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

**(Stock Code: 763)**

## **REVISED ANNUAL CAP FOR THE 2011 LEAD PURCHASE FRAMEWORK AGREEMENT**

At the Twenty-Second meeting of the fifth session of the Board held on 30 August 2011, the Board approved the Revised Annual Cap for the year ending 31 December 2011 as set out in this announcement. As the relevant percentage ratios in respect of the Revised Annual Cap are on an annual basis more than 0.1% but less than 5%, the Continuing Connected Transaction is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

### **1. BACKGROUND**

#### **Original Annual Cap**

Reference is made to the announcement of the Company dated 29 November 2010 in relation to, among other things, the purchase of liquid crystal modules (LCM) by the Group from Lead under the 2011 Lead Purchase Framework Agreement. The Original Annual Cap for such Continuing Connected Transaction for the year ending 31 December 2011 (excluding VAT) as approved by the Board is RMB375 million.

The following table sets out the historical aggregate purchases of liquid crystal modules (LCM) by the Group from Lead for each of the two years ended 31 December 2009 and 2010 and six months ended 30 June 2011:

<b>Transaction</b>	<b>Historical figures</b>		
	<b>for the year ended 31 December 2009 (Excluding VAT)</b>	<b>for the year ended 31 December 2010 (Excluding VAT)</b>	<b>for the six months ended 30 June 2011 (Excluding VAT)</b>
	Unit: RMB in millions		
Purchases of liquid crystal modules (LCM) by the Group from Lead	144.34	294.26	215.34

## **Revised Annual Cap**

### *Reasons for the Revised Annual Cap:*

As the increase in the sale of handsets by the Group in 2011 is expected to exceed the Group's original estimate for the domestic and overseas market demand of its handsets, there is a corresponding increase in the purchase of the LCM by the Group from Lead. The Board has therefore, at its Twenty-Second meeting of the fifth session held on 30 August 2011, approved the Revised Annual Cap of RMB 580 million (excluding VAT) for such Continuing Connected Transaction between the Group and Lead for the year ending 31 December 2011 to replace the Original Annual Cap in order to accommodate the increase in the purchase of the liquid crystal modules (LCM) from Lead. As at the date of this announcement, the Group has not exceeded the Original Annual Cap for the Continuing Connected Transaction for the year ending 31 December 2011.

The Revised Annual Cap has been determined with reference to (i) the previous transactions and the increase in transactions conducted and transaction amounts in respect of purchases of liquid crystal modules (LCM) from Lead for the six months ended 30 June 2011; (ii) the Group's expectation of the future development of its business; (iii) the Group's expected growth of its production capacity; and (iv) the Group's overall projected requirements for purchases of liquid crystal modules (LCM) for 2011.

As the relevant percentage ratios in respect of the Revised Annual Cap are on an annual basis more than 0.1% but less than 5%, the Continuing Connected Transaction is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

### *Relationship between the parties:*

Lead is a non-wholly owned subsidiary of the Company in which the Company holds 62.5% equity interest through Changfei (a 51%-owned subsidiary of the Company). Zhongxingxin is the controlling shareholder of the Company and therefore a connected person at the level of the Company. As Zhongxingxin is also a substantial shareholder of Lead holding 22.5% equity interest of Lead, Lead is a connected person of the Company pursuant to Rule 14A.11(5) of the Hong Kong Listing Rules.

### *Reasons for the Continuing Connected Transaction:*

The Company expects handset sales to continue to form a major part of its business in the future. In order to capture this growing market demand, the Group requires steady, reliable and quality supplies of liquid crystal modules (LCM) for its production of handsets. As the production of these liquid crystal modules (LCM) involves merely low value-added assembly work, there are few suppliers of raw materials and components that are able to undertake such large-scale production as required by the Company for the prices it offers. Lead was established to handle large-scale production at low unit cost and to specialize in the supply of liquid crystal modules (LCM). The Company believes that it has also been able to provide the Group a quick production turnaround time, consistent product quality and timely delivery. The Company has taken a majority stake in Lead. The Directors consider that having Lead as the Company's subsidiary allows the Group to secure steady supplies of quality liquid crystal modules (LCM) in large volumes from a co-operative, reliable and specialized supplier that would not otherwise be easily available from other suppliers for comparable prices.

## 2. BOARD APPROVAL

All of the independent non-executive directors of the Company have reviewed the Revised Annual Cap prior to the meeting of the Board, and agreed to submit the same to the Board for consideration. The Directors (including all independent non-executive Directors) are of the view that the Continuing Connected Transaction was entered into in the ordinary and usual course of business of the Group and conducted on normal commercial terms, and that the Revised Annual Cap is fair and reasonable and in the interests of the Company and its Shareholders as a whole. None of the Directors have a material interest in the Continuing Connected Transaction nor are they required to abstain from voting in the relevant board resolutions.

## 3. GENERAL INFORMATION

The Company and its subsidiaries are principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including carrier networks, handsets and telecommunications software systems and services.

Lead is principally engaged in the production and sale of liquid crystal modules (LCM). Since July 2003, the Group has from time to time purchased in the ordinary and usual course of its business liquid crystal modules (LCM) from Lead for use by the Group in the production of its handsets.

## 4. 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
“Changfei”	深圳市長飛投資有限公司 (Shenzhen Changfei Investment Company, Limited), a company established under the laws of the PRC with limited liability, and 51% of the equity interest of which is held by 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
“2011 Lead Purchase Framework Agreement”	the framework agreement in respect of the Continuing Connected Transaction dated 26 November 2010 between the Company (as purchaser) and Lead (as supplier) in relation to the purchase of liquid crystal modules (LCM) by the Group from Lead
“Continuing Connected Transaction”	the continuing connected transaction as described in this announcement, namely, the purchase of liquid crystal modules (LCM) by the Group from Lead
“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
“Lead”	深圳市立德通訊器材有限公司 (Shenzhen Lead Communications Company, Limited), a company established on 17 June 2003 under the laws of the PRC with limited liability
“Original Annual Cap”	the annual cap for the Continuing Connected Transaction for the year ending 31 December 2011 as approved by the Board on 26 November 2010, i.e. RMB375 million (excluding VAT)
“PRC”	the People’s Republic of China
“Revised Annual Cap”	the revised annual cap for the Continuing Connected Transaction for the year ending 31 December 2011 as approved by the Board on 30 August 2011 and as announced by the Company on the same date, which amounts to RMB 580 million (excluding VAT) and which replaces the Original Annual Cap
“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 the controlling shareholder of the Company

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

Shenzhen, the PRC  
30 August 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.*