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*(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 763)*

CONTINUING CONNECTED TRANSACTIONS PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN

At the Thirty-eighth Meeting of the Fifth Session of the Board held on 28 December 2012, the Board approved the terms of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for such transactions for each of the three years ending 31 December 2013, 2014 and 2015, as set out in this announcement.

As one or more of the applicable percentage ratios of the proposed annual caps of the Zhongxingxin Purchase Framework Agreement exceed 0.1% but are below 5%, the Zhongxingxin Purchase Framework Agreement and the proposed annual caps for such transactions for each of the three years ending 31 December 2013, 2014 and 2015 are subject to the reporting, annual review, and announcement requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

1. INTRODUCTION

At the Thirty-eighth Meeting of the Fifth Session of the Board held on 28 December 2012, the Board approved the terms of the Zhongxingxin Purchase Agreement, the transactions contemplated thereunder and the proposed annual caps for such transactions for each of the three years ending 31 December 2013, 2014 and 2015, as set out in this announcement.

2. PURCHASES OF RAW MATERIALS BY THE GROUP FROM ZHONGXINGXIN AND ITS SUBSIDIARIES

On 28 December 2012, the Company entered into the Zhongxingxin Purchase Framework Agreement with Zhongxingxin with respect to the purchase of raw materials, primarily comprising cabinets and related accessories, cases and related accessories, shelters, railings, antenna rods, optical products, refined processed products, packaging materials, Flexible Printed Circuit (FPC), Rigid and Flexible Printed Circuit (R-FPC) and its components and other products by the Group from Zhongxingxin and its subsidiaries for a term starting from 1 January 2013 to 31 December 2015.

Nature of transactions

The Group has in the ordinary and usual course of its business purchased certain raw materials required for the manufacturing of its products from Zhongxingxin and its subsidiaries from time to time. These raw materials are in great variety and primarily comprise cabinets and related accessories, cases and related accessories, shelters, railings, antenna rods, optical products, refined processed products, packaging materials, flexible printed circuit (FPC), rigid

and flexible printed circuit (R-FPC) and its components and other products which are to be used in different business segments of the Group.

Historical transactions

The following table sets out the historical purchase amounts of raw materials by the Group from Zhongxingxin and its subsidiaries for each of the years ended 31 December 2010 and 2011 and the eleven months ended 30 November 2012 and the annual cap for the year ending 31 December 2012:

	For the year ended 31 December 2010 (RMB million) (Excluding VAT)	For the year ended 31 December 2011 (RMB million) (Excluding VAT)	For the eleven months ended 30 November 2012 (RMB million) (Excluding VAT)	Annual cap for the year ending 31 December 2012 (RMB million) (Excluding VAT)
Purchases of raw materials by the Group from Zhongxingxin and its subsidiaries	573.80	534.21	470.86	1,690.00

As far as the Directors are aware, the annual cap for the year ending 31 December 2012 has not been exceeded as at the date of this announcement.

Pricing

A potential supplier to the Group must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become a qualified supplier. The Group reviews the status of qualified supplier on an annual basis. Typically, based on the Group's forecasts for a relevant year, the Group invites qualified suppliers to bid to supply to it for such year.

Zhongxingxin and its subsidiaries were selected through the Group's qualification and bidding procedures as described above. The Directors have confirmed that the prices for such purchases from Zhongxingxin and its subsidiaries were determined after arm's length negotiations and on normal commercial terms. Prices for future transactions pursuant to the Zhongxingxin Purchase Framework Agreement will be arrived at after arm's length negotiations, with reference to the prices quoted by Zhongxingxin and its subsidiaries for sales of similar quantities of the same or similar products to other parties at the relevant time. Such terms shall be on terms no less favourable from Zhongxingxin and its subsidiaries than the terms available from the other parties.

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement, the Group will issue purchase orders to (or enter into individual agreements with) Zhongxingxin and its subsidiaries from time to time, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details.

The Group has adopted and implemented the following internal procedure to monitor and check the terms of future transactions: upon selecting the successful bidder who offered the most favourable terms based on the Group's qualification and bidding procedures above, the Company will enter into a framework agreement/contract specifying such terms with the successful bidder accordingly. Before issuing any purchase order, it is the duty of the bidding

department of the Group to review and compare whether every purchase order issued to that successful bidder is of such terms in accordance with those specified in its relevant framework agreement/contract. The Directors believe that the Group's qualification and bidding procedures and the "review and compare" measures can effectively safeguard every purchase by the Group from Zhongxingxin and its subsidiaries under the Zhongxingxin Purchase Framework Agreement be of terms no less favourable than those available from independent third party suppliers.

The Group will settle the payment for the products by commercial acceptance bills within 210 days from the date of inspection and acceptance of the products.

Annual Caps

The Company estimates that the aggregate purchase amount of raw materials by the Group from Zhongxingxin and its subsidiaries will not exceed RMB900 million, RMB1,000 million and RMB1,100 million (excluding VAT), respectively, for the three years ending 31 December 2013, 2014 and 2015 respectively. The annual cap (excluding VAT) for each of the three years ending 31 December 2013, 2014 and 2015 are equivalent to the corresponding forecast figures described above.

The Directors noted the difference between the actual purchase amounts of raw materials for the eleven months ended 30 November 2012 and the annual cap for the year ending 31 December 2013 is RMB429.14 million, which is mainly attributable to a seasonal factor driving a larger proportion of purchase of flexible printed circuit (FPC), rigid and flexible printed circuit (R-FPC) and its components by the Group from Zhongxingxin and its subsidiaries during the last quarter of every year which is in line with the world's trend in demand of mobile phone handsets whereas the purchase of other raw materials by the Group from Zhongxingxin and its subsidiaries are expected to maintain at a steady level as compared to the previous years.

The Directors have determined the proposed annual caps with reference to: (i) the historical transactions conducted and transaction amounts in respect of purchases of raw materials by the Group from Zhongxingxin and its subsidiaries and the average historical compound annual growth rate of the operating revenue of the Group's carriers' networks business segment, that of the Group's terminals business segment and that of the overall operating revenue of the Group in the past years; and (ii) the Group's expectation of the future development of its business, the expected growth of its production capacity and the overall increased projected requirements for raw materials from Zhongxingxin and its subsidiaries in light of the expected increase in demand for wireless telecommunication products resulting from the increasing demand in domestic and overseas markets as it will search deep in emerging markets to identify new business opportunities for the carriers' networks business and it will continue the large scale of marketing of smart terminals in developed markets for the terminals business.

Reasons for and benefits of such transactions

Zhongxingxin was selected through the Group's qualification and bidding procedures, and the Company believes that Zhongxingxin and its subsidiaries have consistently been able to meet its stringent demands for fast product turnaround time, high product quality and timely delivery. As the Company considers that having reliable and cooperative suppliers is important and beneficial to it, purchasing from Zhongxingxin and its subsidiaries allows the Group to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining product quality.

3. BOARD'S APPROVAL

At the Thirty-eighth Meeting of the Fifth Session of the Board held on 28 December 2012, the Board approved the terms of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for such transactions for each of the three years ending 31 December 2013, 2014 and 2015.

Mr. Xie Weiliang (Vice Chairman of the Board), Mr. Zhang Junchao (Director), Mr. Dong Lianbo (Director) as the chairman, vice chairman and director, respectively of Zhongxingxin, did not participate the vote in respect of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for the three years ending 31 December 2013, 2014 and 2015. Other than as stated above, none of the Directors have a material interest in the Zhongxingxin Purchase Framework Agreement nor are they required to abstain from voting in the relevant board resolution.

All of the independent non-executive Directors of the Company have reviewed the Zhongxingxin Purchase Framework Agreement prior to the meeting of the Board, and agreed to submit the Zhongxingxin Purchase Framework Agreement to the Board for consideration. The independent non-executive Directors issued an independent opinion regarding the Zhongxingxin Purchase Framework Agreement that the transactions contemplated thereunder, having been reviewed under proper procedures, are necessary, in compliance with ordinary commercial terms and conducted at fair pricing, and are in the interests of the Company and its Shareholders as a whole.

The Directors (including the independent non-executive Directors) take the view that the Zhongxingxin Purchase Framework Agreement are entered into in the ordinary and usual course of business of the Company on normal commercial terms, and such terms and the annual cap for the transactions contemplated under the Zhongxingxin Purchase Framework Agreement for the three years ending 31 December 2013, 2014 and 2015 are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

4. GENERAL INFORMATION

The Group are principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including carriers' networks, terminals and telecommunications software systems and services.

Zhongxingxin holds a 30.76% interest in the Company and is a controlling shareholder and connected person of the Company under the Hong Kong Listing Rules. Zhongxingxin is primarily engaged in the production of cabinet for switchboards, telephone, accessories and electronic products.

5. DEFINITIONS

In this announcement, unless the context otherwise requires the following expressions have the following meanings:

“Board”	the board of directors of the Company
“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
“Group”	the Company and its subsidiaries from time to time
“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
“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Shareholders”	the shareholders of the Company
“VAT”	value added tax
“Zhongxingxin”	深圳市中興新通訊設備有限公司 (Shenzhen Zhongxingxin Telecommunications Equipment Company Limited*), a company established under the laws of the PRC with limited liability and a controlling shareholder of the Company
“Zhongxingxin Purchase Framework Agreement”	the framework agreement dated 28 December 2012 between the Company and Zhongxingxin in relation to the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries for a term starting from 1 January 2013 to 31 December 2015

By Order of the Board
Hou Weigui
Chairman

Shenzhen, the PRC
28 December 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.*