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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)

**DISCLOSEABLE TRANSACTION
DISPOSAL OF 10.1% OF THE EQUITY INTEREST IN
NUBIA TECHNOLOGY LIMITED**

On 27 July 2017, the Company, each of the Other Shareholders, the Purchaser and the Target Company entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Interest, representing 10.1% of the equity interest in the Target Company, at a consideration of RMB727,200,000 (approximately HK\$843,697,440).

In addition, on 27 July 2017, the Company, each of the Other Shareholders, the Purchaser and the Target Company entered into the Shareholders' Agreement in order to regulate certain rights and obligations of the shareholders of the Target Company.

As one or more of the applicable percentage ratios calculated in accordance with the Hong Kong Listing Rules in respect of the Disposal exceed 5% but are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

INTRODUCTION

On 27 July 2017, the Company, each of the Other Shareholders, the Purchaser and the Target Company entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Interest, representing 10.1% of the equity interest in the Target Company, at a consideration of RMB727,200,000 (approximately HK\$843,697,440).

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are summarized as follows:

Date

27 July 2017

Parties

- (1) the Company (as vendor of the Sale Interest)
- (2) Nanchang Gaoxin New Industry Investment Co., Ltd.* (南昌高新新產業投資有限公司) (as Purchaser)
- (3) Nanjing Hengmian
- (4) Suning Commerce
- (5) Yingcai Investment
- (6) the Target Company

Subject matter

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Interest, representing 10.1% of the equity interest in the Target Company.

Consideration and payment

The aggregate consideration payable by the Purchaser to the Company is RMB727,200,000 (approximately HK\$843,697,440), of which:

- (1) 50% of the Consideration, being RMB363,600,000 (approximately HK\$421,848,720) shall be payable to the Company within 15 Business Days upon entering into the Sale and Purchase Agreement; and
- (2) the remaining 50% of the Consideration, being RMB363,600,000 (approximately HK\$421,848,720) shall be payable to the Company within 5 Business Days upon the satisfaction of the Conditions.

The Purchaser shall pay the Consideration to the designated bank account of the Company via bank transfer.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Company, taking into account, among other things, (i) the financial results in prior periods, the current stage of development and the future development of the Target Company, (ii) the net asset value of the Target Company as recorded in its unaudited financial statements as at 30 April 2017 and (iii) the percentage of the Sale Interest under the Disposal.

Conditions precedent

The obligations of the Company and the Purchaser to complete the Disposal are conditional upon the fulfillment (or waiver by the applicable party) of, among other things, the following key conditions:

- (1) the Company having carried out the applicable internal procedures to approve the Disposal; and
- (2) the Target Company having passed resolutions of the board of directors and shareholders' resolutions in respect of the Disposal.

In the event that the Conditions are not fulfilled (or waived by the applicable party) by 30 September 2017 (or such later date as further agreed between the Company and the Purchaser), the Sale and Purchase Agreement shall terminate, upon which the rights and obligations of the Company and the Purchaser shall immediately cease to have any effect, save for any rights obtained and obligation incurred prior to the termination date.

Completion

Subject to the terms of the Sale and Purchase Agreement, completion shall take place on the fifth Business Day after the fulfillment of all Conditions (or waiver by the applicable party), or on such other date as further agreed between the Company and the Purchaser.

THE SHAREHOLDERS' AGREEMENT

On 27 July 2017, the Company, each of the Other Shareholders, the Purchaser and the Target Company entered into the Shareholders' Agreement in order to regulate certain rights and obligations of the shareholders of the Target Company.

The principal terms of the Shareholders' Agreement are summarized as follows:

Rights of the shareholders

Pre-emptive rights

In the event of that the Target Company conducts further financing, the Purchaser shall enjoy the same pre-emptive rights as the Company, Yingcai Investment, Suning Commerce and Nanjing Hengmian to acquire additional interests in the Target Company. If any of the shareholders of the Target Company proposes to sell its interest in the Target Company to the third party other than the existing shareholders, the remaining shareholders shall have the pre-emptive right to purchase such interest. Pre-emptive rights shall not be applicable to the shares issued pursuant to any employee share incentive scheme as approved by Suning Commerce and Nanjing Hengmian.

Anti-dilution rights

Unless otherwise approved by the Purchaser in writing for a new issue price lower than the prescribed price in the Shareholders' Agreement, if the Target Company issues any new shares, convertible bonds or any options at such a lower new issue price, the Purchaser shall have the right (i) to further acquire the equity interest issued by the Target Company at the price stipulated in the Shareholders' Agreement or (ii) to request for compensation under other method acknowledged by the Purchaser. Such rights are not applicable to shares issued pursuant to any employee share incentive scheme as approved by Suning Commerce and Nanjing Hengmian.

Other rights

As Suning Rundong has completed the transfer of its equity interest in the Target Company to Suning Commerce and Nanjing Hengmian (each being an associate party of Suning Rundong in accordance with the Capital Increase and Strategic Investment Agreement in June 2016, Suning Commerce and Nanjing Hengmian are entitled to the relevant investor's rights of Suning Rundong under the Capital Increase and Strategic Investment Agreement. For details, please refer to the announcements of the Company entitled "Resolutions of the Thirty-eighth Meeting of the Sixth Session of the Board of Directors" and "Introduction of a Strategic Investor by a Subsidiary and Waiver of Preemptive Subscription Rights by the Company" both dated 31 December 2015.

The Shareholders' Agreement provides that Suning Commerce and Nanjing Hengmian shall continue to be entitled to rights including pre-emptive right, right of co-sale, anti-dilution rights, right to request for a qualified IPO, right of sale and senior right to liquidation, among which the right of co-sale, the senior right to liquidation and the right of sale of Suning Commerce and Nanjing Hengmian shall only be exercised against the equity interest in the Target Company held by the Company and Yingcai Investment. However, in respect of the right of sale, if the Company and Yingcai Investment agree to accept the offer for the acquisition of their equity interests in the Target Company by an independent third party not related to Suning Commerce and Nanjing Hengmian, the Purchaser shall also agree to accept the offer for such acquisition.

Corporate governance

The board of directors of the Target Company shall comprise seven directors, three of which shall be appointed by the Company, one of which shall be appointed by the Purchaser, one of which shall be appointed by Yingcai Investment, and two of which shall be appointed by Nanjing Hengmian. The chairman of the board of directors shall be a director appointed by the Company.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established under the laws of the PRC with limited liability and is principally engaged in the research and development, sale and repair of communication products and mobile handsets, provision of related consultation services; research and development of mobile phone headsets and mobile phone chargers; import and export business, and information services business.

Based on the audited consolidated financial statements of the Target Company prepared in accordance with the generally accepted accounting principles in the PRC, the financial information of the Target Company for the two years ended 31 December 2016 is as follows:

	For the year ended 31 December	
	2015 (audited)	2016 (audited)
	<i>(RMB)</i> <i>(approximately)</i>	
Profit (loss) before taxation	277,626,139	(81,453,704)
Profit (loss) after taxation	279,912,942	(91,420,043)

The audited net asset value and the audited total asset value of the Target Company as at 31 December 2016 was RMB3,246,308,076 (approximately HK\$3,766,366,630) and RMB5,470,046,435 (approximately HK\$6,346,347,874), respectively.

As at the date of this announcement, the Company is interested in 60% of the equity interest in the Target Company. Immediately upon Completion, the Company will be interested in 49.9% of the equity interest in the Target Company, and the Target Company will cease to be a subsidiary of the Company. Therefore, the Target Company will no longer be reported in the consolidated financial statements of the Company.

FINANCIAL EFFECTS OF THE DISPOSAL

Upon Completion, it is expected that the Group will recognize (i) an investment income (before taxation) of approximately RMB400,000,000 (approximately HK\$464,080,000) from the Disposal of the Sale Interest, which is calculated based on the Consideration less the net asset value of the Target Company as recorded in its unaudited financial statements as at 30 April 2017 and (ii) an investment income (before taxation) in the range of RMB1,280,000,000 (equivalent to HK\$1,485,056,000) to RMB2,000,000,000 (equivalent to HK\$2,320,400,000) estimated from the revaluation of the fair value of the 49.9% remaining equity interest in the Target Company based on the net asset value of the Target Company as recorded in its unaudited financial statements as at 30 April 2017. The relevant

investment income from the Disposal is subject to the completion of the audit on the consolidated financial statement of the Group.

The Company intends to use the net proceeds in connection with the Disposal (after deducting the relevant costs and expenses) for the general working capital of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Disposal will introduce new investor to the Target Company, which is beneficial to the development of the Target Company in the future.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Sale and Purchase Agreement, the Shareholders' Agreement and the transactions contemplated thereunder are fair and reasonable, and the Disposal is in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

As one or more of the applicable percentage ratios calculated in accordance with the Hong Kong Listing Rules in respect of the Disposal exceed 5% but are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

GENERAL

Information on the Group

The Company is a joint stock limited company incorporated in the PRC and the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange respectively.

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced ICT-related systems, equipment and terminals, including carriers' networks, government and corporate business and consumer business.

Information on the Purchaser

The Purchaser is a company established under the laws of the PRC and is principally engaged in industrial investment, equity investment and investment management.

Save for the existing equity interest in the Target Company held by Yingcai Investment, Nanjing Hengmian and Suning Commerce, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Purchaser, Yingcai Investment, Nanjing Hengmian, Suning Commerce and their

respective ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

DEFINITIONS

Unless the context otherwise requires, the terms used in this announcement shall have the following meanings:

“Board”	the board of Directors
“Business Day(s)”	a day other than a Saturday, Sunday or statutory holiday in the PRC
“Capital Increase and Strategic Investment Agreement”	the Capital Increase of and Strategic Investment in Nubia Technology Limited* (努比亞技術有限公司增資暨戰略投資協議) entered into among the Company, Yingcai Investment, the Target Company and Suning Rundong on 30 December 2015
“Company”	ZTE Corporation (中興通訊股份有限公司), a joint stock limited company incorporated in the PRC and the H shares and A shares of which are listed on the Hong Kong Stock Exchange (stock code: 0763) and the Shenzhen Stock Exchange (stock code: 000063), respectively
“Condition(s)”	the condition(s) precedent to Completion under the Sale and Purchase Agreement, as more particularly set out in the section headed “The Sale and Purchase Agreement – Conditions precedent” in this announcement
“Consideration”	the consideration for the Disposal payable by the Purchaser to the Company under the Sale and Purchase Agreement, being RMB727,200,000 (approximately HK\$843,697,440)
“connected person”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Interest by the

	Company to the Purchaser pursuant to the Sale and Purchase Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the 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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Nanjing Hengmian”	Nanjing Hengmian Enterprise Management Partnership (Limited Partnership)* (南京恒勉企業管理合夥企業 (有限合夥))
“Other Shareholders”	collectively, Nanjing Hengmian, Suning Commerce and Yingcai Investment, being the existing shareholders of the Target Company (other than the Company)
“PRC”	the People’s Republic of China
“Purchaser”	Nanchang Gaoxin New Industry Investment Co., Ltd.* (南昌高新新產業投資有限公司), a company established under the laws of the PRC with limited liability
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 27 July 2017 entered into among the Company, the Other Shareholders, the Purchaser and the Target Company
“Sale Interest”	10.1% of the equity interest in the Target Company
“Shareholders”	holders of H shares and A shares of the Company
“Shareholders’ Agreement”	the shareholders’ agreement dated 27 July 2017 entered into among the Company, the

	Other Shareholders, the Purchaser and the Target Company
“Suning Commerce”	Suning Commerce Group Co., Ltd. (蘇寧雲商集團股份有限公司)
“Suning Rundong”	Suning Rundong Equity Investment Management Company Limited* (蘇寧潤東股權投資管理有限公司)
“Target Company”	Nubia Technology Limited* (努比亞技術有限公司), a company established under the laws of the PRC with limited liability
“Yingcai Investment”	Pingxiang City Yingcai Investment Consulting Company Limited* (萍鄉市英才投資諮詢有限公司)
“%”	per cent

By order of the Board
Yin Yimin
Chairman

Shenzhen, the PRC
27 July 2017

For the purpose of this announcement, translations of RMB into HK\$ or vice versa have been calculated by using an exchange rate of RMB1.00 equal to HK\$1.1602. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Zhao Xianming and Wei Zaisheng; six non-executive directors, Zhang Jianheng, Luan Jubao, Wang Yawen, Tian Dongfang, Zhan Yichao and Zhai Weidong; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.

** For identification purposes only*