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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 twenty-third Meeting of the Fifth Session of the Board held on 27 October 2011, 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. As the relevant percentage ratios involved in each of the Continuing Connected Transactions are more than 0.1% but less than 5% for the Group, each of them is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

1. INTRODUCTION

At the twenty-third Meeting of the Fifth Session of the Board held on 27 October 2011, 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. The Connected Transaction Framework Agreements were dated 27 October 2011.

2. CONTINUING CONNECTED TRANSACTIONS

2.1 Purchase of handset batteries ,rechargers and data cables by the Group from Ruide

At its meeting on 27 October 2011, the Board approved the Ruide Purchase Framework Agreement between the Company and Ruide with respect to the continued purchase of handset batteries, rechargers and data cables by the Group from Ruide..

Relationship between the parties:

Ruide is a indirect non-wholly owned subsidiary of the Company. Zhongxing Xindi , a non-wholly owned subsidiary of Zhongxingxin which is the controlling shareholder of the Company, holds a 23% equity interest in Ruide. As Zhongxingxin is the controlling shareholder of the Company, Zhongxing Xindi constitutes a connected person of the Company as an associate of Zhongxingxin. Ruide is the Company's connected person pursuant to Rule 14A.11(5) of the Hong Kong Listing Rules. As the relevant percentage ratios involved in this category of transaction are more than 0.1% but less than 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.

Background:

Ruide is primarily engaged in the production and sale of handset batteries, rechargers and data cables. Since 1 June 2004, the Group has from time to time purchased in the ordinary and usual course of its business handset batteries from Ruide.

The following table sets out the historical aggregate purchases of handset batteries, rechargers and data cables by the Group from Ruide for each of the two years ended 31 December 2009 and 2010 and nine months ended 30 September 2011:

Transaction	Historical figures		
	for the year ended 31 December 2009	for the year ended 31 December 2010	for the nine months ended 30 September 2011
	(Excluding VAT)	(Excluding VAT)	(Excluding VAT)
	Unit: RMB in millions		
Purchases of handset batteries, rechargers and data cables by the Group from Ruide	359.53	559.21	594.82

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. The Group reviews the status of qualified supplier on an annual basis. Typically, based on the Group's forecasts for a relevant year, the Group invites qualified suppliers to bid to supply to it for such year.

Ruide was selected through the Group's qualification and bidding procedures as described above. It will still be required to undergo the Group's qualification and bidding procedures for future transactions. If Ruide succeeds in its bid to supply to the Group, the Group will issue purchase orders to Ruide from time to time pursuant to the Ruide Purchase Framework Agreement, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details.

The Directors have confirmed that the prices for such transactions were determined after arm's length negotiations and on normal commercial terms. Prices for future transactions pursuant to the Ruide Purchase Framework Agreement will be 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. Such terms shall be on terms no less favorable to Ruide than the terms available from the Independent Third Parties. According to the Ruide Purchase Framework Agreement, the Group will settle the payment by commercial acceptance bill for the products within 240 days from the date of inspection and acceptance of the products.

Reasons for such transactions:

Since the Group began large-scale sales of handset products in 2002, its handset products have become one of main sources of the Group's revenue. The Group expects handset sales to continue to form a major part of its business in the future, which will continue to drive its demand for handset batteries and also other handset accessories such as rechargers and data cables. The Directors consider it an important strategy for the Group to have a co-operative, reliable and specialised supplier for such component. The Group's investment in Ruide was made with this purpose in mind.

Pricing:

The Group's purchases of liquid crystal modules (LCM) from Lead were made in accordance with the Company's qualification and bidding procedures described above in paragraph 2.1 in relation to the Group's purchases of handset batteries, rechargers and data cables from Ruide. It will still be required to undergo the Group's qualification and bidding procedures for future transactions. If Lead succeeds in its bid to supply to the Group, the Group will issue purchase orders to Lead from time to time pursuant to the Lead Purchase Framework Agreement, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details.

The Directors have confirmed that the prices for such transactions were determined after arm's length negotiations and on normal commercial terms. Prices for future transactions pursuant to the Lead Purchase Framework Agreement will be arrived at after arm's length negotiations, with reference to the prices quoted by Lead for sales of similar quantities of the same or similar products to independent third parties at the relevant time. Such terms shall be on terms no less favorable to Lead than the terms available from the Independent Third Parties. According to the relevant Lead Purchase Framework Agreement, the Group will settle the payment by commercial acceptance bill for the products within 210 days from the date of inspection and acceptance of the products.

Reasons for such transactions:

The Group expects handset sales to continue to form a major part of its business in the future. In order to capture this growing market demand, the Group requires steady, reliable and quality supplies of liquid crystal modules (LCM) for the handsets. As the production of these liquid crystal modules (LCM) involves merely low value-added assembly work, there are few suppliers of raw materials and components that are able to undertake such large-scale production as required by the Company for the prices we offer. Lead was established to handle large-scale production at low unit cost and to specialize in the supply of liquid crystal modules (LCM). The Company believes that it has also been able to provide the Group a quick production turnaround time, consistent product quality and timely delivery. The Company has taken a majority stake in Lead. The Directors consider that having Lead as the Company's subsidiary allows the Group to secure steady supplies of quality liquid crystal modules (LCM) in large volumes from a co-operative, reliable and specialized supplier that would not otherwise be easily available from other suppliers for comparable prices.

Annual cap:

The Company estimates that the amount of total purchases of liquid crystal modules (LCM) by the Group from Lead will not exceed RMB1050 million for the year ending 31 December 2012. The cap (excluding VAT) for the year ending 31 December 2012 is equivalent to the forecast figure described above.

The estimates referred to above have been determined with reference to: (i) the previous transactions conducted and transaction amounts in respect of purchases of liquid crystal modules (LCM) from Lead; (ii) the Group's expectation of the future development of its business; (iii) the Group's expected growth of its production capacity; and (iv) the Group's overall projected requirements for purchases of liquid crystal modules (LCM).

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

3. BOARD APPROVAL

At the twenty-third Meeting of the Fifth Session of the Board held on 27 October 2011, 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 for the year ending 31 December 2012.

All of the independent non-executive directors of the Company have reviewed 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 as follows:

The aforesaid connected transactions, having been reviewed under proper procedures, are necessary, in compliance with ordinary commercial terms and conducted at fair pricing, and are in the interests of the Company.

The Directors take the view that the terms of the Connected Transaction Framework Agreements, the Continuing Connected Transactions and the relevant annual cap for each of the Continuing Connected Transactions for the year ending 31 December 2012 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 Company and its Shareholders as a whole. None of the Directors have a material interest in the Continuing Connected Transactions nor are they required to abstain from voting in the relevant board resolutions.

4. 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 carrier networks, handsets and telecommunications software systems and services.

5. 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
“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, meaning the Ruide Purchase Framework Agreement and the Lead Purchase Framework Agreement
“Continuing Connected Transactions”	the continuing connected transactions as described in this announcement, namely, the purchase of handset batteries, rechargers and data cables by the Group from Ruide, and the purchase of LCM by the Group from Lead
“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
“Lead”	深圳市立德通訊器材有限公司 (Shenzhen Lead Communications Company, Limited), a company established under the laws of the PRC with limited liability
“Lead Purchase Framework Agreement”	the framework agreement dated 27 October 2011 between the Company (as purchaser) and Lead (as supplier) in relation to the purchase of LCM by the Group from Lead
“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
“Ruide Purchase Framework Agreement”	the framework agreement dated 27 October 2011 between the Company (as purchaser) and Ruide (as supplier) in relation to the purchase of handset batteries, rechargers and data cables by the Group from Ruide
“Shareholders”	the shareholders of the Company
“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, which is held as to 70% by Zhongxingxin
“Zhongxingxin”	深圳市中興新通訊設備有限公司 (Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited), a company established under the laws of the PRC with limited liability and a controlling shareholder of the Company, and holds a 30.76% equity interest of the Company.

By Order of the Board

Hou Weigui

Chairman

Shenzhen, PRC

27 October 2011

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyou; six non-executive directors, Hou Weigui, Lei Fanpei, Xie Weiliang, Wang Zhancheng, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Timothy Alexander Steinert.