

ZTE中兴

ZTE CORPORATION

中興通訊股份有限公司

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

(Stock Code: 763)

CONNECTED TRANSACTION

On 7 December 2006, the Company approved the subscription by the Company's wholly owned subsidiary, ZTE (H.K) Limited, for H shares of China Communications Services as part of its global offering and listing on the main board of the Hong Kong Stock Exchange. The board of directors of ZTE (H.K) Limited approved such subscription on 7 December 2006. 17,674,000 H shares of China Communications Services were allotted to ZTE (H.K) Limited at HK\$2.20.

China Communications Services, being a subsidiary of China Telecom, the ultimate holding company of two of the Company's Promoters, is a connected person of the Company. The subscription constitutes a connected transaction of the Company.

As the relevant percentage ratios involved in this subscription are more than 0.1% but less than 2.5% for the Group, it is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

On 27 November 2006, China Communications Services published the CCS Prospectus in relation to its global offering and listing on the main board of the Hong Kong Stock Exchange. The offer price and the results of allotment were published on 7 December 2006.

On 7 December 2006, the Company approved the subscription by the Company's wholly owned subsidiary, ZTE (H.K.) Limited, for H shares of China Communications Services as part of its global offering. The board of directors of ZTE (H.K.) Limited approved such subscription on 7 December 2006.

As the relevant percentage ratios involved in this subscription are more than 0.1% but less than 2.5% for the Group, it is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

RELATIONSHIP BETWEEN THE PARTIES

ZTE (H.K) Limited is a wholly owned subsidiary of the Company incorporated in Hong Kong on 27 October 2000.

Based on information available to the Company, China Telecom is the ultimate holding company of Hunan Nantian and Shaanxi Telecommunications Industrial. Hunan Nantian and Shaanxi Telecommunications Industrial are both the Company's Promoters and hold approximately 1.19% and 0.58% of the Company's issued share capital, respectively, as at the date of this announcement. China Telecom and its subsidiaries are each an associate of Hunan Nantian and Shaanxi Telecommunications Industrial within the meaning of the Hong Kong Listing Rules and therefore each a connected person of the Company.

According to the CCS Prospectus, China Telecom holds a 91.5% interest in China Communications Services prior to the Global Offering and a 64.05% interest immediately following the completion of the Global Offering assuming the full exercise of the over-allotment option as described in the CCS Prospectus. China Communications Services, being a subsidiary of China Telecom, is a connected person of the Company and the subscription constitutes a connected transaction of the Company.

CONSIDERATION

17,674,000 H shares of China Communications Services were allotted to ZTE (H.K) Limited at HK\$2.20. This amounts to an aggregate subscription price at HK\$38,882,800 (excluding the relevant brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee), which will be funded from the internal funds of ZTE (H.K) Limited.

The number of the Subscribed Shares represents approximately 0.34% (assuming no exercise of the over-allotment option as described in the CCS Prospectus) or approximately 0.32% (assuming the full exercise of the over-allotment option as described in the CCS Prospectus) of the total issued share capital of China Communications Services immediately following completion of its global offering.

According to the CCS Prospectus, the net asset value of China Communications Services as at 30 June 2006 was RMB5,042,326 million. The following table sets out the net profits of China Communications Services for the two years ended 31 December 2004 and 2005 as disclosed in the CCS Prospectus:

	2004 RMB'000	2005 RMB'000
Net profits before taxation	864,457	1,040,984
Net profits after taxation	590,497	780,502

REASONS FOR THE TRANSACTION

The Directors believe that the subscription could yield an investment return that would enhance the efficiency of the Group's use of its excess working capital. The Directors (including independent non-executive directors) are of the view that the transaction is on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole.

GENERAL

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets and telecommunications software systems and services.

According to the CCS Prospectus, China Communications Services is primarily engaged in the provision of telecommunications infrastructure services, including design, construction and project supervision and management, business process outsourcing services and applications, content and other services.

The Group entered into various commercial contracts with China Telecom and its member companies in relation to the sale of products by the Group to China Telecom and its member companies. Such transactions constitute connected transactions of the Company pursuant to the Hong Kong Listing Rules but have been exempted by a waiver granted by the Hong Kong Stock Exchange on 24 November 2004. Please refer to the Company's announcement dated 2 November 2006 for more detailed information about the waiver.

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
"CCS Prospectus"	the prospectus of China Communications Services in relation to its global offering and listing on the main board of the Hong Kong Stock Exchange
"China Communications Services"	中國通信服務股份有限公司 (China Communications Services Corporation Limited)
"China Telecom"	中國電信集團公司 (China Telecommunications Corporation)
"Company"	ZTE Corporation, a joint stock limited company incorporated on 11 November 1997 under the Chinese Company Law 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
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"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
"H shares"	the shares offered by China Communications Services under the Global Offering
"Hunan Nantian"	湖南南天集團有限公司 (Hunan Nantian (Group) Company)
"Promoters"	the promoters of the Company
"Shaanxi Telecommunications Industrial"	陝西電信實業公司 (Shaanxi Telecommunications Industrial Company)
"Shareholders"	the shareholders of the Company
"Subscribed Shares"	H shares of China Communications Services subscribed by ZTE (H.K.) Limited

By Order of the Board
Hou Weigui
Chairman of the Board

Shenzhen, the PRC
7 December 2006

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors Yin Yimin, Shi Lirong and He Shiyou; six non-executive directors Hou Weigui, Wang Zongyin, Xie Weiliang, Zhang Junchao, Li Juping and Dong Lianbo; and five independent non-executive directors Zhu Wuxiang, Chen Shaohua, Qiao Wenjun, Mi Zhengkun and Li Jin.