of approximately 80 square kilometres.

## **III. BASIC INFORMATION OF THE PROJECT**

As the business of ZTE becomes increasingly internationalised in the course of its development, the Company plans to construct an integrated research and development base that is focused on research and development but also provides training and outsourcing services, with a total gross area of approximately 1.50 million square metres. The Company proposes a total investment of RMB16 billion (comprising investment in infrastructure of RMB6 billion). The construction period of the Project is expected to be 10 years. The Company will fund investments in the Project with its internal resources. Investment estimates have indicated that the Project will generate sound investment return for the Company.

## **IV. PRINCIPAL TERMS OF THE INVESTMENT AGREEMENT**

1. Nanjing Yuhuatai District People's Government agrees that the Company will invest in and construct the "ZTE (Nanjing) Area No. 3 R&D Base" project in the Software Valley of Yuhuatai District, Nanjing, and further agrees to provide a sound investment environment for the Company.
2. The investment in the "ZTE (Nanjing) Area No. 3 R&D Base" project shall be RMB16 billion, comprising investment in infrastructure of RMB6 billion, and the total land area shall be 2000 acres.
3. The land block to be assigned for the investment shall be a land block for industrial use, and the land premium shall be subject to the result of the land auction.
4. The investment agreement, duly signed under the hands and seals of both parties, shall become effective upon approval by the general meeting of ZTE.

## **V. OBJECTIVES AND INHERENT RISKS OF THE EXTERNAL INVESTMENT AND ITS EFFECT ON THE COMPANY**

By developing the Project, the Company will be able to effectively alleviate the substantial pressure in seeking land sites for the future expansion of its Nanjing Research and Development Centre, laying a solid foundation for the Company's business development for the delivery of positive economic benefits.

The planning of the Project, including the estimated construction period, is in a preliminary stage. In accordance with the Articles of Association of ZTE Corporation and other pertinent laws and regulations, the Project shall be subject to consideration by the general meeting. Applications to relevant government authorities for project establishment and approvals, as well as the acquisition of project landuse according to procedures stipulated by national laws are also be required for the actual implementation of the Project. Therefore, the Project is subject to uncertainties in respect of project deliberations, approval, land acquisition and construction work. The Company will make further announcements on the progress of the Project in a timely manner, in fulfillment of its obligations to disclose information under pertinent regulations.

## VI. DOCUMENTS FOR INSPECTION

1. Proposed investment agreement between the Company and Nanjing Yuhuatai District People's Government;
2. Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company.

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

Shenzhen, the PRC  
17 March 2011

*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, Lei Fanpei, 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.*