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**ZTE CORPORATION**  
**中興通訊股份有限公司**

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

**(Stock Code: 763)**

**CONTINUING CONNECTED TRANSACTIONS**

At the thirty meeting of the fourth session of the Board held on 27 October 2009, the Board approved the Continuing Connected Transactions as set out in this announcement, the terms of the Connected Transaction Framework Agreements for such transactions and the relevant annual cap(s). The Company will seek Independent Shareholders' approval of the Non-exempt Continuing Connected Transactions and the relevant annual caps for the three years ending 31 December 2010, 2011 and 2012 in accordance with the Hong Kong Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders as to (i) the Non-exempt Continuing Connected Transactions and the terms of the Connected Transaction Framework Agreement for such transactions; and (ii) the relevant annual caps for the Non-exempt Continuing Connected Transactions for the three years ending 31 December 2010, 2011 and 2012.

Mitsubishi UFJ Securities (HK) Capital Limited has been retained as the Independent Financial Adviser to advise the Independent Board Committee as to whether the Non-exempt Continuing Connected Transactions and their proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned, and are on normal commercial terms and in the ordinary and usual course of business.

A circular containing, among other things, information with respect to the Continuing Connected Transactions and/or the transactions with their associates, the relevant annual caps, a letter from the Independent Financial Adviser, a recommendation by the Independent Board Committee and a notice convening an extraordinary general meeting of the Company to approve the Non-exempt Continuing Connected Transactions and the relevant annual caps will be despatched to the H Shareholders and the domestic Shareholders of the Company as soon as reasonably practicable.

## 1. INTRODUCTION

At the thirty meeting of the fourth session of the Board held on 27 October 2009, the Board approved the Continuing Connected Transactions as set out in this announcement, the terms of the Connected Transaction Framework Agreements for such transactions and the relevant annual cap(s). All of these agreements were dated 27 October 2009. The Company will seek Independent Shareholders' approval of the Non-exempt Continuing Connected Transactions and the relevant annual caps for the three years ending 31 December 2010, 2011 and 2012 in accordance with the Hong Kong Listing Rules.

## 2. CONTINUING CONNECTED TRANSACTIONS

### 2.1 Continuing Connected Transactions Exempt From Shareholders' Approval

#### *Purchases of handset batteries and chargers by Shenzhen Xingfei from Ruide*

At its meeting on 27 October 2009, the Board approved a Connected Transaction Framework Agreements between Shenzhen Xingfei (as purchaser) and Ruide (as supplier) with respect to the purchase of handset batteries and chargers. As the relevant percentage ratios involved in this category of transaction are more than 0.1% but less than 2.5% for the Group, it is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

*Relationship between the parties:* Shenzhen Xingfei is a non-wholly owned subsidiary of the Company established on 19 July 2005 under the laws of the PRC with limited liability. The Company holds an 80% interest in the capital of Shenzhen Xingfei through Changfei.

Ruide is a non-wholly owned subsidiary of the Company established on 27 April 2004 under the laws of the PRC with limited liability. Changfei, holds a 57.5% interest in Ruide. The other substantial shareholder of Ruide is Zhongxing Xindi with approximately a 23% interest. The remaining approximately 19.5% interest in Ruide is held by an individual shareholder who is a director of Ruide. Ruide is the Company's connected person pursuant to Rule 14A.11(5) of the Hong Kong Listing Rules as its substantial shareholder, Zhongxing Xindi, is a connected person at the level of the Company

*Background:* Ruide is primarily engaged in the production and sale of handset batteries. Shenzhen Xingfei is primarily engaged in the development, production and sale of electronic products and mobile phones.

Shenzhen Xingfei consistently manufactures customized handset products for the Group from time to time. The purchase from Ruide allows Shenzhen Xingfei to secure a reliable supply of handset batteries and chargers by being able to ensure timely delivery of such products while maintaining product quality. Prices pursuant to this Connected Transaction Framework Agreement are arrived at after arm's length negotiations, with reference to the prices quoted by Ruide for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

This transaction between Shenzhen Xingfei and Ruide has started from July 2009, which are de minimis transactions exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.33(3) of the Hong Kong Listing Rules. With the increase of purchase order for handset batteries and chargers by Shenzhen Xingfei, the Company estimates that the cap for the year ending 31 December 2009 will exceed the above de minimis exemption and is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

As at the date of this announcement, the transaction amount since July 2009 between Ruide and Shenzhen Xingfei is approximately RMB0.33 million.

*Pricing:* A potential supplier to the Group must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become a qualified supplier. Ruide was selected through the Group's qualification and bidding procedures as described above. The Directors have confirmed that Shenzhen Xingfei's purchases of handset batteries and chargers from Ruide are made in accordance with the Company's qualification and bidding procedures described above, and further that prices for such purchases will be determined on an arm's length basis and on the same basis as prices charged by independent third party suppliers. The Group will settle the payment by commercial acceptance bill (商業承兌匯票) for the products within 90 days from the date of inspection and acceptance of the products. During the term of this Connected Transaction Framework Agreement, Shenzhen Xingfei will issue purchase orders to the supplier, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details.

*Reasons for such transactions:* As Shenzhen Xingfei customarily manufactures customized handset products for the Group, purchasing from Ruide allows Shenzhen Xingfei to have a reliable source of handset components and the Group will be able to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining product quality. The prices shall be determined on the same basis as the prices of similar products sold to independent third parties

*Cap:* The Company estimates that the amount of total purchases of handset batteries and chargers by Shenzhen Xingfei from Ruide will not exceed RMB120 million (excluding VAT) for the year ending 31 December 2009. The cap for the year ending 31 December 2009 is equivalent to the forecast figure described above.

The estimates referred to above have been determined with reference to: the Shenzhen Xingfei's expectation of the future development of its business; Shenzhen Xingfei's expected growth in its production capacity; Shenzhen Xingfei's overall projected requirements for handset batteries and chargers; and the production capacity of the supplier.

## 2.2 Non-exempt Continuing Connected Transactions

At the meeting on 27 October 2009, the Board approved a Connected Transaction Framework Agreement between ZTE Kangxun (as purchaser) and Zhongxingxin and certain of its subsidiaries (as suppliers) including Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou, with respect to the continued purchase of raw materials and components from them, pursuant to the Hong Kong Listing Rules. As the relevant percentage ratios involved in this type of transaction are more than 2.5% for the Group, the effectiveness of this Connected Transaction Framework Agreement and the relevant proposed annual caps for the three years ending 31 December 2010, 2011 and 2012 are subject to Independent Shareholders' approval.

*Relationship between the parties:* ZTE Kangxun is a subsidiary of the Company as explained in paragraph 2.1 of this announcement. Zhongxingxin holds a 33.87% interest in the Company, and Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou are its non-wholly owned subsidiaries. Zhongxingxin, as the controlling shareholder of the Company, is a connected person of the Company.

Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou are all non-wholly owned subsidiaries of Zhongxingxin established under the laws of the PRC with limited liability and are therefore associates of Zhongxingxin within the meaning of the Hong Kong Listing Rules. Zhongxingxin holds a 70% interest in the share capital of Zhongxing Xindi, a 54.55% interest in the capital of Zhongxing Xinyu and a 55% interest in the capital of Zhongxing Xinzhou. Given that Zhongxingxin is the Company's controlling shareholder, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou, each as an associate of Zhongxingxin, constitute the Company's connected person.

*Background:* ZTE Kangxun is primarily engaged in the design, production and sale of electronic products and their accessories.

Zhongxingxin is primarily engaged in the production of cabinet for switchboards, telephone, accessories and electronic products. Zhongxing Xindi is primarily engaged in the manufacture of various types of distribution frames (such as digital distribution frames, optical distribution frames and main distribution frames) and packaging materials. Zhongxing Xinyu is primarily engaged in the research and development, manufacture and sale of flexible printed circuit boards (FPCB) and other relevant products and in the provision of related services. Zhongxing Xinzhou is primarily engaged in manufacturing, processing and sale of auxiliary system for civil transportation, movable building, and railway carriage for materials, accessories and components for communications systems.

As the Company's purchasing platform, ZTE Kangxun has in the ordinary and usual course of its business purchased certain raw materials and components required for the manufacturing of its products from Zhongxingxin, Zhongxing Xindi and Zhongxing Xinyu from time to time. These raw materials and components comprise primarily cases, cabinets, distribution frames and flexible printed circuit boards.

The following table sets out the historical aggregate purchases of raw materials and components by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou for each of the two years ended 31 December 2007 and 2008 and nine months ended 30 September 2009:

Transaction	Historical figures		
	for the year ended 31 December 2007 (Excluding VAT)	for the year ended 31 December 2008 (Excluding VAT)	for the nine months ended 30 September 2009 (Excluding VAT)
	<i>Unit: RMB in millions</i>		
Purchases of raw materials and components by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou	705.68	780.18	548.74

*Pricing:* The Directors have confirmed that the purchases of raw materials and components from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou were made in accordance with its qualification and bidding procedures described above in paragraph 2.1 above, and further that prices for such purchases were determined on an arm's length basis and on the same basis as prices charged by independent third party suppliers. The Group will settle the payment by commercial acceptance bill (商業承兌匯票) for the products within 210 days from the date of inspection and acceptance of the products. During the term of this Connected Transaction Framework Agreement, ZTE Kangxun issues purchase orders to the supplier, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details.

Prices for future transactions pursuant to this Connected Transaction Framework Agreement with Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou will be arrived at after arm's length negotiations, with reference to the prices quoted by Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

*Reasons for such transactions:* Each of Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou was selected through the Group's qualification and bidding procedures, and the Company believes that they have consistently been able to meet its stringent demands for fast product turnaround time, high product quality and timely delivery. As the Company considers that having reliable and cooperative suppliers is important and beneficial to it, purchasing from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou allows the Group to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining product quality.

*Caps:* The Company estimates that the amount of total purchases of raw materials and components by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi and Zhongxing Xinyu will not exceed RMB1,000 million, RMB1,300 million and RMB1,690 million (excluding VAT), respectively, for the three years ending 31 December 2010, 2011 and 2012. The caps (excluding VAT) for the years ending 31 December 2010, 2011 and 2012 are equivalent to the forecast figures described above.

*The estimates referred to above have been determined with reference to:* the previous transactions conducted and transaction amounts in respect of purchases of raw materials and components from Zhongxingxin and its subsidiaries; the Group's expectation of the future development of its business; the Group's expected growth of its production capacity; and the Group's overall projected requirements for raw materials and components from Zhongxingxin and its subsidiaries. There are increases in the future estimated transaction amounts compared with historical figures because the Company estimates the demand for wireless telecommunication products will continue to increase due to the increasing demand of domestic and overseas markets.

There are increases in the future estimated transaction amounts compared with historical figures because the Company estimates that the demand for wireless telecommunication products (including handsets and related products) will continue to increase due to the increasing demand of domestic and overseas markets.

### **3. BOARD APPROVAL AND APPROVAL OF INDEPENDENT SHAREHOLDERS**

At the thirty meeting of the fourth session of the Board held on 27 October 2009, the Board approved the continuing connected transactions as set out in this announcement, the terms of the Connected Transaction Framework Agreements for such transactions and the relevant annual caps for the three years ending 31 December 2010, 2011 and 2012.

Mr. Xie Weiliang (Vice Chairman of the Board), Mr. Zhang Junchao (Director), Mr. Dong Lianbo (Director), and Mr. Shi Lirong (Director), as the director, Vice Chairman, director and director, respectively of the connected party Zhongxingxin, did not participate the vote in respect of the Non-exempt Continuing Connected Transactions.

All of the independent non-executive directors of the Company have reviewed all of the Connected Transactions Framework Agreements prior to the meeting of the Board of Directors, and agreed to submit them to the Board of Directors for consideration. They issued an independent opinion regarding the Connected Transactions Framework Agreements (including the transaction which does not require Independent Shareholders' approval) as follows:

The pricing basis and other provisions prescribed in each of the Connected Transaction Framework Agreements are in compliance with the requirements of laws and regulations and market principles, will not be adverse to the interests of the Company and its shareholders.

The Directors (excluding the independent non-executive directors in relation to the Non-exempt Continuing Connected Transactions, who will express their view after receiving advice from an independent financial adviser) take the view that the terms of the Connected Transaction Framework Agreements, the Continuing Connected Transactions and the relevant annual caps for each of the Continuing Connected Transactions are on normal commercial terms and are entered into in the ordinary and usual course of business of the Company and the terms of these transactions are fair and reasonable and in the interests of the its Shareholders as a whole.

In relation to the Non-exempt Continuing Connected Transactions, the Company will seek Independent Shareholders' approval of the terms of the Connected Transaction Framework Agreement for such transactions, and the relevant caps on the Non-exempt

Continuing Connected Transactions for the years ending 31 December 2010, 2011 and 2012. Zhongxingxin, as the Shareholder who is interested in these transactions, will abstain from voting at the extraordinary general meeting. In addition, the Company shall comply with the relevant requirements under Chapter 14A of the Listing Rules in relation to the Continuing Connected Transactions.

An Independent Board Committee has been established to advise the Independent Shareholders as to (i) the Non-exempt Continuing Connected Transactions and the terms of the Connected Transaction Framework Agreements for such transactions; and (ii) the proposed annual caps for the Non-exempt Continuing Connected Transactions for the three years ending 31 December 2010, 2011 and 2012.

Mitsubishi UFJ Securities (HK) Capital Limited has been retained as the Independent Financial Adviser to advise the Independent Board Committee as to whether the Non-exempt Continuing Connected Transactions and the relevant annual caps are fair and reasonable so far as the Independent Shareholders are concerned, and are on normal commercial terms and in the ordinary and usual course of business.

#### **4. DESPATCH OF SHAREHOLDERS' CIRCULAR**

A circular containing, among other things, the following information will be despatched to the H Shareholders and a notice will be published for the domestic Shareholders of the Company as soon as reasonably practicable:

- information with respect to the Continuing Connected Transactions;
- the relevant annual caps;
- a letter from the Independent Financial Adviser;
- a recommendation by the Independent Board Committee; and
- a notice convening an extraordinary general meeting of the Company to approve the Non-exempt Continuing Connected Transactions and the relevant proposed annual caps.

#### **5. GENERAL INFORMATION**

The Company and its subsidiaries are principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets and telecommunications software systems and services.

#### **6. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the PRC and 8/F, Gloucester Tower, The Landmark 15 Queen's Road Central, Hong Kong from the date of this announcement up to and including 10 November 2009.

6.1 resolutions of the thirty meeting of the fourth session of the Board;

6.2 an opinion provided by independent non-executive directors as explained in section 3 of the Announcement; and

6.3 the Continuing Connected Transaction Framework Agreements.

## 7. DEFINITIONS

In this announcement, unless the context otherwise requires the following expressions have the following meanings:

“associate”	has the meaning given to it by the Hong Kong Listing Rules
“Board”	the board of directors of the Company
“Changfei”	深圳市長飛投資有限公司 (Shenzhen Changfei Investment Company, Limited), a company established under the laws of the PRC with limited liability, and 51% of the equity interest of which is held by the Company
“Company”	ZTE Corporation, a company incorporated in the PRC whose shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Connected Transaction Framework Agreements”	the framework agreements in respect of the Continuing Connected Transactions
“Continuing Connected Transactions”	the continuing connected transactions as described in this announcement
“Continuing Connected Transactions Exempt From Shareholders’ Approval”	the continuing connected transactions which are exempt from the independent shareholders’ approval requirements but subject to reporting and announcement requirements under the Hong Kong Listing Rules as set out in paragraph 2.1 of this announcement
“Directors”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited



“Independent Board Committee”	The committee of independent non-executive Directors consisting of Mr. Mi Zhengkun, Mr. Li Jin, Mrs Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei formed to advise the Independent Shareholders as to (i) the Non-exempt Continuing Connected Transactions and the terms of the Connected Transaction Framework Agreements for such transactions; and (ii) the proposed annual caps for each of the Non-exempt Continuing Connected Transactions for the three years ending 31 December 2010, 2011 and 2012
“Independent Financial Advisor”	the independent financial advisor to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders other than Zhongxingxin and its associates
“Non-exempt Continuing Connected Transactions”	the continuing connected transactions which are subject to independent shareholders’ approval requirements under the Hong Kong Listing Rules as set out in paragraph 2.2 of this announcement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Ruide”	深圳市睿德電子實業有限公司 (Shenzhen Ruide Electronic Industrial Company, Limited), a company established under the laws of the PRC with limited liability
“Shareholders”	the shareholders of the Company
“Shenzhen Xingfei”	深圳市興飛科技有限公司 (Shenzhen Xingfei Technology Company Limited), a company established under the laws of the PRC with limited liability
“VAT”	value added tax
“Zhongxing Xindi”	深圳市中興新地通信器材有限公司 (Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited), a company established under the laws of the PRC with limited liability
“Zhongxing Xinyu”	深圳市中興新宇軟電路有限公司 (Shenzhen Zhongxing Xinyu FPC Company, Limited), a company established under the laws of the PRC with limited liability
“Zhongxing Xinzhou”	深圳市中興新舟成套設備有限公司 (Zhongxing Xinzhou Complete Equipment Co., Ltd.), a company established under the laws of the PRC with limited liability

- “Zhongxingxin” 深圳市中興新通訊設備有限公司 (Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited), a company established under the laws of the PRC with limited liability
- “ZTE Kangxun” 深圳市中興康訊電子有限公司 (ZTE Kangxun Telecom Company Limited), a company established under the laws of the PRC with limited liability

By Order of the Board  
**Hou Weigui**  
*Chairman of the Board*

Shenzhen, the PRC  
27 October 2009

*As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyong; six non-executive directors, Hou Weigui, Wang Zongyin, Xie Weiliang, Zhang Junchao, Li Juping and Dong Lianbo; and five independent non-executive directors, Mi Zhengkun, Li Jin, Qu Xiaohui, Wei Wei and Chen Naiwei.*