THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in **ZTE Corporation**, you should hand this circular together with the enclosed proxy form to the purchaser or the transferee or to the bank, licensed securities dealers or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of ZTE Corporation.

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)

(1) SHARE TRANSACTION — PROPOSED ACQUISITION OF 18.8219% EQUITY INTEREST IN ZTE MICROELECTRONICS (2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS UNDER THE GENERAL MANDATE AND (3) NOTICE OF THE THIRD EXTRAORDINARY GENERAL MEETING OF 2020

A letter from the Board is set out in pages 6 to 27 of this circular.

A notice of the EGM to be held at 4th Floor, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China at 3:30 p.m. on Monday, 21 December 2020 is set out in pages 62 to 66 of this circular.

Whether or not you are able to attend the EGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting thereof should you so wish.

4 December 2020

CONTENTS

In this circular, the following terms shall have the following meaning unless otherwise required by the context:

"A Share(s)"	ordinary share(s) of par value of RMB1.00 each in the registered capital of the Company, which are listed and traded on the Shenzhen Stock Exchange
"A Share Option Incentive Scheme"	the 2020 A Share option incentive adopted by the Company, the details of which are 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
"A Shareholders"	holders of A Shares
"Acquisition"	the proposed acquisition of 18.8219% equity interest in the Target Company from the Vendors pursuant to the terms and conditions set out in the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 28 October 2020 entered between the Company and the Vendors in relation to the Acquisition (as amended by the Supplemental Agreement)
"Announcement"	the announcement of the Company dated 28 October 2020 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
"Articles of Association"	the articles of association of the Company
"Board"	the board of Directors
"Company" or "ZTE"	ZTE Corporation, a joint stock limited company incorporated on 11 November 1997 under the Company Law in the PRC, whose shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
"Company Law"	the Company Law of the People's Republic of China
"Completion"	completion of the industrial and commercial registration in relation to the transfer of 18.8219% of equity interest in the Target Company to the name of the Company
"connected person"	has the meaning ascribed thereto under the Hong Kong Listing Rules

"Consideration Share(s)"	the new A Share(s) to be allotted and issued by the Company to the Vendors pursuant to the Acquisition Agreement as consideration payable to the Vendors for the Acquisition
"Cooperation Agreement"	the agreement entered into between the Company, Renxing Technology, Hengjian Xinxin and Huitong Rongxin dated 10 September 2020 in connection with the cooperation funds of RMB2.6 billion provided by Hengjian Xinxin and Huitong Rongxin to Renxing Technology
"CSRC"	the China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"EGM"	the third extraordinary general meeting of 2020 of the Company to be held at 4th Floor, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China at 3:30 p.m. on Monday, 21 December 2020 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
"EGM Notice"	notice of the third extraordinary general meeting of 2020 of the Company
"Equity Transfer Agreement"	the agreement entered into between Renxing Technology, Hengjian Xinxin and Huitong Rongxin dated 20 October 2020 in connection with the transfer of 18.8219% equity interests in ZTE Microelectronics from Renxing Technology to Hengjian Xinxin and Huitong Rongxin
"Ernst and Young Hua Ming"	Ernst and Young Hua Ming LLP
"General Mandate"	the general mandate granted by the Shareholders to the Board at the 2019 annual general meeting of the Company held on 19 June 2020 to allot, issue and otherwise deal with the A Shares and H Shares, each not more than 20% of the aggregate nominal amount of the Company's A Shares and H Shares, respectively, in issue as at the date of the meeting (i.e. 151,100,506 H Shares and 771,580,100 A Shares) (which is subject to renewal at the annual general meeting of the Company for the year ending 31 December 2020)
"Group"	the Company and its subsidiaries

"H Share(s)"	ordinary share(s) of par value of RMB1.00 each in the registered capital of the Company, which are listed and traded on the Hong Kong Stock Exchange
"H Shareholders"	holders of H Shares
"Hengjian Xinxin"	Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership) (廣東恒健欣芯投資合夥企業(有限合夥)), a limited liability partnership established in the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"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
"Huitong Rongxin"	Shenzhen Huitong Rongxin Investment Co., Ltd (深圳市匯通融信投資有限公司), a limited liability company established in the PRC
"ICT"	information and communications technology
"Issuance Date"	the date on which the Consideration Shares are allotted and issued to the Vendors pursuant to the Acquisition Agreement
"Implementation Rules of Non-public Issuance of Shares by Listed Companies"	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)
"Latest Practicable Date"	Wednesday, 2 December 2020, being the latest practicable date prior to the printing of this circular for determining certain information set out in this circular
"PRC"	the People's Republic of China
"Price Determination Date"	the price determination date for the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, being the first day of the issue period of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds in accordance with the Implementation Rules of Non-public Issuance of Shares by Listed Companies

"Pricing Benchmark Date"	the date of the announcement on the resolution of the Board regarding the Acquisition published on the Shenzhen Stock Exchange (i.e. 29 October 2020)
"Proposed Non-public Issuance of A Shares to Raise Ancillary Funds"	the proposed non-public issuance of A shares by the Company to be conducted simultaneously with the Acquisition to specific target subscribers to raise ancillary funds
"Renxing Technology"	Shenzhen Renxing Technology Company Limited, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
"Report Period"	the years ended 31 December 2018 and 31 December 2019 and the six months ended 30 June 2020
"RMB"	Renminbi, the lawful currency of the PRC
"Sai Jia Xun"	Shenzhen Sai Jia Xun Investment Development Enterprise (Limited Partnership)(深圳市賽佳訊投資發展企業(有限合夥)), a limited liability partnership established in the PRC and a partnership wholly-owned by the Company
"Share(s)"	A Share(s) and H Share(s), or the context requires, either of them
"Shareholder(s)"	the holder(s) of Shares
"Shenzhen Listing Rules"	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
"Shenzhen Stock Exchange"	The Shenzhen Stock Exchange
"Securities Law"	the Securities Law of the People's Republic of China
"Supplemental Agreement"	the supplemental agreement dated 16 November 2020 entered between the Company and the Vendors in relation to the Acquisition
"Target Assets"	18.8219% equity interest in ZTE Microelectronics
"Target Company" or "ZTE Microelectronics"	ZTE Microelectronics Technology Company Limited (深圳市中興微電子技術有限公司), a limited liability company established in the PRC and a non-wholly owned subsidiary of the Company
"Vendors"	Hengjian Xinxin and Huitong Rongxin
"Zhongxingxin"	Zhongxingxin Telecom Company Limited, a company established in the PRC with limited liability

	2020
Latest time for lodging transfers of the H Shares to qualify for attendance and voting at the EGM	4:30 p.m., Tuesday, 15 December
H Share register closed	Wednesday, 16 December to Monday, 21 December (both dates inclusive)
Latest time for lodging proxy forms for the EGM	3:30 p.m., Friday, 18 December
EGM	3:30 p.m., Monday, 21 December
H Share register re-opens	Tuesday, 22 December

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

(Stock Code: 763)

Executive Directors:
Li Zixue
Xu Ziyang
Gu Junying

Non-executive Directors:
Li Buqing
Zhu Weimin
Fang Rong

Independent non-executive Directors:
Cai Manli
Gordon Ng
Zhuang Jiansheng

Registered address:
ZTE Plaza
Keji Road South
Hi-Tech Industrial Park
Nanshan District
Shenzhen, 518057
Guangdong Province,
The PRC

Principal place of business in Hong Kong:
31/F, Tower Two,
Times Square,
1 Matheson Street, Causeway Bay
Hong Kong

To the Shareholders

Dear Sir or Madam,

(1) SHARE TRANSACTION — PROPOSED ACQUISITION OF 18.8219% EQUITY INTEREST IN ZTE MICROELECTONICS (2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS UNDER THE GENERAL MANDATE AND (3) NOTICE OF THE THIRD EXTRAORDINARY GENERAL MEETING OF 2020

I. INTRODUCTION

Reference is made to the announcements of the Company dated 28 October 2020 and 16 November 2020, respectively. The Acquisition Agreement was entered between the Company, Hengjian Xinxin and Huitong Rongxin, pursuant to which the Company has conditionally agreed to purchase and each of Hengjian Xinxin and Huitong Rongxin has conditionally agreed to sell 10.1349% equity interest and 8.6870% equity interest in the Target Company, respectively, representing an aggregate of 18.8219% equity interest in the Target Company, in consideration of the allotment and issuance of Consideration Shares by the Company. The Company proposed to conduct the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds simultaneously with the Acquisition. The total amount of ancillary funds to be raised thereunder shall not exceed 100% of the consideration for the Acquisition. The Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is subject to the approval of the CSRC and the implementation of the Acquisition, but the Acquisition is not subject to the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds.

The purpose of this circular is to provide the EGM Notice and other relevant information for your informed decision when voting on the resolutions to be proposed at the EGM in respect of, among other things: (i) the proposed acquisition of 18.8219% equity interest in ZTE Microelectronics by the Company; and (ii) the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds under the General Mandate.

II. PROPOSED ACQUISITION OF 18.8219% EQUITY INTEREST IN ZTE MICROELECTRONICS

1. Principal terms of the acquisition agreement

The principal terms of the Acquisition Agreement (as amended by the Supplemental Agreement) are as follows:

Date

Acquisition Agreement: 28 October 2020

Supplemental Agreement: 16 November 2020

Parties

(i) the Company as purchaser; and

(ii) Hengjian Xinxin and Huitong Rongxin as vendors.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase and each of Hengjian Xinxin and Huitong Rongxin has conditionally agreed to sell, 10.1349% equity interest and 8.6870% equity interest in the Target Company, respectively, representing an aggregate of 18.8219% equity interest in the Target Company.

Consideration

The consideration payable by the Company to Hengjian Xinxin and Huitong Rongxin is RMB1,405,829,900 and RMB1,204,997,100 respectively, being an aggregate consideration of RMB2,610,827,000, shall be satisfied by the allotment and issuance by the Company to the Vendors of 45,643,828 Consideration Shares and 39,123,282 Consideration Shares respectively at an issue price of RMB30.80 per Consideration Share upon Completion.

The consideration payable to the Vendors for the Acquisition was determined and arrived at after arm's length negotiations between the parties after the completion of audit and valuation work of the equity interest in the Target Company, with reference to the appraisal value of 100% equity interest in the Target Company, being RMB13,871,219,600, as at the valuation benchmark date (i.e. 30 June 2020) 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.

Issue price and adjustment

In accordance with applicable laws and regulations and based on the negotiations between the parties, the issue price of the Consideration Shares shall be RMB30.80 per Consideration Share, representing 90% of the average of the trading prices of the A Shares for the last 20 trading days prior to the Pricing Benchmark Date (rounded up to the nearest two decimal points).

During the period from the Pricing Benchmark Date to the Issuance Date, in case of any ex-rights or ex-dividends events of the Company, such as distribution of dividends, bonus shares, capitalization issue and allotment of shares, the issue price and the number of Shares to be issued will be adjusted in accordance with relevant rules and regulations promulgated by the CSRC and the Shenzhen Stock Exchange.

Assuming P0 as the issue price before adjustment, N as the number of bonus shares or shares to be issued upon capitalization issue per Share; K as the number of new shares to be allotted per Share; A as the issue price per new Share to be allotted, D as the dividend per Share and P1 as the adjusted issue price, the formula for adjustment of the issue price for the Consideration Shares are set out below:

Dividend distribution: $P1 = P0-D$

Bonus issue or capitalization issue: $P1 = P0/(1+N)$

Allotment of Shares: $P1 = (P0+AK)/(1+K)$

If all three events above are conducted simultaneously: $P1 = (P0-D+AK)/(1+K+N)$

Consideration Shares

The number of Consideration Shares to be issued shall be determined in accordance with the following formula: Number of Shares to be issued = Consideration of the Acquisition ÷ Issue price.

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 Latest Practicable Date. 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 as Consideration Shares.

Lock-up Period

Pursuant to the Acquisition Agreement, each of the Vendors has undertaken that:

(i) if the equity interest of the Target Company has been continuously held by the Vendor for less than 12 months, the Vendor shall not transfer any Consideration Share within 36 months from the date of listing of the Consideration Shares; and

(ii) if the equity interest of the Target Company has been continuously held by the Vendor for more than 12 months, the Vendor shall not transfer any Consideration Share within 12 months from the date of listing of the Consideration Shares.

During the lock-up period, the abovementioned lock-up period arrangement shall also apply to any increase of Shares as a result of ex-right or ex-dividend events of the Company, including distribution of bonus shares, capitalization issue and allotment of shares, etc. to which the Vendors are entitled as a result of the allotment and issuance of Consideration Shares under the Acquisition.

Conditions precedent

The effectiveness of the Acquisition Agreement shall be conditional upon the fulfilment of all the following conditions precedent:

(i) the approval of the Acquisition by the Board and the shareholders meeting of the Company;

(ii) the necessary internal approval and authorizations in relation to the Acquisition by each of the Vendors and its respective internal authorities; and

(iii) the approval or consent of the Acquisition by the CSRC.

Completion

Upon satisfaction of the conditions precedent, the 18.8219% equity interest in the Target Company held by the Vendors will be registered under the name of the Company, and the relevant industrial and commercial registration shall be completed within 120 days prior to the expiration date to be specified in the approval to be granted by the CSRC in respect of the Acquisition.

The parties shall procure the Target Company to complete the relevant procedures in connection with the transfer of the 18.8219% equity interest in the Target Company, including the registration for shareholding changes of the Target Company and the filing of the Target Company's articles of association with the industrial and commercial registration authority.

2. Reasons and benefits of the acquisition

Hengjian Xinxin and Huitong Rongxin previously provided to Renxing Technology (a wholly-owned subsidiary of the Company) 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 the Target Company by Renxing Technology. To implement the exit arrangement in connection with the provision of the cooperation funds, 18.8219% equity interests in the Target Company were subsequently transferred to Hengjian Xinxin and Huitong Rongxin after further negotiation. Please refer to the announcements of the Company dated 10 September 2020, 25 September 2020 and 20 October 2020 and circular of the Company dated 15 September 2020 for further details.

As disclosed in the Company's overseas regulatory announcement dated 1 December 2020, the principal considerations involving the aforementioned transfer arrangement are as follows:

Given the Company's relatively high gearing ratio as well as substantial funding requirements for R&D and business development and in order to fulfill the Company's objective of repurchasing 24% equity interests in ZTE Microelectronics by cash, following friendly negotiations among between Company and Hengjian Xinxin and Huitong Rongxin, Hengjian Xinxin and Huitong Rongxin agreed to provide cooperation funds of RMB1,400 million and RMB1,200 million, respectively, to Renxing Technology, a wholly-owned subsidiary of the Company, to finance part of the consideration to be paid by Renxing Technology for the acquisition of 24% equity interests in ZTE Microelectronics, and the Company and Renxing Technology entered into the Cooperation Agreement with Hengjian Xinxin and Huitong Rongxin on 10 September 2020. In accordance with the Cooperation Agreement, Hengjian Xinxin and Huitong Rongxin have the right to recoup the cooperation funds from Renxing Technology by way of debt-to-equity conversion arrangements for or otherwise.

Following further negotiations, Renxing Technology reached an agreement with Hengjian Xinxin and Huitong Rongxin in connection with the conversion of the aforesaid cooperation funds into equity interests in ZTE Microelectronics and entered into the Equity Transfer Agreement on 20 October 2020, pursuant to which Renxing Technology agreed to transfer 10.1349% equity interests in ZTE Microelectronics to Hengjian Xinxin for a consideration of RMB1,400 million and 8.6870% equity interests in ZTE Microelectronics to Huitong Rongxin for a consideration of RMB1,200 million. The RMB2,600 million cooperation funds provided by Hengjian Xinxin and Huitong Rongxin under the aforesaid Cooperation Agreement shall be offset against the consideration for the equity transfer, so as to facilitate the recoup of the cooperation funds by Hengjian Xinxin and Huitong Rongxin from Renxing Technology.

In view of the above, the aforesaid transaction arrangements have been based on respective previous cooperation documents and determined through friendly negotiations. They represent the bona fide intentions of the parties and are commercially justifiable.

Through the Acquisition, the Company can acquire the remaining minority stake in ZTE Microelectronics, which is a non-wholly owned subsidiary of the Company as at the Latest Practicable Date. Upon completion of the Acquisition, the Company can obtain full control of ZTE Microelectronics, which can strengthen the core competitiveness of the Company, and further enhance its profitability and the returns to the Shareholders.

Having considered the terms of Acquisition Agreement, the Directors are of the view that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Information on the Target Company

The Target Company is a company with limited liability incorporated under the laws of the PRC, principally engaged in design, production and sales of integrated circuits (excluding franchised, state-controlled and monopolised merchandise), and operation of import and export businesses. As at the Latest Practicable Date, the Target Company is a non-wholly owned subsidiary of the Company and is owned as to 68.4% by the Company, 5.1781% by Renxing Technology (a wholly-owned subsidiary of the Company), 7.6% by Sai Jia Xun (a partnership wholly-owned by the Company), 10.1349% by Hengjian Xinxin and 8.6870% by Huitong Rongxin respectively. Upon completion of the Acquisition, the equity interest in the Target Company held by the Company will increase from 81.1781% to 100%.

Based on the consolidated financial statements of the Target Company, the financial information of the Target Company for the years ended 31 December 2018 and 2019, and for the six months ended 30 June 2020 are set out as follows:

	For the year ended 31 December 2018 (audited) *RMB'000*	**For the year ended 31 December 2019 (audited)** *RMB'000*	**For the six months ended 30 June 2020 (audited)** *RMB'000*
Net profit/(loss) before taxation	155,231.5	220,702.6	306,695.6
Net profit/(loss) after taxation	157,635.1	195,706.5	306,695.6

As at 30 June 2020, based on the audited consolidated financial statements of the Target Company, the audited consolidated total assets and net asset value of the Target Company was approximately RMB8,358,197,600 and RMB4,841,771,500, respectively.

4. Information on the parties involved

Information on the Group

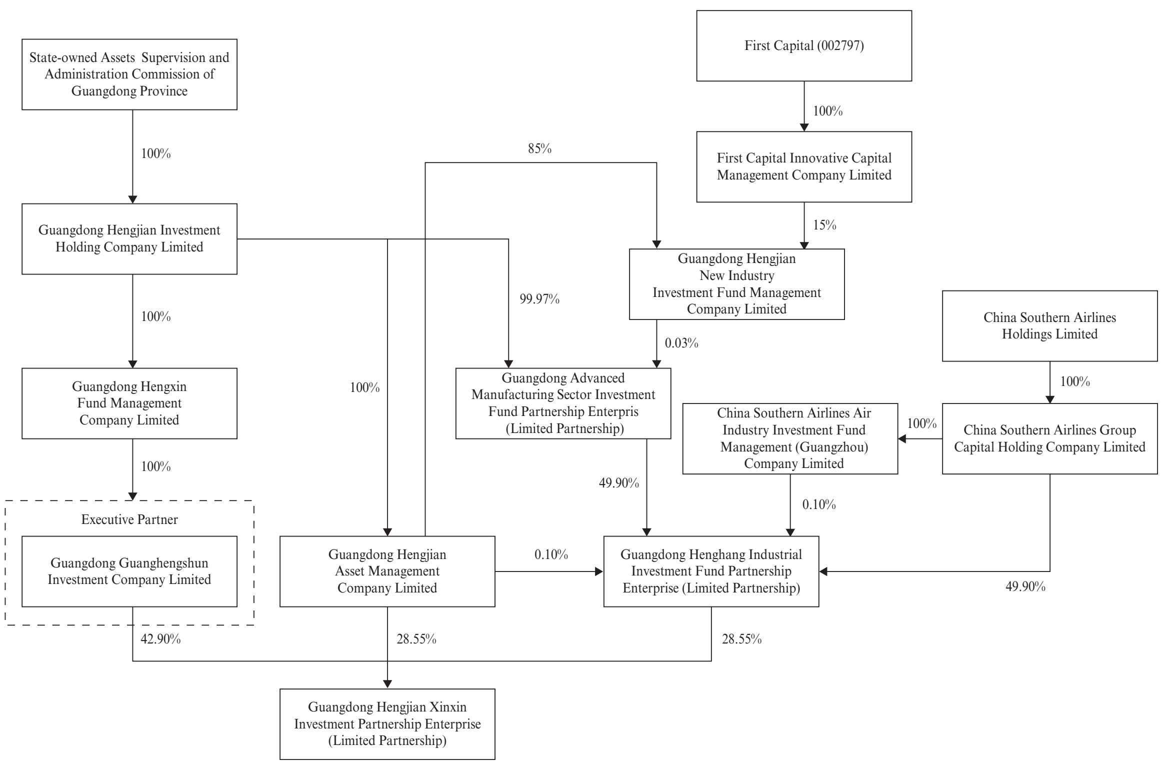
The Company is a joint stock limited company incorporated in the PRC and the H shares and A shares of which are listed on Hong Kong Stock Exchange and Shenzhen Stock Exchange respectively.

The Group is dedicated to the provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sales and services with a special focus on carriers' networks, government and corporate business and consumer business.

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 Company Limited (廣東廣恒順投資有限公司), and its limited partners are Guangdong Hengjian Asset Management Company Limited (廣東恒健資產管理有限公司) and Guangdong Henghang Industrial Investment Fund Partnership Enterprise (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. The shareholding structure of Hengjian Xinxin is as follows:



As at the Latest Practicable Date, 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.

As at the Latest Practicable Date, 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.

5. 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 Latest Practicable Date, 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 proposed to be 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).

Pursuant to the Administrative Measures for the Major Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》) 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.

III. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS UNDER THE GENERAL MANDATE

The Company proposed to conduct the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds simultaneously with the Acquisition. The total amount of ancillary funds to be raised thereunder shall not exceed 100% of the consideration for the Acquisition. The Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is subject to the approval of the CSRC and the implementation of the Acquisition, but the Acquisition is not subject to the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds.

1. The plan for the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds

(a) Class and par value of Shares to be issued

The Shares to be issued are A Shares with a par value of RMB1.00 per share.

(b) Place of listing

The A Shares to be issued under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will be listed and traded on the Shenzhen Stock Exchange upon expiration of the lock-up period.

(c) 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 Latest Practicable Date, (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.

(d) Method of issuance

The Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will be carried out by way of non-public issuance to specific subscribers. The A Shares to be issued under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will be subscribed for in cash.

(e) 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 Hong Kong 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 (which is also the date on which the issue price is fixed); and (ii) HK$18.94.

(f) Total funds to be raised and number of A 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 Latest Practicable Date, (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 proposed to be 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 (further details of which are set out in the section headed "II. Proposed Acquisition of 18.8219% Equity Interest in ZTE Microelectronics" above.)

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 consideration 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 Latest Practicable Date; 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.

(g) Lock-up period

The A Shares to be subscribed for by the target subscribers under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds shall be subject to a lock-up period of six months from the date of completion. After the expiration of the lock-up period, any transfer of the A Shares under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds shall be carried out in accordance with the relevant regulations of the CSRC and the Shenzhen Stock Exchange.

(h) 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	6.483	1.310
Replenishment of working capital	1.300	1.300
Total	**7.783**	**2.610**

The previous non-public issuance of A shares conducted by the Company has raised net proceeds of RMB11,459 million and the proceeds were received by the Company on 14 January 2020. The utilisation of proceeds raised under the previous non-public issuance of A shares is expected to be completed by January 2021. Proceeds from the Company's previous fundraising exercise were utilised by the Company and 6 wholly-owned subsidiaries, excluding the Target Company which was a non-wholly owned subsidiary requiring continuous investment of substantial funds in chip design and development. Therefore, it is necessary for the Company to raise further funds to support the Company's research and development in its 5G projects after the Acquisition.

Meanwhile, the Company expects there would be a further increase in its working capital based on the following reasons: (i) the Company is required to increase its inventory level in order to maintain the stability of its business chain amidst the complicated internal and external business environment in the post-epidemic era; (ii) due to the Company's increasing and continuous investment in research and development, the research and development expenditure of the Company is expected to increase in the future; and (iii) due to the rapid growth of market demand for 5G, the Company would increase its inventory level and expenditure on research and development. Therefore, the proceeds raised under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds would be beneficial to replenish the working capital of the Company.

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.

(i) Arrangement for the retained undistributed profits prior to the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds

The retained undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will be shared by the existing Shareholders and the new Shareholders upon completion.

(j) Validity period of the resolutions in relation to the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds

The resolutions in relation to the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds shall remain valid for a period of 12 months from the date on which the resolutions are considered and approved at the EGM. If the Company obtains the approval from the CSRC in relation to the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, the validity period of the resolutions shall be extended to the day of completion of the Acquisition and the Proposed Non-public Issuance of A Shares.

2. Reasons for and benefits of the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds

The Company considers that the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds will enable the Company to maintain its high level of investment in research and development in 5G, help ensure its technological competitive edge and develop its main products and businesses with core advantages, which may help the Company increase its market shares in the mainstream products and markets as well as enhance customer satisfaction, thereby help increasing the profitability of the Company.

In addition, the demand for working capital of the Company for business development may be replenished by the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds and the capital structure of the Company is expected to be further optimized, which may help the Company mitigate risks.

3. 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 Latest Practicable Date, (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 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 Implementation Rules of Non-public Issuance of Shares by Listed Companies and the Administrative Measures for the Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is subject to the approval of the Shareholders at a general meeting.

IV. PROPOSAL IN RELATION TO THE MANDATE TO BE GRANTED TO THE BOARD AND ITS AUTHORISED PERSONS BY THE GENERAL MEETING TO DEAL WITH MATTERS PERTAINING TO THE ACQUISITION AND THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS WITH FULL DISCRETION

The Board seeks the Shareholders' mandate at the general meeting for the Board and its authorised persons to deal with full discretion with matters pertaining to the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, including but not limited to the following:

1. to formulate, adjust, revise, perfect and implement the actual plan of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds in accordance with the provisions of laws, regulations and regulatory documents, market conditions and resolutions of the general meeting, including but not limited to determining or adjusting the scope of relevant Target Assets based on the actual conditions, scope of the counterparties, price of the Target Assets, payment method, issue number, issue period, issue price, selection of target subscribers for the ancillary fund-raising issue, total amount of ancillary funds to be raised, exact method of subscription, amount of proceeds to be allocated to various investment projects utilising issue proceeds, order of priority in investment and other matters pertaining to the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds;

2. to deal with and determine specific matters pertaining to the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds in accordance with the approval of CSRC, market conditions and the plan considered and approved at the general meeting;

3. to amend, supplement, execute, submit, report and implement all agreements and documents relating to the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds subject to laws, regulations, pertinent regulatory documents and the Articles of Association;

4. to adjust and revise the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds plan and adjust, revise, approve and sign all documents and agreements relating to the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, such as relevant the report on the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, financial reports, audit reports and asset valuation reports, Agreement and Supplemental Agreement in respect of the Acquisition (including their amended and supplemental versions) upon the request of the approving authorities, securities regulatory authorities and stock exchanges or in compliance with pertinent new laws and regulations and other regulatory documents announced by the regulatory authorities, and fulfill the obligation of information disclosure;

5. to make relevant adjustments to the detailed plan of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds subject to the resolution of the general meeting based on the new policies and regulations of the securities regulatory authorities and actual market conditions during the effective period of the resolution of the general meeting, in the event of any change in the policy requirements of regulatory authorities or market conditions;

6. to deal with reporting matters pertaining to the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds and prepare, amend and submit reporting materials for the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds in accordance with the requirements of the approving authorities, the securities regulatory authorities and stock exchanges; and respond to feedback from CSRC and other relevant government authorities;

7. to be in charge of the actual execution and implementation of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds plan in accordance with laws, regulations and resolutions of the general meeting, including but not limited to fulfilling the obligations stipulated under the transaction contracts/agreements, processing registration changes in relation to the settlement and handover of Target Assets under the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds and registration of the issuance of new shares, and execution of relevant legal documents;

8. to amend relevant clauses of the Articles of Association, process changes in industrial and commercial registration and deal with other pertinent filing requirements after the completion of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds;

9. to deal with registration of shares issued under the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds with securities registration and clearing companies and Shenzhen Stock Exchange, as well as the lock-up and listing on the Shenzhen Stock Exchange of such shares, following the completion of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds;

10. to select and appoint intermediaries, such as the independent financial adviser, legal adviser, appraiser and accounting firm, and to fix the relevant service fees and sign relevant service agreements;

11. to deal with other matters pertaining to the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds subject to laws, regulations, pertinent regulatory documents and the Articles of Association;

12. to delegate as appropriate the handling of procedural matters under the aforesaid mandate to the Chairman of the Company and his attorney authorised in writing based on the progress of and as actually required by the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds.

The said mandate shall be effective for a period of 12 months from the date of consideration and approval at the EGM. Subject to the approval of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds by CSRC, the effective period may be extended to the date of completion of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds.

V. 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 Latest Practicable Date, 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 Latest Practicable Date; 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 Latest Practicable Date 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:

		As at the Latest Practicable Date			Upon completion of the Acquisition and the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds		
Shareholder	Class of Shares	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		1,035,480,200	—	22.44	1,035,480,200	—	21.65
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		3,577,954,698	—	77.56	3,747,462,067	—	78.35
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 may not add up to 100% due to rounding.

VI. 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 Latest Practicable Date.

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.

Further, the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is in compliance with the relevant PRC provisions.

In accordance with the Q&A on Regulation over Issuance — Regulatory Requirements for Directing and Regulating Financing Activities of Listed Companies (Revised version) (《發行監管問答—關於引導規範上市公司融資行為的監管要求(修訂版)》) implemented with effect from 14 February 2020, the proceeds from previous non-public issuance of A Shares of the Company were received on 14 January 2020, which has been more than 6 months since the date of resolution of the Board approving the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, on 28 October 2020. Further, in accordance with the Applicable Guidelines under Regulatory Rules — Listed Category No. 1 (《監管規則適用指引—上市類第1號》) implemented with effect from July 2020, no more than 50% of the funds raised under the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds would be applied as working capital replenishment.

VII. EGM

EGM Notice and proxy form

Pursuant to the Implementation Rules of Non-public Issuance of Shares by Listed Companies and the Administrative Measures for the Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Proposed Non-public Issuance of A Shares to Raise Ancillary Funds is subject to the approval of the Shareholders at a general meeting.

The EGM will be convened by the Company on Monday, 21 December at 3:30 p.m. at 4th Floor, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China 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. The EGM Notice is set out on pages 62 to 66 in this circular.

A proxy form for use at the EGM is enclosed with this circular and uploaded on the websites of the Hong Kong Stock Exchange and the Company. Whether or not you are able to attend the EGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting thereof should you so wish.

Close of share register

The Company will close its H share register from Wednesday, 16 December 2020 to Monday, 21 December 2020 (both days inclusive) to determine qualifications of shareholders to attend and vote at the EGM. Any H Shareholder who wishes to attend and vote at the EGM shall lodge an instrument of transfer, together with the corresponding share certificate(s) with Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m., Tuesday, 15 December 2020.

Voting by way of poll at a general meeting

In accordance with Rule 13.39 (4) of the Hong Kong Listing Rules, all resolutions proposed at a general meeting for consideration and approval if thought fit shall be voted upon by way of poll, provided that resolutions pertaining to procedural or administrative matters only may be voted upon by a show of hands if permission for the same is given in good faith by the chairman of the general meeting.

As at the Latest Practicable Date, Huitong Rongxin held 43,032,108 A shares of the Company, accounting for 0.93% of the total share capital of the Company. Huitong Rongxin and its respective close associates will abstain from voting in respect of the resolutions set out in the EGM Notice 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 in accordance with the Hong Kong Listing Rules and Shenzhen Listing Rules.

Save as aforesaid, to the best of the information, knowledge and belief of the Directors having made all reasonable enquiries, no other shareholders are required to abstain from voting at the EGM in accordance with requirements of the Hong Kong Listing Rules, Shenzhen Listing Rules and applicable laws and regulations.

VIII. RECOMMENDATION

The Board is of the view that the resolutions set out in the EGM Notice in respect of, amongst other things, (i) the proposed acquisition of 18.8219% equity interest in ZTE Microelectronics; and (ii) Proposed Non-public Issuance of A Shares to Raise Ancillary Funds, are in the best interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of all the resolutions at the EGM.

IX. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

By Order of the Board
Li Zixue
ZTE Corporation
Chairman

Shenzhen, the PRC
4 December 2020

This English Translation is for reference only. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese Version shall prevail.

I. DEVELOPMENT OF THE PRINCIPAL BUSINESS OF ZTE MICROELECTRONICS

(I) Principal business and principal products

ZTE Microelectronics is specialised in the design, R&D and sales of integrated circuits ("IC"), covering various types of communication chips for wireless and wireline products. It has completed the proprietary R&D and successful commercial application of more than 100 types of commercial chips, covering the segments of "access, bearer and terminal" of communication network.

(II) Profit model

1. Procurement and production models

The IC industry chain usually consists of components such as IC design, wafer fabrication and assembly & testing. Depending on whether wafer fabrication lines and assembly & testing lines have been internally set up, the industry is operated either in terms of the IDM model or the Fabless model. The IDM model is a vertically integrated model, under which an enterprise is able to independently complete all steps of IC production including chip design, wafer fabrication and assembly & testing. The Fabless model operates without a wafer plant. Enterprises under this model is principally engaged in the design and sales of IC, while the processes in chip production, such as wafer fabrication and assembly & testing, are contracted to specialised wafer foundries and assembly & testing foundries, respectively.

Taking into account the customary practices of the chip industry and its own characteristics, ZTE Microelectronics has adopted the typical Fabless business model and is principally engaged in the research and development of chip design. Wafer processing is contracted to wafer foundries and assembly & testing is contracted to assembly & testing plants to complete the manufacturing of the final products.

2. Marketing model

Taking into account the customary practices of the chip industry and its own characteristics, ZTE Microelectronics has adopted direct sales as its principal marketing model. Meanwhile, as a subsidiary of the Company, ZTE Microelectronics is primarily engaged in the supply of ancillary chips to the Company, while some products are also marketed through external sales.

(III) Core competitive strengths

ZTE Microelectronics is one of the leading chip design and development enterprises in China, claiming formidable strengths in R&D technologies and possessing diverse and complete product lines.

ZTE Microelectronics has commenced large-scale production and dispatch of its serialised 5G chips, including the 5G wireless medium frequency chip and the bearer network processor chip, which have been awarded two major industry awards: the "China Chip" Outstanding Technological Innovation Award and the "IC Industry Technological Innovation Award", respectively. In the wireless segment, the 5G 7nm core chip of ZTE Microelectronics has been put to commercial application, providing carriers with a full range of high-performance wireless products based on its proprietary 7nm chip to assist in the construction of highly cost-efficient 5G networks capable of seamless evolution; in the wireline segment, the proprietary specialised core chip launched by ZTE Microelectronics have brought together the features of high integration, high performance and low power consumption, contributing to a substantial boost to the competitiveness of its wireline products.

II. RISKS RELATING TO THE ACQUISITION AND THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS (THE "TRANSACTION")

(I) Approval risk relating to the Transaction

In accordance with pertinent provisions of the Administrative Measures for the Major Asset Restructuring of Listed Companies, the Transaction is further subject to a number of conditions, including but not limited to:

1. consideration and approval of the draft plan for the Transaction ("Draft Plan") at the general meeting of the listed company;

2. approval of the Transaction by the CSRC; and

3. other approvals, authorisations, filings or permissions (if necessary) that may be required under pertinent laws and regulations.

There is uncertainty as to whether or not and when the aforesaid approvals or authorisations will finally be obtained in respect of the Transaction.

(II) Risk of suspension, discontinuation or cancellation of the Transaction

The Transaction is subject to the risk of being suspended, discontinued or cancelled:

1. Although the parties to the Transaction have adopted stringent confidentiality measures during the planning and implementation of the Transaction, and the fluctuation in the Company's share prices prior to the announcement of the proposal had not reached the relevant benchmark set out in Article 5 of the Notice on the Regulation of Information Disclosure by Listed Companies and Acts of Relevant Parties (Zheng Jian Gong Si Zi [2007] No. 128), the possibility of institutions and individuals concerned taking advantage of inside information relating to the Transaction to conduct inside trading cannot be ruled out. Therefore, the Transaction is subject to the risk of suspension, discontinuation or cancellation as a result of unusual fluctuations of the share price or unusual trading in the shares of the Company that might allegedly involve inside trading;

2. The Transaction is subject to the risk of suspension, discontinuation or cancellation as a result of unforeseeable substantial decline in the business results or other unforeseeable material adverse developments of the Target Company;

3. During the process of approving the Transaction, the parties to the Transaction might be required to continuously adjust and improve the Draft Plan in accordance with the opinions of the regulatory authorities and their respective requirements. If the parties to the Transaction are unable to agree on relevant measures for adjusting and improving the Draft Plan, parties to the Transaction might opt to terminate the Transaction;

4. Other unforeseeable events that might result in the suspension, discontinuation or cancellation of the Transaction.

(III) Risk associated with substantial appreciation in the appraised value of the Target Assets

The transaction price for the Target Assets under the Transaction is determined by reference to the valuation results contained in the valuation report furnished by the appraiser. As at the valuation benchmark date (30 June 2020), the appraised value of the Target Assets under the Transaction was RMB13,871,219,600, representing a high appreciation rate with a premium of RMB9,755,662,900 compared to the book net assets as at the benchmark date.

While the appraiser has fulfilled its duties with due diligence during the valuation process in strict accordance with relevant rules, the analyses, judgements and conclusions of any asset valuation are subject to relevant assumptions and limiting conditions, in particular in relation to macro-economic volatility, national laws and regulations and changes in industry policies. Hence, the Transaction remains subject to inconsistencies between the actual conditions in the future and the assumptions. Investors are reminded to beware of the risk associated with the substantial appreciation in the appraised value of the Target Assets under the Transaction.

(IV) Risk of adjustments made to the Draft Plan

The Draft Plan remains subject to the approval of CSRC, and the possibility that the parties to the Transaction might need to further adjust and improve the Draft Plan in accordance with the opinions of regulatory authorities and their respective requirements cannot be ruled out. Therefore, the Transaction is subject to the risk of adjustment of the restructuring plan.

(V) Risk of non-fulfillment of ancillary financing or amount of funds raised falling short of expectation

The Company has proposed to conduct a non-public issuance of A shares to not more than 35 specific investors to raise ancillary funds of not more than RMB2.61 billion. The raising of ancillary funds is subject to factors such as adjustments to pertinent regulatory laws and regulations, volatility in the stock market and investors' expectations, among others, and it is uncertain whether it can be successfully implemented. If the ancillary financing does not materialise, or if the amount raised falls short of expectation, the Company will fulfill the funding requirements of the projects supposed to be utilising issue proceeds through self-raised funds or other means, and the funding application and financial conditions of the Company may be affected. Investors are reminded to beware of relevant risks.

(VI) Risk of dilution of the Company's returns for the current period

Following the completion of the Transaction, the total share capital of the Company will be enlarged. As the Target Company's profitability is subject to a number of factors such as the macro-environment, industry policy, market demand and internal operation and management, among others, earnings per share of the listed company may decrease after the completion of the Transaction, thereby resulting in the temporary dilution of the Company's return for the current period. Investors are reminded to beware of relevant risks.

III. RISKS RELATING TO THE TARGET ASSETS

(I) Risks of macro-economic volatility and industry policies

The Target Company's chip products are mainly applied in the communication sector, which is subject to macro-economic volatility and industry policies. In the event of significant macro-economic volatility or material change in industry policies in the future, production operations of the Target Company will be affected.

(II) Risk of customer concentration

During the Reporting Period, the Target Company had a high level of customer concentration, with the Company as its single largest customer for all years during the period with a high percentage share.

The Company is a leading provider of integrated communication and information solutions in the world, and the sustained development of the Company's business as a whole provides solid assurance supporting the future development of ZTE Microelectronics. However, if the Company's business development falls short of expectation in the future and the Target Company is unable to extend its business to more customers in a timely manner, the Target Company's business development might be adversely affected.

(III) Risk associated with supply of raw materials and outsourced processing

As an IC design enterprise, the Target Company has adopted the Fabless model and focused on the design, R&D and sales of IC chips, while the manufacturing and assembly & testing processes are outsourced to specialised third parties. The upstream wafer and outsourced processing sector dealing with the Target Company is a concentrated industry requiring an extremely high level of technology and investment. In the event of substantial rises in the market prices for wafer and outsourced processing fees, or if the manufacturing of the Target Company's products is affected by the shortage of wafer supply and insufficient capacity of outsource contract manufacturers, the dispatch of the Target Company's products and the profitability of the Target Company will be adversely affected. Hence, the Target Company is subject to the risk associated with the supply of raw materials and outsourced processing to a certain extent.

(IV) Risk of concentration of suppliers

The Target Company operates under the Fabless model. Owing to the characteristics of this industry, the number of suppliers for wafer fabrication and assembly & testing that meet the technical and production requirements of the Target Company is limited on a global basis. During the reporting period, the Target Company maintained stable procurement relationship with its major suppliers, which accounted for a high percentage of the Target Company's purchases. The major suppliers of the Target Company are of large-scale operations with strong market influence. However, if there is any adverse changes to the businesses of the aforesaid suppliers, or in case of limited production capacity or strained cooperation relationship, the products may not be supplied in sufficient volumes in a timely manner, and the production operations of the Target Company may be adversely affected as a result.

(V) Risks associated with technological innovation

The Target Company has been named among the "Top 10 IC Design Companies in China" for consecutive years. Technological upgrade and the launch of next-generation products in the IC design industry occur in a fast pace. The Target Company is required to track market developments closely and upgrade its existing products and technologies to new generations in a timely manner in order to maintain its market position. In the future, if the Target Company's lags behind the industry in terms of technology R&D and upgrades, or if its technology R&D deviates from market trends, the Target Company's R&D resources will be wasted and the future development of the Target Company will be adversely affected.

(VI) Risks of turnover of key technical staff and leak of confidential technologies

The IC design industry is characterised by a high level of technical concentration with technical staff representing the core resources of the business. While the Target Company has a stable and high-calibre R&D team, there will be increasing competition for talents given the rapid development of the industry. If the Target Company loses some of its key technical staff in the future, its production operations might be adversely affected.

The Target Company has been involved in production operations over a long period and has mastered a range of core technologies through ongoing investment in R&D and developed prominent strengths in technology and R&D. Meanwhile, the Target Company places a strong emphasis on the protection of its core technologies with the formulation of stringent regulations regarding commercial confidentiality to ensure the confidentiality of core technologies. However, if there is any leaks of the Target Company's core technologies in the future as a result of improper maintenance of information on core technologies, the Target Company might be adversely affected.

IV. OTHER RISKS

(I) Risks of share price volatility

The Company's production operations and financial conditions will be affected by the Transaction to a certain extent. Changes in the fundamentals of the Company will affect its share price. In addition, volatility in the share price is also subject to changes in the macro-economic landscape, industry sentiments, demand and supply of capital and investors' mentality, among others. Therefore, the market price of the shares might fluctuate, thereby exposing investors to risks.

(II) Risk of force majeure

The Company cannot rule out the possibility of adverse impact caused by other force majeure, such as political or economic events, natural disasters or material public health incidents.

V. BACKGROUND TO THE TRANSACTION

(I) The world is undergoing a crucial period of 5G commercial network construction and expedited industrial applications of 5G, which represents a core strategy of the Company for which it ranks among the top players in the industry

At present, the world is undergoing a crucial period of 5G commercial network construction and expedited industrial applications of 5G. Since the beginning of 2020, the domestic carriers have accelerated the launch and completion of 5G tenders, taking the development of 5G network to the stage of large-scale deployment, which has ushered in a new round of opportunities for development in sectors such as consumers electronics, industrial manufacturing, port operation, mining, energy, railway transport, education and new media, among others. Meanwhile, global investment in 5G has been gaining pace. According to the statistics of Global Mobile Suppliers Association (GSA), 84 carriers in 36 countries or regions across the globe had launched 5G retail sales as at 30 June 2020. 5G terminals have been launched with growing variety in types and models, as an increasing number of users have signed up for 5G services. Global 5G service deployment is expected to roll out in full gear in the next five years, underpinned by a rapidly maturing industry chain and vigorous supply of innovative applications driving a new boom for the communications industry.

Due to the consistent investment in innovation over the years in line with its core 5G development strategy, the Company is equipped with the ability to provide a complete range of end-to-end 5G solutions and well-positioned to advance its large-scale global 5G commercial deployment on the back of its leading technologies, products and solutions in wireless products, core networks, bearers, chips, terminals and industrial applications. The Company is positioned within the first quadrant in terms of global patents and a major contributor to and participant in global 5G technology research and standard formulation. As at 30 June 2020, the

Company had filed applications for approximately 76,000 patented assets globally, among which more than 36,000 patents had been licensed. We had filed patent applications for more than 4,100 chips and more than 5,000 5G patents in strategic global deployment, the Company is positioned within the first quadrant in terms of strategic global 5G deployment. According to the February 2020 report of IPlytics, an internationally renowned research company on patents, the Company has submitted disclosures of 2,561 standard essential patents for 5G to ETSI, ranking among the top three globally.

(II) Chip design and development is a critical component in 5G technology innovation and subsidiary ZTE Microelectronics is one of the leading domestic companies in chip design and development

Chip design and development is a critical component in 5G technology innovation. Positioned within the "first quadrant of 5G players", the Company continues to increase its investment in core chip technologies to maintain its technological edge, enhance product safety and ensure the sustainability of its business. ZTE Microelectronics, the Target Company as a subsidiary of the Company, is the operating arm of the Company for chip design and development. In the wireless segment, the 5G 7nm core chip of ZTE Microelectronics 5G has been put to commercial application, providing carriers with a full range of high-performance wireless products based on our proprietary 7nm chip to assist in the construction of highly cost-efficient 5G networks capable of seamless evolution; in the wireline segment, the proprietary specialised core chip launched by ZTE Microelectronics have brought together the features of high integration, high performance and low power consumption, contributing to a substantial boost to the competitiveness of our wireline products. As a leading domestic chip design and development company in China, ZTE Microelectronics is one of the leading domestic chip design and development company in China according to the "Top 10 IC Design Companies in China 2019" announced by China Semiconductor Industry Association.

Currently, the Company and its subsidiaries Sai Jia Xun and Renxing Technology held in aggregate 81.1781% equity interest in ZTE Microelectronics. As part of the previous cooperation with the counterparties Hengjian Xinxin and Huitong Rongxin, the counterparties are holding in aggregate 18.8219% minority equity interest in ZTE Microelectronics. In view of the crucial period of 5G commercial network construction and expedited industrial application and given the fact that chip design and development is a critical component of 5G technology innovation, maintaining and strengthening management and control over ZTE Microelectronics, increasing investments in R&D will represent a significant move for the Company's overall core 5G development strategy.

(III) With a focus on investment in 5G R&D and market development, the Company is subject to substantial working capital requirements and a relatively high overall gearing ratio

In view of this crucial period of 5G commercial network construction and expedited industrial application for the world, the Company has adopted 5G development as its core development strategy and the application of funds is focused on 5G R&D and market development. The requirement for day-to-day working capital is substantial and the gearing ratio reported in the latest financial statements is relatively high in excess of 70%.

VI. PURPOSE OF THE TRANSACTION

Prior to the Transaction, ZTE Microelectronics has provided effective synergy as a subsidiary of the Company. The Transaction will be conducive to the further strengthening of the Company's core competitiveness and the enhancement of its profitability and shareholders' returns.

(I) Further increasing control over ZTE Microelectronics to enhance the Company's core competitiveness

Following the completion of the Company's acquisition of minority equity interests in ZTE Microelectronics, the Company's management and control over ZTE Microelectronics will be strengthened, which will be conducive to enhancing the operational efficiency of the business of ZTE Microelectronics, under which it can arrange plans for investment and development in chip design in a more in-depth manner and further increase the general competitiveness and profitability of ZTE Microelectronics, thereby preparing the Company for the development of new competitive strengths in 5G applications and further increasing its core competitive edge in principal business segments.

(II) Further increasing the Company's profitability and shareholders' returns

During the reporting period, ZTE Microelectronics experienced steady growth in operating results. With prospective market demands resulting from the large-scale commercial application of 5G, rapid profit growth is expected for ZTE Microelectronics in the foreseeable future, which will be beneficial to the growth in the Company's net profit attributable to holders of ordinary shares of the listed company, improvement in shareholders' return and ongoing steady reward for investors. Moreover, the restructuring for raising ancillary funds will enhance the Company's capital strength, contribute to its stable development, and assure further dominance in its principal business.

VII. DECISION-MAKING PROCESS IN RESPECT OF THE TRANSACTION AND APPROVALS OBTAINED

(I) Procedures performed in respect of the Transaction

1. The Transaction has been considered and approved at the Twenty-sixth Meeting and Twenty-eighth Meeting of the Eighth Session of the Board of ZTE;

2. The Transaction has been considered and approved by the internal decision-making body of Hengjian Xinxin and approved by the decision-making body of Guangdong Hengjian Holdings Company;

3. The Transaction has been considered and approved by the internal decision-making body of Huitong Rongxin and approved by the decision-making body of Shenzhen Huitong Jinkong Fund Investment Company Limited.

(II) Outstanding procedures for the Transaction

1. Consideration and approval of the Draft Plan at the general meeting of the Company;

2. Authorisation of the Transaction by CSRC;

3. Other approvals, authorisations, filings or permissions (if necessary) that might be required under pertinent laws and regulations.

The Transaction is conditional upon the aforesaid approvals or sanctions and the Draft Plan may not be implemented prior to obtaining such approvals or authorisations. There is uncertainty as to whether or not and when the aforesaid approvals or authorisations will finally be obtained in respect of the Transaction. Investors are reminded to beware of investment risks.

VIII. OVERVIEW OF THE DRAFT PLAN

The Company proposes to acquire 18.8219% equity interests in ZTE Microelectronics, a subsidiary of the Company, held in aggregate by Hengjian Xinxin and Huitong Rongxin by way of share issue; and meanwhile to raise ancillary funds of not more than RMB2.61 billion by the non-public issuance of shares to not more than 35 specific investors. The total amount of ancillary funds to be raised thereunder shall not be more than 100% of the consideration for the proposed acquisition of the Target Assets by way of share issue. The Transaction shall comply with the pertinent provisions of CSRC and other regulatory authorities and requirements under the general mandate. The Company intends to apply the ancillary funds raised (after deduction of relevant intermediary fees and relevant taxes) to finance research and development projects for key 5G chips and to replenish its working capital, of which not more than 50% of the gross proceeds of ancillary funds raised shall be used for the replenishment of working capital.

Prior to the Transaction, the Company and its subsidiaries Sai Jia Xun and Renxing Technology together held 81.1781% equity interest in ZTE Microelectronics. Following the completion of the Transaction, the Company will hold 100% equity interest in ZTE Microelectronics in aggregate.

Under the Draft Plan, the raising of ancillary funds is subject to the asset acquisition by way of share issue, but the asset acquisition by way of share issue is not subject to the raising of ancillary funds.

IX. VALUATION AND PRICING OF THE TRANSACTION

The Target Assets of the Transaction are represented by 18.8219% equity interest in ZTE Microelectronics. The appraiser has conducted valuation of 100% equity interest in ZTE Microelectronics as at the valuation benchmark date of 30 June 2020 and adopted the value arrived at based on market approach as the conclusion of the valuation. Assuming continuous operation, the appraised value of 100% equity interest in ZTE Microelectronics is RMB13,871,219,600.

The consideration payable for the 18.8219% equity interest in ZTE Microelectronics has been determined at RMB2,610,827,000 through negotiations between the parties to the Transaction based on the finalised valuation result.

X. Information on Asset Acquisition by way of Share Issue

(I) Counterparties

The counterparties to the asset acquisition are Hengjian Xinxin and Huitong Rongxin.

(II) Target Assets

The Target Assets of the Transaction are the 18.8219% equity interests in ZTE Microelectronics held in aggregate by Hengjian Xinxin and Huitong Rongxin.

(III) Transaction price of the Target Assets

The consideration payable for the 18.8219% equity interest in ZTE Microelectronics has been determined at RMB2,610,827,000 through negotiations between the parties to the Transaction based on the finalised valuation result.

(IV) Method of payment

The Company proposes to pay the full amount of the consideration for the acquisition to the counterparties by way of share issue.

(V) Class and par value of shares to be issued

The shares to be issued for asset acquisition are RMB ordinary shares (A Shares) with a par value of RMB1.00 per share.

(VI) Place of listing

The shares to be issued for asset acquisition will be listed on the Shenzhen Stock Exchange.

(VII) Issue price of shares, pricing principle and justification analysis

1. Issue price and pricing principles

In accordance with Article 45 of the Administrative Measures for the Major Asset Restructuring of Listed Companies, the price of a listed company's share issue shall not be lower than 90% of the market reference price. The market reference price shall be one of the average traded prices of the Company's A shares for the 20, 60 or 120 trading days immediately before the date of announcement of the Board resolution approving the acquisition by way of share issue.

The Pricing Benchmark Date for the asset acquisition by way of share issue shall be the date of announcement of the resolution of the Twenty-sixth Meeting of the Eighth Session of the Board of Directors of the Company. Following thorough consultation with the counterparties on an equal basis taking into full consideration the interests of all parties, the Company has set the issue price at RMB30.80/share, which is not lower than 90% of the average traded price of the A shares of the Company for 20 trading days immediately before the Pricing Benchmark Date.

During the period from the Pricing Benchmark Date to the Issuance Date, in case of any ex-rights or ex-dividends events of the Company, such as distribution of dividends, bonus shares, capitalisation issue or allotment of shares, the issue price will be adjusted in accordance with relevant rules promulgated by CSRC and the Shenzhen Stock Exchange. The formula for the adjustment of the issue prices is as follows:

Assuming P0 as the issue price per share before adjustment, N as the number of bonus shares or shares to be issued upon capitalisation issue per share; K as the number of new shares to be allotted per share; A as the share allotment price, D as the dividend per share and P1 as the adjusted issue price:

Dividend distribution: P1 = P0-D

Bonus issue or capitalisation issue: P1 = P0/(1+N)

Allotment of Shares: P1 = (P0+AK)/(1+K)

If all three events above are conducted simultaneously: P1 = (P0-D+AK)/(1+K+N)

2. The share issue is reasonably priced

The price for the issuance of shares for the acquisition of assets has been determined through friendly negotiations between the parties to the Transaction and the pricing principle is in compliance with the provisions of the Administrative Measures for the Major Asset Restructuring of Listed Companies.

(VIII) Proposal in relation to the adjustment of issue price

No plan for the adjustment of the issue price has been formulated for the Transaction.

(IX) Number of shares to be issued

The number of shares proposed to be issued for the acquisition of assets shall be 84,767,110 shares. Excluding the raising of ancillary funds, the shares to be issued for the acquisition of assets shall account for 1.80% of the total share capital after the issue.

During the period from the Pricing Benchmark Date to the Issuance Date, in case of any ex-rights or ex-dividends events of the Company, such as distribution of dividends, bonus shares, capitalisation issue or allotment of shares, the issue size will be adjusted in accordance with relevant rules promulgated by CSRC and the Shenzhen Stock Exchange.

(X) Arrangements relating to the lock-up period

The lock-up period for the shares subscribed for by Hengjian Xinxin and Huitong Rongxin under the issue is as follows:

1. If the equity interest in ZTE Microelectronics applied in the subscription for new shares has been continuously held for less than 12 months, new shares received by the parties as a result of the acquisition shall not be transferred within 36 months from the date of listing of such new shares;

2. If the equity interest in ZTE Microelectronics applied in the subscription for new shares has been continuously held for more than 12 months, new shares received by the parties as a result of the acquisition shall not be transferred within 12 months from the date of listing of such new shares;

During the lock-up period for the shares, the abovementioned lock-up arrangement shall also apply to any increase of shares in the Company received by Hengjian Xinxin and Huitong Rongxin under the issue as a result of ex-right or ex-dividend events of the Company, including distribution of bonus shares, capitalisation issue or allotment of shares, etc.

(XI) Arrangement for the retained undistributed profits

The retained undistributed profits of the Company prior to the asset acquisition by way of share issue will be shared by existing and new shareholders pro-rata to their respective shareholdings in the Company after the asset acquisition by way of share issue.

(XII) Validity period of the resolution

The resolution on the acquisition of assets by issuance of shares shall be effective for a period of 12 months from the date of approval of the shareholders at the general meeting. Subject to the approval of CSRC, the effective period may be extended to the date of completion of the Transaction.

XI. INFORMATION ON THE RAISING OF ANCILLARY FUNDS

(I) Class and par value of the share issue

Shares to be issued for raising ancillary funds shall be RMB ordinary shares (A Shares) with a par value of RMB1.00 per share.

(II) Place of listing

Shares to be issued for raising ancillary funds will be listed on the Shenzhen Stock Exchange.

(III) Target subscribers

The target subscribers of shares to be issued for raising ancillary funds will be not more than 35 specific subscribers.

(IV) Method of issuance and method of subscription

It is proposed that ancillary funds will be raised by way of non-public issuance of shares through price bidding. The target subscribers will subscribe in cash for shares to be issued for raising ancillary funds.

(V) Pricing basis and issue price

The Pricing Determination Date for the raising of ancillary funds shall be the first day of the issue period of the raising of ancillary funds, and the issue prices shall not be lower than 80% of the average traded price of the Company's A shares for the 20 trading days immediately before the Pricing Determination Date. The finalised issue price shall be determined by the Board of the Company or persons authorised by the Board under the mandate granted by the general meeting in consultation with the independent financial advisor (lead underwriter) of the issue based on the outcome of price bidding in accordance with the provisions of pertinent laws, administrative regulations and regulatory documents after the Transaction has been approved by CSRC.

(VI) Total amount of ancillary funds to be raised and number of shares to be issued

The raising of ancillary funds will be conducted by way of non-public issuance of shares to not more than 35 specific subscribers by way of price bidding to raise ancillary funds of not more than RMB2.61 billion. The total amount of ancillary funds to be raised shall not exceed 100% of the consideration for the proposed asset acquisition by way of share issue.

Number of shares to be issued to raise ancillary funds = total amount of ancillary funds to be raised/issue price of shares issued to raise ancillary funds.

(VII) Lock-up period arrangement

Shares to be subscribed for by the target subscribers under the ancillary fund-raising in connection with the Transaction shall be subject to a lock-up period of 6 months from the date of completion of the issue. Any transfer thereafter shall be carried out in accordance with the relevant regulations of CSRC and the Shenzhen Stock Exchange.

(VIII) Use of ancillary funds raised

The ancillary funds raised under the Transaction after deduction of relevant intermediary fees and relevant taxes shall be applied in the following items:

Unit: RMB100 million

No.	Item	Total amount of the item utilising issue proceeds	Proposed amount of issue proceeds to be utilised
1	Research and development projects for key 5G chips	64.83	13.10
2	Replenishment of working capital of the Company	13.00	13.00
	Total	**77.83**	**26.10**

Any shortfall in the gross amount of ancillary funds raised shall be met by the internal funds of or other financing options adopted by the Company. If the internal funds of the Company are used, they will be replaced by the proceeds upon receipt of the proceeds.

(IX) Arrangement for the retained undistributed profits

The retained undistributed profits of the Company prior to the issuance of shares to raise ancillary funds will be shared by the existing Shareholders and the new Shareholders pro-rata to their respective shareholdings in the Company after the issuance of shares to raise ancillary funds.

(X) Validity period of the resolution

The resolution on the share issue for ancillary fund-raising issue shall be effective for a period of 12 months from the date of approval of the shareholders at the general meeting. Subject to the approval of CSRC, the effective period may be extended to the date of completion of the Transaction.

XII. THE TRANSACTION DOES NOT CONSTITUTE A CONNECTED TRANSACTION, MAJOR ASSET RESTRUCTURING OR LISTING BY WAY OF RESTRUCTURING

(I) The Transaction does not constitute a connected transaction

Prior to the Transaction, the counterparties to the Transaction, namely, Hengjian Xinxin and Huitong Rongxin, are not connected parties of the Company. Upon completion of the asset acquisition by way of share issue (excluding the ancillary fund-raising), the percentage of the shareholdings of Hengjian Xinxin and Huitong Rongxin in the Company will not be more than 5%. Accordingly, the Transaction does not constitute a connected transaction.

(II) The Transaction does not constitute major asset restructuring

In accordance with the Administrative Measures for the Major Asset Restructuring of Listed Companies: "If a listed company conducts purchase and sale of the same assets or related assets continuously during a period of 12 months, the relevant amount shall be computed on a cumulative basis. Where the Target Assets traded are owned or controlled by the same counterparty or relate to the same business or similar businesses, they may be considered the same assets or related assets."

Details of the Company's purchase of the same or similar assets during the 12 months prior to the Board meeting at which the Transaction was considered are as follows:

In September 2020, Renxing Technology, a wholly-owned subsidiary of the Company, acquired 24% equity interest in ZTE Microelectronics held by National Integrated Circuit Industry Investment Fund Corporation (the "IC Fund") for RMB3.315 billion. Hengjian Xinxin and Huitong Rongxin provided cooperation funds of RMB1.4 billion and RMB1.2 billion, respectively, in respect of the Acquisition. The Company and Renxing Technology entered into the "Cooperation Agreement" with Hengjian Xinxin and Huitong Rongxin in respect of the arrangements for cooperation. In October 2020, the Company, Renxing Technology, Hengjian Xinxin and Huitong Rongxin entered into the Equity Transfer Agreement based on the foregoing Cooperation Agreement and subsequent negotiations, pursuant to which the said cooperation funds provided by Hengjian Xinxin and Huitong Rongxin shall be set off in consideration of 18.8219% equity interest in ZTE Microelectronics held by Renxing Technology.

Based on the aforesaid, the relevant ratios for estimating whether the Transaction constitutes a major asset restructuring are set out as follows:

Unit: RMB'0000

Item	Total assets	Net assets	Operating revenue
Renxing Technology's acquisition of 24% equity interest in ZTE Microelectronics held by IC Fund	331,528.77	331,528.77	120,094.65
Acquisition by the Company of 18.8219% equity interest in ZTE Microelectronics held by Hengjian Xinxin and Huitong Rongxin	261,082.70	261,082.70	94,183.92
Sub-total	592,611.47	592,611.47	214,278.57
ZTE	14,120,213.5	2,882,686.8	9,073,658.2
Percentage	**4.20%**	**20.56%**	**2.36%**

Note 1: Total assets and net assets under the acquisition of equity interest in ZTE Microelectronics represent the relevant transaction amounts. Operating revenue represents the operating revenue of ZTE Microelectronics for 2019 multiplied by the percentage of the Acquisition.

Note 2: The total assets, net assets and operating revenue of ZTE Corporation are derived from its audited 2019 financial statements, where net assets represent equity attributable to holders of ordinary shares of the listed company.

Based on the calculations above, the Transaction does not constitute major asset restructuring.

(III) The Transaction does not constitute listing by way of restructuring

During the 36 months prior to the Transaction, the Company's controlling shareholder was Zhongxingxin and there was no de facto controller. Following the completion of the Transaction, Zhongxingxin will remain the Company's controlling shareholder and the Company will continue to have no de facto controller. Accordingly, the Transaction will not result in any change in the Company's controlling shareholder and de facto controller, and the Transaction will not constitute listing by way of restructuring.

XIII. EFFECT OF THE TRANSACTION ON THE COMPANY

(I) Effect of the Transaction on the Company's shareholding structure

Changes shown between the Company's shareholding structures before and after the asset acquisition by way of share issue, excluding shares issued for the raising of ancillary funds, is set out as follows:

Unit: share

	Before the Transaction (As at 30 September 2020)		After the Transaction	
Name of shareholder	Number of Shares	Shareholding percentage	Number of Shares	Shareholding percentage
Zhongxingxin	1,035,480,200	22.44%	1,035,480,200	22.04%
HKSCC Nominees Limited	752,337,392	16.31%	752,337,392	16.01%
Hong Kong Securities Clearing Company Limited	66,697,658	1.45%	66,697,658	1.42%
Hengjian Xinxin	—	—	45,643,828	0.97%
Huitong Rongxin	43,032,108	0.93%	82,155,390	1.75%
Other shareholders	2,715,887,540	58.87%	2,715,887,540	57.81%
Total share capital	**4,613,434,898**	**100.00%**	**4,698,202,008**	**100.00%**

Note 1: As at 30 September 2020, Zhongxingxin held a total of 1,035,480,200 shares in the Company, of which 2,038,000 H shares in the Company were held by HKSCC Nominees Limited as nominee.

Note 2: Shares held by HKSCC Nominees Limited represented the sum of shares held in the accounts of the H shareholders of the Company traded on the trading platform of HKSCC Nominees Limited. To avoid repetition in counting, the aforesaid 2,038,000 H shares in the Company held by Zhongxingxin have been excluded from the number of shares held HKSCC Nominees Limited.

Note 3: Shares held by Hong Kong Securities Clearing Company Limited represented the sum of A shares in the Company purchased through Shenzhen Hong Kong Stock Connect (Northbound).

Prior to the Transaction, the Company's controlling shareholder was Zhongxingxin and there was no de facto controller. Following the completion of the Transaction, Zhongxingxin will remain the Company's controlling shareholder and the Company will continue to have no de facto controller. Accordingly, the Transaction will not result in any change in the Company's controlling shareholder and de facto controller.

(II) Effect of the Transaction on the Company's principal business

The Company is dedicated to the provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sales and services with a special focus on carriers' networks, government and corporate business and consumer business. The Transaction involves the acquisition of minority interests in a subsidiary of the Company. Following the completion of the Transaction, there will be no change in the principal business of the Company.

(III) Effect of the share issue for the Transaction on the Company's financial conditions and profitability

Based on the Company's financial data and the audit report and pro-forma review report on furnished by Ernst and Young Hua Ming, a comparison of the key financial data of the Company before and after the share issue for asset acquisition is set out as follows:

Unit: RMB'0000

	As at/for the six months ended 30 June 2020			As at/for the year ended 31 December 2019		
Item	Before the Transaction	Pro-forma	Growth rate	Before the Transaction	Pro-forma	Growth rate
Total assets	16,543,236.4	16,543,236.4	—	14,120,213.5	14,120,213.5	—
Total liabilities	12,115,556.9	12,115,556.9	—	10,324,783.7	10,324,783.7	—
Equity attributable to holders of ordinary shares of the listed company	4,115,611.6	4,206,742.9	2.21%	2,882,686.8	2,968,045.5	2.96%
Owners' equity	4,427,679.5	4,427,679.5	—	3,795,429.8	3,795,429.8	—
Gearing ratio (consolidated)	73.24%	73.24%	—	73.12%	73.12%	—
Operating revenue	4,719,937.3	4,719,937.3	—	9,073,658.2	9,073,658.2	—
Net profit	232,338.1	232,338.1	—	577,666.9	577,666.9	—
Net profit attributable to holders of ordinary shares of the listed company	185,728.9	191,501.5	3.11%	514,787.7	518,471.3	0.72%
Basic earnings per share (RMB/share)	0.4027	0.4077	1.24%	1.2240	1.2084	–1.27%

As shown in the table above, as an acquisition of minority interests in a subsidiary, the Transaction will not have any impact on the Company's total assets or total liabilities, but will increase the Company's owners' equity attributable to holders of ordinary shares of the listed company as at 31 December 2019 and 30 June 2020 and net profit attributable to holders of ordinary shares of the listed company for the year ended 31 December 2019 and the six months ended 30 June 2020. Basic earnings per share for the six months ended 30 June 2020 will also increase and, with the continuous growth in the results of ZTE Microelectronics, the augmenting effect of the Transaction on basic earnings per share will also be further enhanced.

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I. AUDITED FINANCIAL DATA OF ZTE MICROELECTRONICS

Pursuant to the PRC ASBEs — Basic Principles promulgated by the Ministry of Finance of the PRC and the specific accounting standards, application guidance, notes and other relevant regulations as subsequently promulgated and amended, ZTE Microelectronics has prepared the financial statements and notes thereto for the years 2018 and 2019 and for the six months ended 30 June 2020, which have been audited by Ernst and Young Hua Ming, and Ernst and Young Hua Ming has issued a standard unqualified auditor's report "Ernst and Young Hua Ming (2020) Shen Zi No. 61113524_H03". The condensed financial statements are set out as follows:

(I) Condensed Consolidated Balance Sheet

Unit: in RMB'0000

Item	2020-6-30	2019-12-31	2018-12-31
Current assets	777,978.80	733,141.11	531,833.16
Non-current assets	57,840.96	60,175.53	72,371.21
Total assets	835,819.76	793,316.63	604,204.37
Current liabilities	276,562.26	240,806.22	136,254.43
Non-current liabilities	75,080.35	99,002.82	34,013.00
Total liabilities	351,642.61	339,809.04	170,267.43
Total shareholders' equity	484,177.15	453,507.59	433,936.94

(II) Condensed Consolidated Income Statement

Unit: in RMB'0000

Item	Six months ended 30 June 2020	2019	2018
Operating revenue	602,454.53	500,394.37	518,419.29
Operating costs	488,284.72	336,982.63	383,211.05
Operating profit	30,758.07	22,076.20	15,549.77
Total profit	30,669.56	22,070.26	15,523.15
Net profit	30,669.56	19,570.65	15,763.51

(III) Condensed Consolidated Cash Flow Statement

Unit: in RMB'0000

Item	Six months ended 30 June 2020	2019	2018
Net cash flow from operating activities	56,536.48	–13,467.09	–134,395.98
Net cash flows from investing activities	–8,138.61	–4,795.74	–5,694.53
Net cash flows from financing activities	–55,547.72	79,983.90	19,945.17
Net increase in cash and cash equivalents	–7,146.97	61,740.84	–120,032.17
Balance of cash and cash equivalents at the end of period	116,524.52	123,671.49	61,930.65

II. PRO FORMA FINANCIAL STATEMENTS OF THE COMPANY

In accordance with pertinent provisions under the Administrative Measures for the Major Asset Restructuring of Listed Companies and Standards for Contents and Format of Corporate Information Disclosure relating to Public Issuance of Securities No. 26 — Application Documents for Major Asset Restructuring of Listed Companies promulgated by CSRC, the Company is required to consolidate the financial statements of ZTE Microelectronics on a pro forma basis. The pro forma consolidated financial statements of the Company for the most recent year and period have been prepared on the basis of the assumptions that the acquisition of the Target Assets and issuance of shares had been completed before 31 December 2018, the organisational structure and related businesses after the completion of the acquisition were in existence on 1 January 2019 and there were no material changes during 2019 and the six months ended 30 June 2020. The pro forma consolidated financial statements have been prepared pursuant to provisions under the Company's agreements relating to asset acquisition and in accordance with the following assumptions and bases for preparation:

1. The resolutions relating to the Transaction will be approved at the Company's general meeting and will obtain the approval (authorisation) of CSRC, and matters pertaining to the Transaction will be implemented according to the Transaction Plan.

2. The acquisition of the Target Assets and issuance of shares had been completed before 31 December 2018, the organisational structure and related businesses after the completion of the acquisition were in existence on 1 January 2019 and there

were no material changes during 2019 and the six months ended 30 June 2020 (the "Reporting Period"). The actual number of shares to be issued by the Company for the acquisition of the Target Assets might differ from the present assumption.

3. The pro forma consolidated financial statements have been based on the Group's unaudited financial statements for the six months ended 30 June 2020, the Group's audited financial statements for 2019 and the financial statements of the Target Assets for the six months ended 30 June 2020 and the previous year as audited by Ernst and Young Hua Ming LLP and prepared in accordance with the significant accounting policies, accounting estimates and methods for the preparation of pro forma consolidated financial statements described in the notes to the pro forma consolidated financial statements.

   Taking into consideration the specific purposes of the pro forma consolidated financial statements, only the pro forma consolidated balance sheets as at 31 December 2019 and 30 June 2020 and pro forma consolidated income statement for 2019 and the six months ended 30 June 2020 and the notes thereto have been prepared in the preparation of the pro forma consolidated financial statements. The share capital and premium of the Company's share issuance are included in equity attributable to holders of ordinary shares of the parent company.

4. As the implementation of the Company's issuance of shares for the acquisition of the Target Assets is not dependent on the raising of ancillary funds or whether the expected amount of proceeds will be raised in full, the pro forma consolidated financial statements have not taken into account the effect of the non-public issuance of shares to other specific investors for raising ancillary funds.

5. The pro forma consolidated financial statements have not taken into account the effect of costs, expenses and taxation incurred in connection with the Transaction.

6. The Company has conducted an assessment on its ability to operate as a going concern in the 12 months from 30 June 2020 and has not identified any events or conditions that would cast significant doubt on its ability to operate as a going concern. The pro forma consolidated financial statements have been presented on a going concern basis.

   The pro forma consolidated financial statements have been prepared under the historical cost convention, with the exception of certain financial instruments and investment properties. Impairment provision is made in accordance with relevant regulation if asset impairment has occurred.

The pro forma consolidated financial statements has been reviewed by Ernst and Young Hua Ming, who has furnished a Review Report on the Pro forma Consolidated Financial Statements "Ernst and Young Hua Ming (2020) Zhuan Zi No. 60438556_H06". The condensed financial information is set out as follows:

(I) Condensed Consolidated Pro Forma Balance Sheet

Unit: in RMB'0000

Item	2020-6-30	2019-12-31
Current assets	12,525,325.0	10,256,717.4
Non-current assets	4,017,911.4	3,863,496.1
Total assets	16,543,236.4	14,120,213.5
Current liabilities	9,198,486.3	8,637,051.6
Non-current liabilities	2,917,070.6	1,687,732.1
Total liabilities	12,115,556.9	10,324,783.7
Total equity attributable to shareholders of the parent company	4,206,742.9	2,968,045.5
Total shareholders' equity	4,427,679.5	3,795,429.8

(II) Condensed Consolidated Pro Forma Income Statement

Unit: in RMB'0000

Item	Six months ended 30 June 2020	2019
Operating revenue	4,719,937.3	9,073,658.2
Operating profit	284,060.0	755,218.2
Total profit	284,097.1	716,167.0
Net profit	232,338.1	577,666.9
Profit attributable to shareholders of the listed company	191,501.5	518,471.3
Net profit attributable to shareholders of the listed company after extraordinary items	95,035.4	48,880.7

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We, Vocation (Beijing) International Assets Appraisal Co., Ltd., have been appointed to appraise the market value as at 30 June 2020 of the entire equity interests in ZTE Microelectronics Technology Company Limited in relation to the economic behavior of the proposed acquisition of equity interests by ZTE Corporation according to requisite appraisal procedures using the asset-based approach and the market approach with stringent adherence to the principles of independence, objectiveness and fairness in accordance with the laws, administrative regulations and asset valuation standards. A summary of the asset appraisal results is presented as follows:

I. APPOINTORS

ZTE Corporation, Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership), Shenzhen Huitong Rongxin Investment Co., Ltd.

II. APPRAISAL ASSUMPTIONS

(I) Basic Assumptions

1. Trading assumption

The trading assumption assumes that the subject of valuation and the assets and liabilities to be appraised are in the process of transaction, and the appraiser conducts the valuation in a simulated market based on trading conditions, etc. The trading assumption is a fundamental criterion for the conduct of valuation.

2. Open market assumption

The open market assumption assumes that, with respect to assets traded or to be traded in the market, the parties to the transaction are on equal standings, and each has the opportunity and time to obtain sufficient market information so as to make reasonable judgement on the functions, uses and trading prices of the assets. The open market assumption is based on the presumption that the assets can be openly traded in the market.

3. Assumption of continuous use of assets

The assumption of continuous use of assets assumes that the appraisal methods, parameters and bases adopted in asset valuation are determined on the basis of whether the assets under valuation will be put in continuous use in a manner consistent with their current use and manner, scale, frequency and environment of use, or whether they will be used on a different basis.

4. Going-concern assumption

Going-concern assumption assumes that the subject of valuation will maintain ongoing operations in a manner consistent with the present.

(II) General Assumptions

1. Subsequent to the valuation benchmark date, there will be no significant changes to the subject of valuation and the political, economic, social or other macro-environment in the place where it operates which would materially affect its operation;

2. There will be no force majeure or unforeseeable events affecting the operations of the entity under valuation subsequent to the valuation benchmark date;

3. The entity under valuation will continue to operate and its assets will continue to be in use following the valuation benchmark date;

4. Information provided by the appointors and the entity under valuation are true, complete and reliable, and there are no other defects or contingencies which may affect the valuation conclusions that have not been notified by the appointors/entity under valuation as they should have been and that remain unknown to the appraiser after the performance of the requisite valuation procedures;

5. The operator of the appraised entity is a responsible party and the management is capable of undertaking its duties, that there will be no material change in future operating periods to the key management and technical personnel of the appraised entity affecting its operations with reference to the conditions as at the valuation benchmark date, and that the management team will be under stable development without any material change to the management system that would affect its operations;

6. The appraised entity will be not subject to any litigation, pledge or guarantee, among others, in future operating periods that would affect its operating results in a material way;

7. The leasing contract for the premises leased by the entity under valuation for use as office as at the valuation benchmark date will be renewed upon expiration.

(III) Specific Assumption

The valuation does not take into account the effect of any external equity investments made by the entity under valuation subsequent to the valuation benchmark date on its value.

In accordance with the requirements of asset valuation, the appraiser have deemed these conditions of assumptions to be valid on the valuation benchmark date. The appraiser do not have any obligation to arrive at different valuation conclusions in response to changed valuation assumptions in the event of any material changes in such valuation assumptions subsequent to the valuation report date.

III. DETAILS RELATED TO THE APPRAISAL

(I) Entity under valuation

ZTE Microelectronics Technology Company Limited

(II) Subject of valuation

The entire equity interests in ZTE Microelectronics Technology Company Limited in relation to the proposed acquisition of equity interest by ZTE Corporation

(III) Scope of valuation

As at 30 June 2020, being the valuation benchmark date, the book value of the owner's equity in ZTE Microelectronics Technology Company Limited within the scope of the valuation amounted to RMB4,115,556,700. The book values of assets and liabilities within the scope of the valuation are set out in the following table:

Unit: in RMB'0000

Assets	**30 June 2020**
Current assets	478,097.65
Non-current assets	154,684.15
Long-term equity investments	100,000.00
Fixed assets, net	21,652.20
Right-of-use assets	1,611.62
Intangible assets	30,058.31
Including: land use rights	—
Research and development costs	1,261.38
Other non-current assets	100.64
Total assets	**632,781.81**
Current liabilities	194,402.45
Non-current liabilities	26,823.69
Total liabilities	**221,226.14**
Owner's equity	**411,555.67**

Note: The financial data set out above represents data of the non-consolidated financial statements of the ZTE Microelectronics as audited by Ernst and Young Hua Ming LLP, with the furnishing of a standard unqualified auditor's report, Ernst and Young Hua Ming (2020) Shen Zi No. 61113524-H03.

(IV) Type of value

Market value

(V) Valuation benchmark date

30 June 2020

(VI) Valuation method

Asset-based approach and market approach

(VII) Valuation Conclusion

This valuation under the market approach is the definitive valuation conclusion: As at 30 June 2020, being the valuation benchmark date, the carrying value of the owner's equity in ZTE Microelectronics Technology Company Limited included in the scope of the valuation is RMB4,115,556,700, while the appraised value of the entire equity interests assuming continuous operation without change to the existing use is RMB13,871,219,600, representing an increase of RMB9,755,662,900 and an appreciation rate of 237.04%.

(VIII) Validity Period

The valuation conclusions will remain valid for one year, from the valuation benchmark date of 30 June 2020 to 29 June 2021. Save for the occurrence of events specified in the asset valuation report, the valuation conclusion shall remain valid subsequent to the valuation benchmark date and within the validity period when an economic behavior occurs, so long as there is no material change in the environment for corporate development affecting the operating conditions.

In the event of material changes in the market conditions or asset status on which the valuation conclusion are based, such that the valuation conclusion can no longer reflect the value of the subject of valuation on the date of the occurrence of the economic behavior, the following principles shall apply notwithstanding that a period of less than one year has lapsed from the valuation benchmark date to the date of occurrence of the economic behavior in relation to the subject of valuation:

(1) In the event of a change in the quantity or conditions of use of the assets, adjustments should be made to the valuation conclusion using the original valuation methods;

(2) In the event of material changes in the market conditions on which the valuation conclusions are based resulting in an evident impact on the valuation conclusions, the appointors shall engage a qualified appraiser in a timely manner to re-evaluate the subject of valuation;

(3) The appointors should give full consideration to changes in asset status and market conditions subsequent to the valuation benchmark date and make adjustments accordingly when determining the pricing of the subject of valuation.

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In accordance with the relevant regulations including "Opinion of the General Office of the State Council on Further Strengthening Protection for Lawful Interests of Minority Shareholders in the Capital Market" (Guo Ban Fa [2013] No. 110), "Opinions of the State Council on Further Facilitating the Healthy Development of the Capital Market" (Guo Fa [2014] No. 17) and "Guiding Opinion on Matters Pertaining to Dilution of Return for the Current Period Under Initial Public Offering, Refinancing and Significant Asset Restructuring" (CSRC Announcement [2015] No. 31), the Company has conducted an analysis on the effect of the Transaction on the dilution of return for the current period, formulated specific measures in response, and provided relevant undertakings as follows:

I. DILUTION OF RETURN FOR THE CURRENT PERIOD DUE TO THE TRANSACTION

Changes in owners' equity attributable to holders of ordinary shares of the listed company, net profit attributable to holders of ordinary shares of the listed company and earnings per share after the Transaction compared to those before the Transaction, based on the financial data of the Company and the auditor's report and pro forma review report on the Company furnished by Ernst and Young Hua Ming LLP, are set out as follows:

Unit: in RMB'0000

Item	As at/for the six months ended 30 June 2020			As at/for the year ended 31 December 2019		
	Before the Transaction	Pro-forma	Growth rate	Before the Transaction	Pro-forma	Growth rate
Equity attributable to holders of ordinary shares of the listed company	4,115,611.6	4,206,742.9	2.21%	2,882,686.8	2,968,045.5	2.96%
Net profit attributable to holders of ordinary shares of the listed company	185,728.9	191,501.5	3.11%	514,787.7	518,471.3	0.72%
Basic earnings per share (RMB/share)	0.4027	0.4077	1.24%	1.2240	1.2084	–1.27%

As shown in the table above, the Acquisition is an acquisition of minority interests in a subsidiary, the Transaction will increase the Company's owners' equity attributable to holders of ordinary shares of the listed company as at 31 December 2019 and 30 June 2020 and net profit attributable to holders of ordinary shares of the listed company for the year ended 31 December 2019 and the six months ended 30 June 2020 and the basic earnings per share for the six months ended 30 June 2020.

II. NECESSITY AND JUSTIFICATION OF THE TRANSACTION

Prior to the Transaction, ZTE Microelectronics has provided effective synergy as one of the subsidiaries of the Company. The Transaction will be conducive to the further strengthening of the Company's core competitiveness and the enhancement of its profitability and shareholders' return.

(I) Further increasing control over ZTE Microelectronics to enhance the Company's core competitiveness

Following the completion of the Company's acquisition of minority equity interests in ZTE Microelectronics, the Company's management and control over ZTE Microelectronics will be strengthened, which will be conducive to enhancing the operational efficiency of the business of ZTE Microelectronics, under which it can arrange plans for investment and development in chip design in a more in-depth manner and further increase the general competitiveness and profitability of ZTE Microelectronics, thereby preparing the Company for the development of new competitive strengths in 5G applications and further increasing its core competitive edge in principal business segments.

(II) Further increasing the Company's profitability and shareholders' return

During the reporting period, ZTE Microelectronics experienced steady growth in operating results. With prospective market demands resulting from the large-scale commercial application of 5G, rapid profit growth is expected for ZTE Microelectronics in the foreseeable future, which will be beneficial to the growth in the Company's net profit attributable to holders of ordinary shares of the Company, improvement in shareholders' return and ongoing steady reward for investors. Moreover, the Transaction will enhance the Company's capital strength, contribute to its stable development, and assure further dominance in its principal business.

III. THE COMPANY'S MEASURES FOR COMPENSATING DILUTION OF RETURN FOR THE CURRENT PERIOD AND ENHANCING ABILITY TO GENERATE SUSTAINED RETURNS

To prevent the risk of possible dilution of the Company's return for the current period due to the Transaction, the Company will adopt the following measures as remedy addressing the effect of the Transaction on the dilution of return for the current period, the details of which are as follows:

1. Seizing opportunities in the communication market with full effort to achieve stable growth in market shares

At present, the world is undergoing a crucial period of 5G commercial network construction and expedited industrial applications. Due to the consistent investment in innovation over the years in line with its core 5G development strategy, the Company is equipped with the ability to provide a complete range of end-to-end 5G solutions and well-positioned to advance its large-scale global 5G commercial deployment on the back of its leading technologies, products and solutions in wireless products, core networks, bearers, chips, terminals and industrial applications. Following the completion of the Transaction, the Company will continue to seize opportunities in the communication market to achieve stable growth in its market shares and profitability.

2. Control over management and operational risks facilitated through ongoing improvements to corporate governance structure

The Company will continue to improve its corporate governance structure and enhance its internal control regime in accordance with the requirements of relevant laws, regulations and regulatory documents, including the Company Law, the Securities Law and Corporate Governance Standards for Listed Companies, so as to ensure sound and effective exercise of powers by the Board, Supervisory Committee and the management which will allow stringent control over management and operational risks while facilitating efficient decision-making, thereby offering effective protection for investors' interests, in particular the lawful interests of minority shareholders.

3. Implementation of profit distribution policy and optimisation of mechanism for investment return

To improve the Company's profit distribution policy, facilitate the development of a more scientific, consistent and stable mechanism for shareholders' return for the Company, increase the transparency and operability of its profit distribution policy and decision-making, and offer genuine protection to the lawful interests of the public investors, the Company has set out clear provisions on profit distribution policy in its Articles of Association in accordance with the pertinent provisions of CSRC and the laws and regulations, taking into account the actual conditions of the Company. In the future, the Company will continue to maintain and improve its mechanism for profit distribution and to further enhance the mechanism for investors' return.

IV. UNDERTAKINGS BY THE COMPANY'S DIRECTORS AND SENIOR MANAGEMENT IN RELATION TO THE IMPLEMENTATION OF REMEDIAL MEASURES TO ADDRESS THE DILUTION OF RETURN FOR THE CURRENT PERIOD DUE TO THE TRANSACTION

The Directors and senior management of the Company have undertaken, in relation to the implementation of remedial measures to address the dilution of return for the current period due to the Transaction, that they will:

1. not be engaged in tunneling in favour of other units or individuals on a nil-payment basis or upon unfair terms, or otherwise compromise the interests of ZTE Corporation;

2. exercise restraint in spending when performing duties of their office;

3. not misappropriate ZTE Corporation's assets for investing activities or expenses not related to the performance of their duties;

4. procure the linking of the remuneration regime formulated by the Board or the Remuneration Committee of the Board with the implementation of ZTE Corporation's measures relating to remedies for dilution in return;

5. procure the linking of the exercise conditions under ZTE Corporation's share option incentives to be announced with the implementation of ZTE Corporation's measures relating to remedies for dilution in return;

6. willingly assume the liability for compensating ZTE Corporation or shareholders in accordance with the law in the event of losses incurred by ZTE Corporation or shareholders as a result of personal violation of or refusal to honour the undertaking.

V. UNDERTAKINGS BY THE COMPANY'S CONTROLLING SHAREHOLDER IN RELATION TO THE IMPLEMENTATION OF REMEDIAL MEASURES TO ADDRESS THE DILUTION OF RETURN FOR THE CURRENT PERIOD DUE TO THE TRANSACTION

The Controlling Shareholder of the Company has undertaken, in relation to the implementation of remedial measures to address the dilution of return for the current period due to the Transaction, that:

It will not, for so long as it remains the Controlling Shareholder of ZTE Corporation, act beyond its powers to interfere with ZTE Corporation's operating and management activities or expropriate ZTE's interests.

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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)

NOTICE OF THE THIRD EXTRAORDINARY GENERAL MEETING OF 2020

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 without any false or misleading statement or material omission.

NOTICE IS HEREBY GIVEN that the third extraordinary general meeting of 2020 (the "EGM") of ZTE Corporation (the "Company") will be held at the 4/F Floor, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China on Monday, 21 December 2020 at 3:30 p.m. to consider and, if thought fit, approved the following resolutions. Unless the context otherwise defined, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 4 December 2020:

Special Resolutions

1. **Resolution on the Company's fulfilment of criteria for the acquisition of assets by issuance of shares and ancillary fund-raising**

2. **Resolution on the Company's plan for the acquisition of assets by issuance of shares and ancillary fund-raising (the "Transaction"):**

   2.01 General plan

   Acquisition of assets by issuance of shares

   2.02 Counterparties

   2.03 Target assets

2.04 Transaction price of the target assets

2.05 Method of payment

2.06 Class and par value of shares to be issued

2.07 Place of listing

2.08 Issue price and pricing principles

2.09 Proposal in relation to the adjustment of issue price

2.10 Number of shares to be issued

2.11 Lock-up period arrangement

2.12 Arrangement for the retained undistributed profits

2.13 Validity period of the resolution

Ancillary fund-raising

2.14 Class and par value of shares to be issued

2.15 Place of listing

2.16 Target subscribers

2.17 Method of issuance and method of subscription

2.18 Issue price and pricing principles

2.19 Total amount of the ancillary fund-raising and number of shares to be issued

2.20 Lock-up period arrangement

2.21 Use of the ancillary funds-raising

2.22 Arrangement for the retained undistributed profits

2.23 Validity period of the resolution

3. **Resolution on the report on acquisition of assets by issuance of shares and ancillary fund-raising of ZTE Corporation (Draft) (Revised Version) and its summary**

4. **Resolution on the Transaction not constituting a connected transaction**

5. **Resolution on the Transaction not constituting a major asset restructuring**

6. Resolution on the Transaction not constituting reverse takeover under Article 13 of the "Administrative Measures for the Major Asset Restructuring of Listed Companies"

7. Resolution on compliance of the Transaction with Articles 11 and 43 of the "Administrative Measures for the Major Asset Restructuring of Listed Companies"

8. Resolution on compliance of the Transaction with Article 4 of the "Regulations on Certain Issues Concerning the Regulation of Major Asset Restructuring of Listed Companies"

9. Resolution on the execution of the conditional Agreement in respect of Share Issue for Asset Acquisition

10. Resolution on the execution of the conditional Supplemental Agreement in respect of Share Issue for Asset Acquisition

11. Resolution on the statement of completeness and compliance of statutory procedures performed in relation to the Transaction and the validity of the submission of legal documents

12. Resolution on the statement of principals involved in the Transaction not being subject to Article 13 of the "Interim Provisions on Strengthening Regulation over Unusual Trading in Stocks relating to Major Asset Restructuring of Listed Companies"

13. Resolution on the statement of the Company's share price fluctuation not reaching the relevant benchmark under Article 5 of the "Notice on the Regulation of Information Disclosure by Listed Companies and Acts of Relevant Parties"

14. Resolution on the approval of the audit report, the pro forma review report and the asset valuation report in relation to the Transaction

15. Resolution on the independence of the appraisal institution, the reasonableness of the appraisal assumptions, the relevance between the appraisal method and the appraisal objectives and the fairness of the appraisal consideration

16. Resolution on the statement of the basis for, and reasonableness and fairness of, the consideration for the Transaction

17. Resolution on the analysis on dilution on returns for the current period and remedial measures and the relevant undertakings in relation to the Transaction

18. Resolution on a mandate to be granted to the Board and its authorised persons by the General Meeting to deal with matters pertaining to the Transaction with full discretion

The resolutions above are all special resolutions which shall require the approval of two-thirds of the voting rights held by shareholders attending the Meeting in order to be passed. Resolution 2 will be voted upon on an item-by-item basis. The resolutions have been considered and approved at the Twenty-sixth Meeting of the Eighth Session of the Board of Directors of the Company held on 28 October 2020 and Twenty-eighth Meeting of the Eighth Session of the Board of Directors of the Company held on 16 November 2020. For the details of the aforesaid resolutions, please refer to the relevant announcements published by the Company on 28 October 2020, 16 November 2020 and 1 December 2020, respectively.

Notes:

1. **The H Share register of the Company will be closed from Wednesday, 16 December 2020 to Monday, 21 December 2020 (both days inclusive)** to determine qualifications of shareholders to attend and vote at the EGM. Any H Shareholder who wishes to attend and vote at the EGM **shall lodge an instrument of transfer, together with the corresponding share certificate(s) with Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m., Tuesday, 15 December 2020.**

2. In order to be valid, the instruments appointing a proxy (namely the proxy form) and the power of attorney or other authorization documents (if any) of the signatory or notarized copies of such power of attorney or authorization documents must be completed and deposited, no later than 24 hours before the time appointed for holding the EGM or any adjournment thereof at Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H shareholders). The completion and return of the proxy form shall not preclude a shareholder from attending and voting in person at the EGM or any adjournment thereof if he so wishes.

3. A Shareholder entitled to attend and vote at the EGM shall be entitled to appoint another one or more proxies to attend and vote for him. A proxy need not be a shareholder of the Company.

4. In case of joint holders of a share, any one of such holders is entitled to vote at the EGM, by himself or by proxy, as if he is the only one entitled to do so among the joint holders. However, only the vote of the person whose name stands first on the register of members in respect of such share shall be accepted if more than one joint holder attend the EGM personally or by proxy.

5. The EGM is expected to last for half a day. All transportation and accommodation expenses incurred by shareholders or their proxies in attending the EGM shall be borne by themselves. Shareholders or their proxies attending the EGM shall be required to produce identifications.

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
4 December 2020

As at the date hereof, 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.