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ZTE

ZTE CORPORATION

中興通訊股份有限公司

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

(Stock Code: 763)

**CONTINUING CONNECTED TRANSACTIONS
PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN**

At the Forty-third Meeting of the Eighth Session of the Board held on 16 December 2021, the Board approved the terms of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for such transactions for the year ending 31 December 2022.

As at the date of this announcement, Zhongxingxin holds approximately 21.31% interest in the Company and is the controlling shareholder and therefore a connected person of the Company under the Hong Kong Listing Rules. Therefore, the entering into the Zhongxingxin Purchase Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios of the proposed annual caps for the year ending 31 December 2022 of the Zhongxingxin Purchase Framework Agreement exceed 0.1% but are all below 5%, the entering into the Zhongxingxin Purchase Framework Agreement and the proposed annual caps for such transactions for the year ending 31 December 2022 are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to Rule 10.2.5, Rule 10.2.10 and other requirements of the Shenzhen Listing Rules, the entering into of the Zhongxingxin Purchase Framework Agreement and the proposed annual caps for such transactions for the year ending 31 December 2022 are exempt from the approval of the independent Shareholders.

1. INTRODUCTION

At the Forty-third Meeting of the Eighth Session of the Board held on 16 December 2021, the Board approved the terms of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for such transactions for the year ending 31 December 2022.

2. PURCHASES OF RAW MATERIALS BY THE GROUP FROM THE ZHONGXINGXIN GROUP

On 16 December 2021, the Company entered into the Zhongxingxin Purchase Framework Agreement with Zhongxingxin for a term commencing on 1 January 2022 and ending on 31 December 2022 with respect to the purchases of raw materials, primarily comprising cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, flexible printed circuits (FPC), rigid and flexible printed circuits (R-FPC) and its components, LiFePO₄ battery and accessories, industrial camera, auxiliary installation device for

image formation system, industrial lens, industrial light source, industrial robot, image processing control device, image capture system, software logarithm, motion control system, video monitor system, temperature control system, industrial light source control device, wiring device, optical jumper, optical cable components and other products, by the Group from the Zhongxingxin Group.

Nature of transactions

The Group has in the ordinary and usual course of its business purchased certain raw materials required for the manufacturing of its products from the Zhongxingxin Group from time to time. These raw materials are in great variety and primarily comprise cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, flexible printed circuits (FPC), rigid and flexible printed circuits (R-FPC) and its components, LiFePO4 battery and accessories, industrial camera, auxiliary installation device for image formation system, industrial lens, industrial light source, industrial robot, image processing control device, image capture system, software logarithm, motion control system, video monitor system, temperature control system, industrial light source control device, wiring device, optical jumper, optical cable components and other products which are to be used in different business segments of the Group.

Historical transaction amounts

The following table sets out the historical transaction amounts of raw materials purchased by the Group from the Zhongxingxin Group for each of the year ended 31 December 2019 and 2020 and the 11 months ended 30 November 2021 and the annual cap for the year ending 31 December 2021:

	For the year ended 31 December 2019 (RMB million) (Excluding VAT)	For the year ended 31 December 2020 (RMB million) (Excluding VAT)	For the 11 months ended 30 November 2021 (RMB million) (Excluding VAT)	Annual cap for the year ending 31 December 2021 (RMB million) (Excluding VAT)
Purchases of raw materials by the Group from the Zhongxingxin Group	402.75	330.28	370.92	900

As far as the Directors are aware, the annual cap for the year ending 31 December 2021 has not been exceeded as at the date of this announcement.

Pricing

In accordance with the terms of the Zhongxingxin Purchase Framework Agreement, members of the Zhongxingxin Group and other potential suppliers must pass the Group's internal qualification procedures based on qualifications, product quality and price in order to become a qualified supplier of the Group. The Group reviews the status of qualified suppliers on an annual basis.

Typically, based on the Company's forecasts for the relevant year, the Company invites at least three qualified suppliers to bid for the supply of each type of raw materials for such year before making purchases. The purchase department and bidding department of the Company will jointly conduct an assessment on the product price, product quality, service quality and qualifications of the qualified suppliers, with the emphasis on product price. Qualified suppliers will be selected under a tender based on the seniority of their rankings by assessment score. Depending on the volume of raw materials required by the Company, the Company will select one or more qualified supplier(s),

provided that prices quoted by the successful qualified supplier(s) shall not be higher than those quoted by the unsuccessful qualified supplier(s). During the bidding process, the Company should have already determined the types, estimated volumes and prices of raw materials to be purchased from each successful qualified supplier by the Company in the coming year. Successful qualified suppliers will supply raw materials to the Company in the coming year based on the bidding results. The Company will issue purchase orders to the successful qualified suppliers according to the volume and timing of its actual requirements in the ordinary course of business, and the actual purchase volume will generally not exceed the estimated volume determined at the selection. In the event that the actual purchase volume exceeds the estimated volume, the Company will invite new bids in respect of the required volume in excess according to the aforesaid bidding procedure. The Company's bidding procedure is the same for qualified suppliers who are the Company's connected persons and qualified suppliers who are independent third parties, and no special favours will be given to connected persons.

In accordance with the terms of the Zhongxingxin Purchase Framework Agreement, the Group will purchase raw materials from the Zhongxingxin Group during 2022 only if members of the Zhongxingxin Group become qualified suppliers and are selected as successful bidder for the year through the Group's qualification and bidding procedures.

Pursuant to the terms of the Zhongxingxin Purchase Framework Agreement and the bidding results, the Group will enter into definitive agreements with members of the Zhongxingxin Group by way of issuing purchase orders specifying, among other things, product types, agreed quantities and prices, delivery times, places and modes, payment method, package, acceptance, liabilities for breach of contract, quality specifications, and after-sale service terms. The prices shall be determined in compliance with the pricing policies under the Zhongxingxin Purchase Framework Agreement.

In accordance with the Zhongxingxin Purchase Framework Agreement, the estimated price of the raw materials purchased by the Group from the Zhongxingxin Group is determined by the measurement, level of sophistication, materials used and functional features of the raw materials. The specific price is confirmed when the two parties sign specific agreements. The estimated prices of raw materials purchased by the Group from ZTE are as follows: cabinets and related accessories: RMB1-RMB300,000 per unit; cases and related accessories: RMB1-RMB15,000 per unit; shelters: RMB1,000-RMB100,000 per unit; railings: RMB1,000-50,000 per piece; antenna poles: RMB200-2,000 per piece; optical products: RMB1.3-30,000 per unit; refined-processing products: RMB0.5-50,000 per unit; packaging materials: RMB0.01-5,000 per piece; flexible printed circuits (FPC), rigid and flexible printed circuits (R-FPC) and components: RMB0.5-100 per piece; LiFePO4 battery: RMB600-8,000 per unit; battery accessories: RMB100-600 per unit; industrial camera: RMB5,000-150,000 per unit; auxiliary installation device for image formation system: RMB1,000-50,000 per set; industrial lens: RMB1,000-15,000 per unit; industrial light source: RMB1,000-50,000 per set; industrial robot: RMB100,000-280,000 per set; image processing control device: RMB500-50,000 per set; image capture system: RMB2,000-100,000 per set; software logarithm: RMB20,000-400,000 per set; motion control system: RMB2,000-200,000 per set; video monitor system: RMB20,000-100,000 per set; temperature control system: RMB200-2,000 per unit; industrial light source control device: RMB500-20,000 per unit; wiring device: RMB0-40,000 per unit; optical jumper: RMB0-3,000 per cable; optical cable components: RMB0-500 per cable.

Proposed Annual Caps

The Company estimates that the aggregate transaction amounts (excluding VAT) of purchase of raw materials by the Group from the Zhongxingxin Group will not exceed RMB550 million for the year ending 31 December 2022.

The Directors noted a difference amounting to RMB529.08 million between the actual purchase amounts of raw materials for the 11 months ended 31 November 2021 and the annual cap for the year ending 31 December 2021. Such difference is mainly attributable to the reduction of the

Zhongxingxin Group's winning share in the tender of the Group in 2021.

The Directors have determined the proposed annual caps with reference to: the historical transactions conducted and transaction amounts in respect of purchases of raw materials by the Group from members of the Zhongxingxin Group, the historical annual growth rates of the operating revenue of the Group, the Group's expectation of the demand for raw materials.

Reasons for and benefits of the Zhongxingxin Purchase Framework Agreement

Members of the Zhongxingxin Group have been selected as long-term suppliers after going through the Group's qualification and bidding procedures, as the Zhongxingxin Group has been able to consistently manufacture products to meet the needs of the Group and provide quality products and services at competitive prices. The Company believes that having reliable and cooperative suppliers is very important for and beneficial to the Company. The purchase of raw materials required by the products of the Group from the Zhongxingxin Group gives assurance to the Group in terms of the quality and timely delivery of such components.

3. INTERNAL CONTROL

The Group has adopted and implemented the following internal procedures to monitor and check the terms of future transactions:

- (i) upon selecting the successful bidder who offered the most favourable terms based on the Group's qualification and bidding procedures above, the Group will enter into a framework agreement/contract specifying such terms with the successful bidder accordingly; and
- (ii) before issuing any purchase order, it is the duty of the bidding department of the Group to review and compare whether every purchase order issued to that successful bidder is of such terms in accordance with those specified in its relevant framework agreement/contract.

The Directors believe that the Group's qualification and bidding procedures and the "review and compare" measures mentioned above can effectively safeguard that every purchase by the Group from the Zhongxingxin Group under the Zhongxingxin Purchase Framework Agreement is on fair and reasonable terms.

The Directors have confirmed that the qualification and bidding procedures and pricing bases under the Zhongxingxin Purchase Framework Agreement and the internal procedures of the Group can effectively ensure that prices at which the Group conducts purchases from the Zhongxingxin Group are determined after arm's length negotiations and on normal commercial terms without compromising the interests of the Company and the Shareholders as a whole.

4. BOARD APPROVAL

At the Forty-third Meeting of the Eighth Session of the Board held on 16 December 2021, the Board approved the terms of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for such transactions for the year ending 31 December 2022.

Mr. Zhu Weimin, a non-executive Director who is also a director of Zhongxingxin, abstained from voting on the resolutions in respect of the Zhongxingxin Purchase Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for the year ending 31 December 2022. Other than as stated above, none of the Directors have a material interest in the Zhongxingxin Purchase Framework Agreement, nor are they required to abstain from voting on the relevant Board resolutions.

The Directors (including the Independent Non-executive Directors) are of the view that the Zhongxingxin Purchase Framework Agreement has been entered into in the ordinary and usual course of business of the Group on normal commercial terms, and such terms and the proposed annual caps for the transactions contemplated under the Zhongxingxin Purchase Framework Agreement for the year ending 31 December 2022 are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

5. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

As at the date of this announcement, Zhongxingxin holds approximately 21.31% interest in the Company and is the controlling shareholder and therefore a connected person of the Company under the Hong Kong Listing Rules. Therefore, the entering into the Zhongxingxin Purchase Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios of the proposed annual caps for the year ending 31 December 2022 of the Zhongxingxin Purchase Framework Agreement exceed 0.1% but are all below 5%, the entering into the Zhongxingxin Purchase Framework Agreement and the proposed annual caps for such transactions for the year ending 31 December 2022 are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

6. IMPLICATIONS UNDER THE SHENZHEN LISTING RULES

Pursuant to Rule 10.2.5, Rule 10.2.10 and other requirements of the Shenzhen Listing Rules, the entering into the Zhongxingxin Purchase Framework Agreement and the proposed annual caps for such transactions for the year ending 31 December 2022 are exempt from the approval of the independent Shareholders.

7. GENERAL INFORMATION

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.

As at the date of this announcement, Zhongxingxin holds a 21.31% interest in the Company and is the controlling shareholder and a connected person of the Company under the Hong Kong Listing Rules. Zhongxingxin is primarily engaged in R&D of machine vision systems integration; design and production of optical instruments, industrial cameras and instruments and high-end mechanical equipment; computer systems integration; R&D software and hardware of computer vision data processing systems, electronic components and raw materials and industrial investment.

The four shareholders of Zhongxingxin, the controlling shareholder of the Company, are Xi'an Microelectronics Technology Research Institute, Shenzhen Aerospace Guangyu Industrial Company Limited, Shenzhen Zhongxing WXT Equipment Company Limited and Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership) and each of them held a 34%, 14.5%, 49% and 2.5% stake in Zhongxingxin, respectively. No shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management.

8. DEFINITIONS

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

following meanings:

“Board”	the board of Directors
“Company”	ZTE Corporation, a company incorporated in the PRC, whose shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“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
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Shareholder(s)”	shareholder(s) of the Company
“Shenzhen Listing Rules”	Rules Governing Listing of Stocks on Shenzhen Stock Exchange
“VAT”	value added tax
“Zhongxingxin”	中興新通訊有限公司 (Zhongxingxin Telecom Company Limited), a company established under the laws of the PRC with limited liability and the controlling Shareholder
“Zhongxingxin Group”	Zhongxingxin, its subsidiaries and companies whose equity interests are directly or indirectly owned by Zhongxingxin as to 30% or more from time to time
“Zhongxingxin Purchase Framework Agreement”	the framework agreement dated 16 December 2021 between the Company and Zhongxingxin in relation to the purchase of raw materials by the Group from the Zhongxingxin Group for the period from 1 January 2022 to 31 December 2022

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
16 December 2021

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Li Zixue, Xu Ziyang, Gu Junying; three non-executive directors, Li Buqing, Zhu Weimin, Fang Rong; and three independent non-executive directors, Cai Manli, Gordon Ng, Zhuang Jiansheng.