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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)

**CONTINUING CONNECTED TRANSACTIONS
PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN**

At the Thirty-first Meeting of the Sixth Session of the Board held on 22 September 2015, 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 2016, 2017 and 2018, as set out in this announcement.

As one or more of the applicable percentage ratios of the proposed annual caps for the three years ending 31 December 2016, 2017 and 2018 of the Zhongxingxin Purchase Framework Agreement exceed 0.1% but are all below 5%, the entering into of the Zhongxingxin Purchase Framework Agreement and the proposed annual caps for such transactions for each of the three years ending 31 December 2016, 2017 and 2018 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-first Meeting of the Sixth Session of the Board held on 22 September 2015, 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 2016, 2017 and 2018, as set out in this announcement.

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

On 22 September 2015, the Company entered into the Zhongxingxin Purchase Framework Agreement with Zhongxingxin for a term commencing on 1 January 2016 and ending on 31 December 2018 with respect to the purchases 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 circuits (FPC), rigid and flexible printed circuits (R-FPC) and its components and other products, by the Group from Zhongxingxin and its subsidiaries.

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 circuits (FPC), rigid and flexible printed circuits

(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 transaction amounts of raw materials by the Group from Zhongxingxin and its subsidiaries for each of the years ended 31 December 2013 and 2014 and the eight months ended 31 August 2015 and the annual cap for the year ending 31 December 2015:

	For the year ended 31 December 2013 (RMB million) (Excluding VAT)	For the year ended 31 December 2014 (RMB million) (Excluding VAT)	For the eight months ended 31 August 2015 (RMB million) (Excluding VAT)	Annual cap for the year ending 31 December 2015 (RMB million) (Excluding VAT)
Purchases of raw materials by the Group from Zhongxingxin and its subsidiaries	493.91	540.82	415.38	1,100

As far as the Directors are aware, the annual cap for the year ending 31 December 2015 has not been exceeded as at the date of this announcement.

Pricing

In accordance with the terms of the Zhongxingxin Purchase Framework Agreement, Zhongxingxin and its subsidiaries and other potential suppliers must pass the Group's internal qualification procedures based on qualifications, product quality and price in order to become a qualified supplier of the Group. The Group reviews the status of qualified suppliers on an annual basis. Typically, based on the Group's forecasts for a relevant year, the Group invites at least 3 qualified suppliers to bid for the supply of each type of raw materials (including: cabinets and related accessories, cases and related accessories, shelters, railings, antenna rods, optical products, refined processed products, packaging materials, flexible printed circuits (FPC), rigid and flexible printed circuits (R-FPC) and its components and other products) for such year before issuing purchase orders. The purchase department and bidding department of the Group will jointly conduct an assessment on the product prices, product quality, service quality and qualifications of the qualified suppliers, with a special emphasis on product prices. Qualified suppliers will be selected under a tender based on the seniority of their rankings by assessment score. Depending on the volume of raw materials required by the Group, the Group will select one or more qualified supplier(s), provided that prices quoted by the successful qualified supplier(s) will not be higher than those quoted by the unsuccessful qualified supplier(s). During the bidding process, the Group will have already determined the types, estimated volumes and prices of raw materials to be purchased from each successful qualified supplier by the Group in the coming year. Successful qualified suppliers will supply raw materials to the Group in the coming year based on the bidding results. The Group will issue purchase orders to the successful qualified suppliers according to the volume and timing of its actual requirements in the ordinary course of business, and the actual purchase volume will generally not exceed the estimated volume determined at the selection. In the event that the actual purchase volume exceeds the estimated volume, the Group will invite new bids in respect of the required volume in excess according to the aforesaid bidding procedure. The Group's bidding procedure is the same for qualified suppliers who are the Group's connected persons and qualified suppliers who are independent third parties, and no special favours will be given to connected persons. In accordance with the terms of the Zhongxingxin Purchase Framework Agreement, the Group will purchase raw materials from Zhongxingxin and its subsidiaries during the years from 2016 to 2018 only if Zhongxingxin and its subsidiaries are selected as qualified suppliers for those years through the Group's qualification and bidding procedures.

Pursuant to the terms of the Zhongxingxin Purchase Framework Agreement and the bidding results, the Group will issue purchase orders to (or enter into individual agreements with) Zhongxingxin and its subsidiaries, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as other contact details. The prices shall be such prices as determined when Zhongxingxin and its subsidiaries are selected for the bid.

The estimated prices for the Group's purchase of raw materials from Zhongxingxin and its subsidiaries under the Zhongxingxin Purchase Framework Agreement are as follows: cabinets and related accessories: RMB1-RMB300,000 per unit; cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; antenna rods: RMB200-2,000 per piece depending on level of sophistication and functional features; optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; refined processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; flexible printed circuits (FPC), rigid and flexible printed circuits (R-FPC) and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.

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 Group 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 mentioned above can effectively safeguard that every purchase by the Group from Zhongxingxin and its subsidiaries under the Zhongxingxin Purchase Framework Agreement is on fair and reasonable terms.

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

The Directors have confirmed that the qualification and bidding procedures and pricing bases under the Zhongxingxin Purchase Framework Agreement and the internal procedures of the Group can effectively ensure that prices at which the Group conducts purchases from Zhongxingxin and its subsidiaries are determined after arm's length negotiations and on normal commercial terms without compromising the interests of the Company and the independent shareholders as a whole.

Annual Caps

The Company estimates that the aggregate transaction amounts (excluding VAT) of purchase of raw materials by the Group from Zhongxingxin and its subsidiaries will not exceed RMB800 million, RMB900 million and RMB1,000 million, respectively, for the three years ending 31 December 2016, 2017 and 2018 respectively. The annual cap (excluding VAT) for each of the three years ending 31 December 2016, 2017 and 2018 are equivalent to the corresponding forecast figures described above.

The Directors noted a difference amounting to RMB684.62 million between the actual purchase amounts of raw materials for the eight months ended 31 August 2015 and the annual cap for the year ending 31 December 2015. Such difference is mainly attributable to seasonal factors, as the Group tends to conduct the majority of its purchase of flexible printed circuits (FPC), rigid and flexible printed circuits (R-FPC) and its components during the last quarter of every year in line with the trend of global demand for mobile phone handsets. As such, there is usually a slight growth in the purchase

of other raw materials by the Group from Zhongxingxin and its subsidiaries for the last quarter of each year as compared to each of the previous three quarters of that year.

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 respective historical annual growth rates of the operating revenue of the Group's carriers' networks business segment, the operating revenue of the Group's handset terminals business segment and the overall operating revenue of the Group; and (ii) the Group's expectation of the future development of its business, the expected growth of its production capacity and the projected overall growth in requirements for raw materials from Zhongxingxin and its subsidiaries in light of the expected ongoing increase in demand for wireless telecommunication products driven by increasing demand in domestic and overseas markets and the expected ongoing increase in demand for wireline products and new businesses driven by continuous growth in demand in the government and corporate sectors and demand for cloud computing and IT products, as it will search deep in emerging markets for new business opportunities in the carriers' networks business and continue to launch large-scale marketing of smart handset terminals in developed markets.

Reasons for and benefits of such transactions

Zhongxingxin and its subsidiaries have been selected as suppliers after going through the Group's qualification and bidding procedures, as it has been able to consistently meet the Group's stringent requirements of product turnaround time, product quality and timely delivery. The Company believes that having reliable and cooperative suppliers is very important for and beneficial to the Company. The purchase of raw materials required by the products of the Group from Zhongxingxin and its subsidiaries gives assurance to the Group in terms of the quality and timely delivery of such components, allowing essential control over most of the components required by the Group's production.

3. BOARD APPROVAL

At the Thirty-First Meeting of the Sixth Session of the Board held on 22 September 2015, 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 2016, 2017 and 2018.

Mr. Yin Yimin (a Director), as chairman of Zhongxingxin, did not take part in the vote in respect of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for each of the three years ending 31 December 2016, 2017 and 2018. In compliance with the Rules Governing the Listing of Stock on Shenzhen Stock Exchange, Mr. Xie Weiliang (Vice Chairman of the Board) and Mr. Dong Lianbo (a Director), who acted as the chairman and director, respectively, of Zhongxingxin during the past 12 months, did not take part in the vote in respect of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for each of the three years ending 31 December 2016, 2017 and 2018. 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 on the relevant board resolution.

The Directors (including the independent non-executive Directors) are of the view that the Zhongxingxin Purchase Framework Agreement has been entered into in the ordinary and usual course of business of the Company on normal commercial terms, and such terms and the annual caps for the transactions contemplated under the Zhongxingxin Purchase Framework Agreement for the three years ending 31 December 2016, 2017 and 2018 are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

4. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

As one or more of the applicable percentage ratios of the proposed annual caps for the three years ending 31 December 2016, 2017 and 2018 of the Zhongxingxin Purchase Framework Agreement exceed 0.1% but are all below 5%, the entering into of the Zhongxingxin Purchase Framework Agreement and the proposed annual caps for such transactions for each of the three years ending 31 December 2016, 2017 and 2018 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.

5. GENERAL INFORMATION

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

Zhongxingxin holds a 30.78% 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.

6. 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
“Director(s)”	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 22 September 2015 between the Company and Zhongxingxin in relation to the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries for the period from 1 January 2016 to 31 December 2018

By Order of the Board

Hou Weigui

Chairman

Shenzhen, the PRC

22 September 2015

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, Zhang Jianheng, Xie Weiliang, Wang Zhanchen, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Tan Zhenhui, Richard Xike Zhang, Chen Shaohua, Lü Hongbing and Bingsheng Teng.

** For identification purposes only*