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*(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 third meeting of the fourth session of the Board held on 22 February 2010, 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. As the relevant percentage ratios involved in each of the transactions in this announcement are more than 0.1% but less than 2.5% 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 thirty third meeting of the fourth session of the Board held on 22 February 2010, 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. All of these agreements were dated 22 February 2010.

### **2. CONTINUING CONNECTED TRANSACTIONS**

#### *2.1.1 Purchases of handset batteries by the Group from Ruide*

At its meeting on 22 February 2010, the Board approved a Connected Transaction Framework Agreement between the Group and Ruide with respect to the continued purchase of handset batteries by the Group from Ruide. 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:*

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. Zhongxing Xindi is a company established under the laws of the PRC with limited liability and is a non-wholly owned subsidiary of Zhongxingxin and is an associate (within the meaning of the Hong Kong Listing Rules) of Zhongxingxin. Zhongxingxin holds 70% equity interests in Zhongxing Xindi. As Zhongxingxin is the controlling shareholder (as well as one of the promoters) 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 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. 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 by the Group from Ruide 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	for the year ended 31 December 2008	for the nine months ended 30 September 2009
	(Excluding VAT)	(Excluding VAT)	(Excluding VAT)
	Unit: RMB in millions		
Purchases of handset batteries by the Group from Ruide	268.24	325.29	246.65

*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. During the term of the Connected Transaction Framework Agreement, the Group 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.

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 from time to time to Ruide pursuant to its Connected Transaction Framework Agreement with Ruide.

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 Connected Transaction 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. According to the relevant Connected Transaction 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:*

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. 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.

*Cap:*

The Company estimates that the amount of total purchases of handset batteries by the Group from Ruide will not exceed RMB650 million for the year ending 31 December 2010. The cap (excluding VAT) for the year ending 31 December 2010 is equivalent to the forecast figure 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 handset batteries from Ruide; 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 batteries.

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.

*2.1.2 Purchases of liquid crystal modules (LCM) by the Group from Lead*

At its meeting on 22 February 2010, the Board approved a Connected Transaction Framework Agreement between the Group and Lead with respect to the continued purchase of liquid crystal modules (LCM) by the Group from Lead. 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:*

Lead is a non-wholly owned subsidiary of the Company established on 17 June 2003. The Company holds a 62.5% interest in Lead through Changfei. Zhongxingxin remains a substantial shareholder of Lead with a 22.5% interest while an individual holds the remaining 15% interest. Given that Zhongxingxin is a substantial shareholder of the Company and is therefore a connected person at the level of the Company and is a substantial shareholder of Lead, Lead itself constitutes the Company's connected person pursuant to Rule 14A.11(5) of the Hong Kong Listing Rules.

*Background:*

Lead is principally engaged in the production and sale of liquid crystal modules (LCM). Since July 2003, the Group has from time to time purchased in the ordinary and usual course of its business liquid crystal modules (LCM) from Lead for use by the Group in the production of its handsets.

The following table sets out the historical aggregate purchases of liquid crystal modules (LCM) by the Group from Lead 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	for the year ended 31 December 2008	for the nine months ended 30 September 2009
	(Excluding VAT)	(Excluding VAT)	(Excluding VAT)
	Unit: RMB in millions		
Purchases of liquid crystal modules (LCM) by the Group from Lead	325.27	256.69	101.61

*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 relation to the Group's purchases of handset batteries from Ruide under paragraph 2.1.1 above. 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 Connected Transaction 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. According to the relevant Connected Transaction 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.

During the term of this Connected Transaction Framework Agreement, the Group 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.

*Reasons for such transactions:*

The Company 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.

*Cap:*

The Company estimates that the amount of total purchases of liquid crystal modules (LCM) by the Group from Lead will not exceed RMB255 million for the year ending 31 December 2010. The cap (excluding VAT) for the year ending 31 December 2010 is equivalent to the forecast figure 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 liquid crystal modules (LCM) from Lead; 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 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 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**

At the thirty third meeting of the fourth session of the Board held on 22 February 2010, 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 2010.

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 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 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 2010 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.

### **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
“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
“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 on 17 June 2003 under the laws of the PRC with limited liability
“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
“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

“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

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

Shenzhen, the PRC

22 February 2010

*As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyou; 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.*