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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)

Announcement on the disposal of 18.8219% equity interests in ZTE Microelectronics by Renxing Technology

The Company and all the members of the Board of Directors confirm that all the information contained in this information disclosure is true, accurate and complete and that there is no false and misleading statement or material omission in this announcement.

ZTE Corporation (the “**Company**” or “**ZTE**”), Shenzhen Renxing Technology Company Limited (深圳市仁興科技有限責任公司) (“**Renxing Technology**”), a wholly-owned subsidiary of the Company, Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership) (“**Hengjian Xinxin**”) and Shenzhen Huitong Rongxin Investment Co., Ltd (“**Huitong Rongxin**”) entered into the “Cooperation Agreement” on 10 September 2020, pursuant to which Hengjian Xinxin and Huitong Rongxin shall provide to Renxing Technology cooperation funds of RMB1.4 billion and RMB1.2 billion, respectively, to fund the payment of the consideration for the acquisition of 24% equity interests in ZTE Microelectronics Technology Company Limited (“**ZTE Microelectronics**”), a subsidiary of the Company, by Renxing Technology, and further cooperation in future shall be negotiated following the completion of the aforesaid acquisition. The aforesaid matter has been considered and approved at the Twenty-third Meeting of the Eighth Session of the Board of Directors and the First Extraordinary General Meeting of 2020 of the Company. The legal representative of the Company or a competent signatory delegated by him is authorised to execute future relevant transaction documents on behalf of the Company. For details, please refer to the “Announcement on the Signing of the ‘Cooperation Agreement’ with Hengjian Xinxin and Huitong Rongxin” and “Announcement Resolutions of the Twenty-third Meeting of the Eighth Session of the Board of Directors” published on 10 September 2020 and the “Announcement on Resolutions of the First Extraordinary General Meeting of 2020” published on 30 September 2020 by the Company.

On 20 October 2020, Renxing Technology, Hengjian Xinxin and Huitong Rongxin and ZTE Microelectronics entered into the “ZTE Microelectronics Technology Company Limited Equity Transfer Agreement” (the “**Equity Transfer Agreement**”). On the same date, ZTE, Shenzhen Sai Jia Xun Investment Development Enterprise (Limited Partnership) (“**Sai Jia Xun**”), Renxing Technology, Hengjian Xinxin, Huitong Rongxin and ZTE Microelectronics entered into the “ZTE Microelectronics Technology Company Limited Shareholders’ Agreement” (the “**Shareholders’ Agreement**”), pursuant to which Renxing Technology shall transfer its 18.8219% equity interests held in ZTE Microelectronics (representing a capital

contribution of RMB24,765,652 to the registered capital of ZTE Microelectronics) and all rights and obligations attached to such equity interests to Hengjian Xinxin and Huitong Rongxin (the “**Transaction**”) to implement the exit arrangement in connection with the provision of the cooperation funds to Renxing Technology by Hengjian Xinxin and Huitong Rongxin under the “Cooperation Agreement”.

II. General information on ZTE Microelectronics

General information on ZTE Microelectronics as at the date of this announcement is set out as follows:

Name of company: ZTE Microelectronics Technology Company Limited

Date of establishment: 28 November 2003

Registered address: ZTE Industry Park, Liuxian Avenue, Xili Street, Nanshan District, Shenzhen

Registered capital: RMB131,578,947

Principal businesses: Design, production and sales of integrated circuits (excluding franchised, state-controlled and monopolised merchandise); operation of import and export businesses

Shareholders and shareholding percentage: ZTE (68.40%); Renxing Technology (a wholly-owned subsidiary of ZTE) (24.00%); Sai Jia Xun (subsidiary partnership enterprise of ZTE) (7.60%).

Financial data: Major financial data of ZTE Microelectronics for the most recent annual and quarterly periods (as audited by Ernst & Young Hua Ming LLP) are set out in the following table:

Unit: RMB ten thousands

	Year ended 31 December 2019 (Audited)	Three months ended 31 March 2020 (Audited)
Operating revenue	500,394.37	98,789.50
Operating profit	22,076.20	2,973.10
Net profit	19,570.65	2,922.43
Net cash flow from operating activities	-13,467.09	66,882.87
	31 December 2019 (Audited)	31 March 2020 (Audited)
Total assets	793,316.63	685,540.93
Total receivables	460,223.72	310,083.24
Total contingent amounts	0	0
Total liabilities	339,809.04	229,110.92
Owners’ equity	453,507.59	456,430.01

Other information: ZTE Microelectronics is not a discredited party subject to enforced actions.

III. General information on Renxing Technology, Hengjian Xinxin and Huitong Rongxin

Registered capital of Renxing Technology is RMB0.72 billion. For other general information on Renxing Technology and general information on Hengjian Xinxin, Huitong Rongxin, please refer to the “Announcement on the Signing of the ‘Cooperation Agreement’ with Hengjian Xinxin and Huitong Rongxin” published by the Company on 10 September 2020.

IV. General information on the Transaction

Renxing Technology, Hengjian Xinxin and Huitong Rongxin and ZTE Microelectronics (together the “Parties”) entered into the “Equity Transfer Agreement” on 20 October 2020. On the same date, ZTE, Sai Jia Xun, Renxing Technology, Hengjian Xinxin, Huitong Rongxin and ZTE Microelectronics also entered into the “Shareholders’ Agreement”. The Company and Sai Jia Xun have agreed to waive their preemptive subscription rights in connection with the 18.8219% equity interests in ZTE Microelectronics to be acquired by Hengjian Xinxin and Huitong Rongxin. Upon completion of the Transaction, ZTE, Renxing Technology (a wholly-owned subsidiary of ZTE), Sai Jia Xun (a subsidiary partnership enterprise of ZTE) shall hold 68.40%, 5.1781% and 7.60% equity interests in ZTE Microelectronics, respectively, for an aggregate 81.1781% equity interests in ZTE Microelectronics. Hengjian Xinxin and Huitong Rongxin shall hold 10.1349% and 8.6870%, respectively, equity interests in ZTE Microelectronics.

(I) Principal terms of the “Equity Transfer Agreement”

1. Transferor: Renxing Technology

2. Transferees: Hengjian Xinxin and Huitong Rongxin

3. Subject of transaction: 18.8219% equity interests in ZTE Microelectronics and all rights and obligations attached to such equity interests (the “**Subject Equity Interests**”)

4. Pricing of the transaction and arrangements for payment: the Parties have agreed to set off the amount of equity amount of transfer payments due under the “Equity Transfer Agreement” by the principal amount of the Hengjian Xinxin and Huitong Rongxin cooperation funds under the “Cooperation Agreement” paid by the transferees. For each transferee, at the same time as the Subject Equity Interests to be acquired by it is transferred in accordance with the “Equity Transfer Agreement”, the principal amount of its corresponding cooperation funds under the “Cooperation Agreement” shall automatically set off the amount of equity amount of transfer payment payable by it to the transferor, and such transferee shall be deemed to have settle the amount of equity amount of transfer payment payable by it in full, while Renxing Technology and ZTE shall no longer be required to repay the principal amounts and drawdown fees under the “Cooperation Agreement” to the transferee.

The amount of registered capital of ZTE Microelectronics to be acquired by each transferee = the amount of registered capital of ZTE Microelectronics held by Renxing Technology × principal amount of cooperation funds provided by such transferee ÷ total consideration paid by Renxing Technology for the acquisition of 24% equity interests in the ZTE Microelectronics (i.e., RMB3,315,287,671). If the amount of registered capital arrived at through the aforesaid formula is less than 1, such amount of registered capital less than 1 shall be held by Renxing Technology.

Each transferee shall acquire equity interests in and capital contributions to the ZTE Microelectronics according to the percentage of equity interests, capital contributions and amount of transfer payment set out in the following table corresponding to its name.

Name of transferee	Percentage of equity interests in ZTE Microelectronics to be acquired	Capital contributions to be acquired (RMB in ten thousands)	Corresponding amount of transfer payment (RMB in ten thousands)
Hengjian Xinxin	10.1349%	1,333.5351	140,000
Huitong Rongxin	8.6870%	1,143.0301	120,000

5. Conditions for taking effect: the “Equity Transfer Agreement” shall be established and come into effect on the date on which it is signed by the legal representatives or authorised representatives of the Parties with the affixing of corporate seals.

(II) Principal terms of the “Shareholders’ Agreement”

1. Undertaking of restriction on transfer: Any transfer of equity interests in ZTE Microelectronics by ZTE that will result in the loss of absolute controlling interests in ZTE Microelectronics by ZTE, or pledge by ZTE of its direct or indirect equity interests in ZTE Microelectronics that will result in the pledge of more than 51% equity interests in ZTE Microelectronics to unrelated third parties, shall require the prior consent of the investing parties (Hengjian Xinxin and Huitong Rongxin) in writing. Unless otherwise provided for under the agreement, no investing parties shall transfer any equity interests or rights in ZTE Microelectronics, whether directly or indirectly, to any third parties other than ZTE and / or its related parties.

2. Pre-emptive subscription rights: If any shareholder of ZTE Microelectronics intends to transfer part or all of its equity interests in ZTE Microelectronics to any third parties, it shall notify other shareholders and ZTE Microelectronics in writing, stating the proposed amount of equity interests to be transferred, transfer price and other relevant information, and shall offer other shareholders a notification period and window of 30 days, during which other shareholders have the right to acquire on a preferential basis the equity interests proposed for transfer at the price offered by the transferor to the transferee pursuant to the Shareholders’ Agreement.

3. Future acquisition arrangements: the Parties agree and confirm that, commencing on the date on which the Shareholders’ Agreement takes effect, ZTE shall carry out mutual consultation with the investing parties pursuant to the terms hereunder and elect an appropriate means to place the equity interests in ZTE Microelectronics held by the investing parties under capital operation in accordance with pertinent laws, and to complete requisite procedures such as approvals, sanctions, consents and recordation by the securities regulatory authorities and government authorities to facilitate the transaction of ZTE’s acquisition of all equity interests in ZTE Microelectronics held by the investing parties.

4. Repurchase of equity interests

(1) Exercise conditions

If the Parties fail to complete requisite procedures such as sanctions, approvals, consents and recordation by the securities regulatory authorities and government authorities after a period of

18 months has lapsed from the date of issuance of the relevant shareholders' register and capital contribution certificate relating to the Transaction, unless other circumstances stipulated by the agreement prevail, the investing parties shall have the right to demand ZTE to repurchase all equity interests in ZTE Microelectronics held by the investing parties in accordance with Shareholders' Agreement. In the event of a repurchase, ZTE or its appointed principal may repurchase all equity interests in ZTE Microelectronics held by the investing parties.

(2) Repurchase price

Subject to compliance with prevailing laws and regulations, the price at which ZTE repurchases equity interests in ZTE Microelectronics held by any one of the investing parties pursuant to then relevant repurchase arrangements hereunder (the "Repurchase Price") shall be the price calculated in accordance with the following formula:

amount of transfer payment disbursed by any one of the investing parties + amount of transfer payment disbursed by any one of the investing parties \times 8% \times investment period \div 365 — cumulative profit distribution of ZTE Microelectronics received by any one of the investing parties — profit distribution considered and approved at the general meeting of ZTE Microelectronics but not yet paid to any one of the investing parties — distributions in any other form received by any one of the investing parties.

The aforementioned "investment period" shall mean the exact number of days from the date on which the investment amounts are settled in full by any one of the investing parties to the date of repurchase (excluding the date of repurchase, which shall mean the date on which the amount to be paid by ZTE to the investing parties for the acquisition of all equity interests in ZTE Microelectronics held by the latter under the capital operation arrangements is settled).

The aforementioned "amount of transfer payments" shall mean the principal amount of transfer payments of any one of the investing parties payable by such investing party under the "Equity Transfer Agreement".

5. Right of joint disposal: Where ZTE intends to transfer any equity interests in ZTE Microelectronics to a third party, if any one of the investing parties waives its preemptive subscription rights under the Shareholders' Agreement, such investing party shall have the right (but not be obliged) to exercise the right of joint disposal and demand disposal of the equity interests proposed for disposal to the third party jointly with the transferor at a ratio corresponding to the ratio between the percentage of equity interests in ZTE Microelectronics then held by the investing party and the shareholding percentage of the transferor on the same terms and conditions.

6. Right of anti-dilution: Unless agreed in writing by the investing parties in advance, ZTE Microelectronics shall not seek any form of capital increase from any entity other than the investing parties at a per RMB price for registered capital lower than current investment price (provided that the current investment price shall be adjusted accordingly in the event of the conversion of undistributed profit / surplus reserve / capital reserve of ZTE Microelectronics into registered capital resulting in a change in the total registered capital of ZTE Microelectronics or actions such as profit distribution by ZTE Microelectronics), nor shall it seek capital increase from any entity by offering rights that are more favourable than those available to the investing parties by virtue of their equity interests in ZTE Microelectronics, otherwise ZTE should transfer equity interests in ZTE Microelectronics respectively to the investing parties at the minimum price or provide corresponding cash compensation to the

respective investing parties in a manner permissible under the law.

7. Preferential right to subscription: In the event of any form of capital increase for ZTE Microelectronics, ZTE Microelectronics shall issue a written notice to all shareholders, stating the amount, price and payment terms of the proposed capital increase, offer all shareholders a subscription period and window of 30 business days, during which all shareholders shall have the right to subscribe on a preferential basis for the proposed additional equity interests subject to the conditions stated in the subscription notice.

8. Preferential right to liquidation: In the event of the liquidation of ZTE Microelectronics mandated by the law, after the application of the assets of ZTE Microelectronics to the payment of liquidation fees, staff wages, social insurance fees and statutory compensation fund and tax amounts due and settlement of the debts of ZTE Microelectronics by the liquidation team, ZTE Microelectronics shall, and ZTE shall procure ZTE Microelectronics to, distribute the remaining assets first to the investing parties, until the amount of assets distributed to the respective investing parties reach the distribution rates for the investing parties under the agreement.

The shareholders' Agreement is established and takes effect after being signed by authorized representatives of all parties, and is binding on all parties.

V. Procedures for consideration of the Transaction

The Transaction, being conducted to fulfill relevant terms under the "Cooperation Agreement", has been considered and approved at the Twenty-third Meeting of the Eighth Session of the Board and the First Extraordinary General Meeting of 2020 of the Company.

VI. Effect on the Company

The Transaction has been determined in accordance with terms under the "Cooperation Agreement" following the Company's friendly negotiations with Hengjian Xinxin and Huitong Rongxin. Upon completion of the Transaction, ZTE Microelectronics will remain a subsidiary reported in the consolidated financial statements of the Company and its scope of business and other business attributes will not change. The Transaction will not have any significant impact on the Company's financial conditions and operating results.

VII. Documents available for inspection

1. Equity Transfer Agreement;
2. Shareholders' Agreement.

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
20 October 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.