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ZTE

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)

**UPDATE ANNOUNCEMENT ON
(1) SHARE TRANSACTION – PROPOSED ACQUISITION OF 18.8219% EQUITY
INTEREST IN ZTE MICROELECTRONICS
AND
(2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY
FUNDS**

On 16 November 2020, the Company, Hengjian Xinxin and Huitong Rongxin entered into a supplemental agreement in relation to the Acquisition. Pursuant to the Supplemental Agreement, the valuation result on the 18.8219% equity interest in ZTE Microelectronics, details of the consideration and the number of Consideration Shares proposed to be issued have been determined and finalized.

As the consideration for the Acquisition has been determined pursuant to the terms of the Supplemental Agreement, additional information on the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is set out in this announcement.

The EGM will be convened by the Company to consider and, if thought fit, pass, among other things, the resolutions in relation to the proposed acquisition of 18.8219% equity interest in ZTE Microelectronics and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds.

A circular containing, among other things, (i) further details of the Acquisition; (ii) further details of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds; and (iii) the notice convening the EGM will be despatched to the Shareholders in due course.

Reference is made to the announcement of the Company dated 28 October 2020 (the “**Announcement**”) in relation to, among other things, the proposed acquisition of 18.8219% equity interest in ZTE Microelectronics and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds. Unless otherwise stated, capitalized terms used herein shall have the same meaning as those defined in the Announcement.

I. SHARE TRANSACTION – ACQUISITION OF 18.8219% EQUITY INTEREST IN ZTE MICROELECTRONICS

On 16 November 2020, the Company, Hengjian Xinxin and Huitong Rongxin entered into a supplemental agreement in relation to the Acquisition (the “**Supplemental Agreement**”). Pursuant to the Supplemental Agreement, the valuation result on the 18.8219% equity interest in ZTE Microelectronics, details of the consideration and the number of Consideration Shares proposed to be issued have been determined and finalized.

1. PRINCIPAL TERMS OF THE SUPPLEMENTAL AGREEMENT

The principal terms of the Supplemental Agreement are as follows:

Date

16 November 2020

Parties

- (i) the Company as purchaser; and
- (ii) Hengjian Xinxin and Huitong Rongxin as vendors.

Consideration

The appraisal value of 100% equity interest in the Target Company as at the valuation benchmark date (i.e. 30 June 2020) as determined by Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司), a professional independent valuer appointed by the parties to the Acquisition Agreement based on market approach, is RMB13,871,219,600. Based on the valuation result and after negotiations between the parties, the aggregate consideration for the Acquisition shall be RMB2,610,827,000, of which the consideration for the 10.1349% equity interest shall be RMB1,405,829,900 and the consideration for the 8.687% equity interest shall be RMB1,204,997,100.

Based on the consideration determined, the parties agreed that the consideration payable shall be satisfied by the allotment and issuance by the Company to Hengjian Xinxin and Huitong Rongxin of 45,643,828 Consideration Shares and 39,123,282 Consideration Shares respectively. The number of Consideration Shares is subject to the approval of the CSRC.

Consideration Shares

The issue price of each Consideration Share is RMB30.80, which represents a premium of approximately 86.18% to the closing price of HK\$19.08 per H Share as quoted on the Hong Kong Stock Exchange on 28 October 2020, being the date of the Acquisition Agreement.

Based on the consideration of RMB2,610,827,000 and the issue price of RMB30.80, the number of Consideration Shares proposed to be issued is 84,767,110, which represents

2.20% of the A Shares and 1.84% of total issued Shares as at the date of this announcement. The number of Consideration Shares is subject to the approval by the CSRC.

An application will be made by the Company for the listing of and trading on the Shenzhen Stock Exchange of the A Shares to be issued by the Company pursuant to the Acquisition Agreement and the Supplemental Agreement as Consideration Shares.

Save for the supplemental terms disclosed above, all other terms and conditions under the Acquisition Agreement shall remain unchanged.

2. INFORMATION ON THE VENDORS

Information on Hengjian Xinxin

Hengjian Xinxin is a limited partnership enterprise established under the laws of the PRC. Hengjian Xinxin is principally engaged in investing activities.

The general partner of Hengjian Xinxin is Guangdong Guanghengshun Investment Co., Ltd. (廣東廣恒順投資有限公司), and its limited partners are Guangdong Hengjian Asset Management Co., Ltd. (廣東恒健資產管理有限公司) and Guangdong Henghang Industrial Investment Fund Partnership (廣東恒航產業投資基金合夥企業 (有限合夥)). The ultimate controller of Hengjian Xinxin is the State-owned Assets Supervision and Administration Commission of Guangdong Province.

As at the date of this announcement, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Hengjian Xinxin and its ultimate beneficial owners are independent third parties of the Company and its connected persons.

Information on Huitong Rongxin

Huitong Rongxin is a company with limited liability incorporated in the PRC. Huitong Rongxin is principally engaged in the investment in and establishment of industrial operations, venture investment and venture investment consultation. The sole shareholder of Huitong Rongxin is Shenzhen Huitong Jinkong Fund Investment Company Limited (深圳市匯通金控基金投資有限公司), which is under the administration of the State-owned Assets Supervision and Management Commission of Shenzhen Nanshan District. Huitong Rongxin holds 43,032,108 A shares of the Company, accounting for 0.93% of the total share capital of the Company as at the date of this announcement.

As at the date of this announcement, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Huitong Rongxin and its ultimate beneficial owners, are independent third parties of the Company and its connected persons.

3. HONG KONG LISTING RULES IMPLICATIONS

Hengjian Xinxin, which held 10.1349% equity interests in the Target Company, is a substantial shareholder at the subsidiary level of the Company. However, for each of the three financial years ended 31 December 2019, each of the asset, profits and revenue

percentage ratios of the Target Company is less than 10% of that of the Group. Accordingly, Hengjian Xinxin is not a connected person of the Company and the Acquisition does not constitute a connected transaction of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

All the applicable percentage ratios in respect of the Acquisition are less than 5%. As the consideration for the Acquisition will be satisfied by the allotment and issuance of the Consideration Shares, the Acquisition constitutes a share transaction and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

The Consideration Shares are proposed to be issued pursuant to the General Mandate. According to the General Mandate, the Board has been authorized to allot and issue not more than 771,580,100 A Shares and 151,100,506 H Shares. As at the date of this announcement, other than the Consideration Shares, up to 163,492,000 A Shares had been agreed to be issued under the General Mandate pursuant to the A Share Option Incentive Scheme adopted by the Company (as further disclosed in the announcements of the Company dated 12 October 2020 and 6 November 2020 and the circular of the Company dated 21 October 2020).

Pursuant to the Administrative Measures for the Major Asset Restructuring of Listed Companies issued by the CSRC, the Acquisition in consideration of the allotment and issuance of Shares by the Company is subject to the approval of the Shareholders at a general meeting.

II. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS

As the consideration for the Acquisition has been determined pursuant to the terms of the Supplemental Agreement, please refer to the additional information set out below on the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds pursuant to Rule 13.28 of the Hong Kong Listing Rules:

1. THE PLAN FOR THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS

(a) Target subscribers

The target subscribers of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will be not more than 35 specific subscribers which satisfy the relevant requirements of the CSRC, including securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies, finance companies, qualified foreign institutional investors and other legally qualified investors. A securities investment fund management company subscribing through two or more funds under its management shall be deemed as one single subscriber. The total number of target subscribers is expected to be six or more. However, in the event that the target subscribers is less than six, the Company will disclose the names of such subscribers in accordance with the Hong Kong Listing Rules.

As at the date of this announcement, (i) the Company had not entered into any agreement with any potential subscribers in respect of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, and (ii) the Company expected that the A shares to be issued under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will be issued to subscribers who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons, and none of them will become substantial Shareholders upon Completion of their respective subscriptions of A shares under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds.

(b) *Issue price and pricing principles*

Pursuant to the Implementation Rules of Non-public Issuance of Shares by Listed Companies, the Price Determination Date shall be the first day of the issue period of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds. The issue price of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds shall not be lower than 80% of the average trading price of the A Shares for the 20 trading days immediately preceding the Price Determination Date. The final issue price shall be determined through negotiations between the Board (or its authorized representative(s)) and the independent financial adviser (i.e., the lead underwriter) based on the bidding results and in accordance with the Implementation Rules of Non-public Issuance of Shares by Listed Companies, after the Company has obtained the approval for the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds from the CSRC.

In addition, pursuant to the Hong Kong Listing Rules, the issue price of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds shall not represent a discount of 20% or more to the benchmarked price of the H Shares as described under Rule 13.36(5) of the Listing Rules, such benchmarked price being the higher of:

- (a) the closing price of the H Shares on the date of the relevant agreement involving the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds; and
- (b) the average closing price of the H Shares in the five trading days immediately prior to the earlier of:
 - (i) the date of the Announcement;
 - (ii) the date of the relevant agreement involving the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds; and
 - (iii) the date on which the issue price of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is fixed.

The average closing price of the H Shares in the five trading days immediately prior to the date of the Announcement is HK\$18.94. Therefore, pursuant to Rule 13.36(5) of the Hong Kong Listing Rules, the issue price of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds shall not represent a discount of 20% or more to the benchmarked price, being the higher of (i) the closing price of the H

Shares on the date of the relevant agreement involving the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds (which is also the date on which the issue price is fixed); and (ii) HK\$18.94.

(c) *Total funds to be raised and number of Shares to be issued*

The total funds to be raised under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds shall not exceed 100% of the consideration for the Acquisition, i.e. RMB2.61 billion. The total number of Shares to be issued shall be equivalent to the total funds to be raised divided by the issue price under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds. The total number of Shares to be issued shall satisfy the relevant regulations of the CSRC and other regulatory authorities and in compliance with the requirements pursuant to the General Mandate.

The Shares under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds are proposed to be issued pursuant to the General Mandate, and hence the total number of Shares to be issued under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, together with the number of A Shares issued or agreed to be issued pursuant to the General Mandate, shall not exceed 20% of the total A Shares as at the date of the relevant resolution approving the General Mandate.

As at the date of this announcement, (i) the Board is authorized to issue up to 771,580,100 A Shares under the General Mandate; (ii) up to 163,492,000 A Shares had been agreed to be issued under the General Mandate pursuant to the A Share Option Incentive Scheme adopted by the Company (as further disclosed in the announcement of the Company dated 12 October 2020 and 6 November 2020 and the circular of the Company dated 21 October 2020); and (iii) 84,767,110 A Shares (subject to approval and adjustment by CSRC) had been agreed to be issued under the General Mandate pursuant to the Acquisition Agreement and the Supplemental Agreement.

Therefore, the maximum number of Shares which may be issued under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is 523,320,990 A Shares.

Assuming that the issue price of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is the same as the issue price per Consideration Share under the Acquisition, i.e. RMB30.80 per A Share, the estimated number of A Shares to be issued under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds would be 84,740,259 Shares (being the total funds of RMB2.61 billion divided by the issue price), which represents:

- (i) approximately 2.20% of the existing issued A Shares and approximately 1.84% of the total issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 2.10% of the enlarged issued A Shares and approximately 1.77% of the enlarged total issued share capital of the Company upon completion of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds.

After obtaining the written approval for the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds from the CSRC, the Board or its authorized representative(s) shall, pursuant to the authorization of the Shareholders in the EGM, negotiate with the independent financial adviser (i.e. the lead underwriter) to determine the final number of A Shares to be issued according to the relevant regulations of the CSRC and the price bids submitted by the target subscribers.

(d) *Amount and use of proceeds*

The gross proceeds from the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will not exceed RMB2.61 billion. The net proceeds from the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds (after deduction of relevant intermediary fees and relevant taxes) will be applied as follows:

Use of proceeds	Total amount required (RMB billion) (approximately)	Amount to be applied from the proceeds from the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds (RMB billion) (approximately)
Research and development projects for key 5G chips	6.438	1.310
Replenishment of working capital	1.300	1.300
Total	7.738	2.610

Any shortfall in the proceeds from the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds shall be met by the internal funds of or other financing options adopted by the Company. If internal funds of the Company are used, they will be replaced by the proceeds upon receipt of the proceeds.

Further details of the reasons and benefits of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds are set out in the Announcement.

2. GENERAL MANDATE TO ISSUE A SHARES AND SHAREHOLDER APPROVAL

The A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will be allotted and issued under the General Mandate. The Board has been authorized to allot and issue not more than 771,580,100 A Shares and 151,100,506 H Shares. As at the date of this announcement, (i) up to 163,492,000 A Shares

had been agreed to be issued under the General Mandate pursuant to the A Share Option Incentive Scheme adopted by the Company (as further disclosed in the announcement of the Company dated 12 October 2020 and 6 November 2020 and the circular of the Company dated 21 October 2020); and (ii) 84,767,110 A Shares had been agreed to be issued under the Acquisition Agreement and the Supplemental Agreement as Consideration Shares (subject to approval and adjustment by CSRC). Hence, the total number of Shares to be issued under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, together with the number of A Shares issued or agreed to be issued pursuant to the General Mandate, shall not exceed 20% of the total A Shares as at the date of the relevant resolution approving the General Mandate.

Pursuant to the Administrative Measures for the Issuance of Securities by Listed Companies (as revised in 2020) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules of Non-public Issuance of Shares by Listed Companies (as revised in 2020) (《上市公司非公開發行股票實施細則》(2020年修訂)), the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is subject to the approval of the Shareholders at a general meeting.

III. EFFECT OF THE ACQUISITION AND THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the total registered capital of the Company was 4,613,434,898 Shares, which comprised 3,857,932,364 A Shares and 755,502,534 H Shares. The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after completion of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds (assuming that the issue price of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is the same as the issue price per Consideration Share under the Acquisition, and up to 169,507,369 A Shares are being issued and (ii) there is no change in the total registered capital of the Company from the date of this announcement up to completion of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds) is estimated to be as follows:

Shareholder	Class of Shares	As at the date of this announcement			Upon completion of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds		
		Number of Shares	Approximate percentage of A Shares (%)	Approximate percentage of the total registered capital (%)	Number of Shares	Approximate percentage of A Shares (%)	Approximate percentage of the total registered capital (%)
Zhongxingxin							
	A	1,033,442,200	26.79	22.40	1,033,442,200	25.66	21.61
	H	2,038,000	-	0.04	2,038,000	-	0.04
	Subtotal	<u>1,035,480,200</u>	-	<u>22.44</u>	<u>1,035,480,200</u>	-	<u>21.65</u>
Public Shareholders							
	A	2,824,490,164	73.22	61.22	2,993,997,533	74.34	62.60
	H	753,464,534	-	16.33	753,464,534	-	15.75
	Subtotal	<u>3,577,954,698</u>	-	<u>77.56</u>	<u>3,747,462,067</u>	-	<u>78.35</u>
Total		4,613,434,898		100.00	4,782,942,267		100.00

Note:

The approximate percentages of (i) the A Shares; and (ii) the total registered capital are rounded to the nearest two decimal places and may not add up to 100% due to rounding.

IV. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company had not conducted any equity fund raising exercises during the 12 months immediately preceding the date of this announcement.

Date of relevant announcements and circulars	Fund raising activity	Net proceeds and intended use of proceeds	Actual use of proceeds as at the 30 September 2020
Announcements of the Company dated 31 January 2018, 1 February 2018, 28 March 2018, 10 April 2018, 29 October 2018, 19 November 2018, 17 January 2019, 23 January 2019, 25 February 2019, 20 March 2019, 5 August 2019, 7 August 2019, 22 August 2019, 21 October 2019, 16 January 2020, 23 January 2020 and 2 February 2020 and the circulars of the Company dated 2 March 2018 and 28 February 2019	The non-public issuance of A Shares at the issue price of RMB30.21 per A Share issued under general mandate, which was completed on 4 February 2020	RMB11,459,418,724.31 for (i) technology research and product development relating to 5G network evolution and (ii) replenishment of working capital	RMB7,010,295,624.48 had been used for technology research and product development relating to 5G network evolution and RMB3,900,000,000.00 had been used for replenishment of working capital. The remainder of the net proceeds, being RMB549,123,099.83 is expected to be used in accordance with the plan for the use of the proceeds.

V. EGM AND CIRCULAR

The EGM will be convened by the Company to consider and, if thought fit, pass, among other things, the resolutions in relation to the proposed acquisition of 18.8219% equity interest in ZTE Microelectronics and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds.

A circular containing, among other things, (i) further details of the Acquisition; (ii) further details of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds; and (iii) the notice convening the EGM will be despatched to the Shareholders in due course.

WARNING

As each of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is subject to, amongst other things, the approval of the Shareholders, the CSRC and/or other regulatory authorities and may or may not proceed, Shareholders and potential investors are reminded to exercise caution in dealing in the securities of the Company.

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
16 November 2020

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Li Zixue, Xu Ziyang, Gu Junying; three non-executive directors, Li Buqing, Zhu Weimin, Fang Rong; and three independent non-executive directors, Cai Manli, Gordon Ng, Zhuang Jiansheng.