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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)

Proposed adoption of 2017 A-Share Option Incentive Scheme and Proposed Grant thereunder

This announcement is made by the Company pursuant to Rule 13.09(2) of the Hong Kong Listing Rules and the Inside Information Provisions (as defined in the Hong Kong Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Company hereby announces that on 24 April 2017, the Board passed a resolution in respect of the proposed adoption of the 2017 Scheme and the Proposed Grant thereunder by the Company, and the Board also proposed the draft of the 2017 Scheme and the draft proposal in respect of the Proposed Grant thereunder. The 2017 Scheme shall become effective upon approval of the Shareholders in a general meeting of the Company.

The Company hereby announces the major contents of the proposed 2017 Scheme and the Proposed Grant thereunder, details of which are set out below:

I. PROPOSED ADOPTION OF THE 2017 SCHEME

1. Purpose of the 2017 Scheme

The 2017 Scheme is to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibilities of the management and key personnel of the Company, retain talent for sustainable development of the Company and safeguard the realization of development targets of the Company.

2. Basis for determining the Participants and the scope of Participants of the 2017 Scheme

(1) Basis for determining the Participants

The Participants of the 2017 Scheme are determined taking into account of the Company's actual situations, and in accordance with the Company Law, the Securities Law, the Incentive Measures, the Hong Kong Listing Rules as well as the relevant laws and regulations and the relevant provisions of the Articles of Association.

(2) Scope of Participants

The proposed Participants of the 2017 Scheme include Directors, senior management and key business personnel who have direct impact on the overall results and continuous development of the Company or who have outstanding contribution to the Company (but excluding any independent non-executive Directors, substantial Shareholders or de facto controllers which individually or together hold Shares representing 5% voting rights of the Company or above, and their spouse, parents and children).

In addition, persons cannot be Participants under the 2017 Scheme, if they:

- (i) have been declared an inappropriate candidate by the Shenzhen Stock Exchange in the past 12 months;
- (ii) have been declared an inappropriate candidate by the CSRC or its local bureaus in the past 12 months;
- (iii) have been imposed with administrative penalties or prohibited from market entry by the CSRC or its local bureaus in the past 12 months owing to material violations of laws and regulations;
- (iv) have been prohibited from acting as a Director or a member of the senior management of the Company under the Company Law;
- (v) have been prohibited from participation in the share incentive schemes of listed companies under laws and regulations;
- (vi) fall within other circumstances as determined by the CSRC;
- (vii) have committed other material violations of relevant regulations of the Company as determined by the Board.

3. Source and number of Shares under the 2017 Scheme

(1) Source of underlying Shares of the 2017 Scheme

The source of the underlying Shares of the 2017 Scheme shall be A Shares denominated in RMB.

(2) Number of underlying Shares

The total number of underlying A Shares in relation to the Options that may be granted under the 2017 Scheme shall not exceed 150,000,000 A Shares, representing approximately 3.6% of the Company's existing total issued share capital and approximately 4.4% of the total number of A Shares currently in issue.

Unless approved by the Shareholders in a general meeting, the aggregate number of A Shares to be issued to a Participant upon exercise of his/her Options under the 2017 Scheme or other effective share incentive schemes of the Company (if any) at any time must not exceed 1% of the Company's total A share capital, and the maximum entitlement which may be granted to a Participant (including exercised, cancelled and outstanding Options) within any 12-month

period shall not exceed 1% of the Company's total A share capital.

4. Incentive Method of the 2017 Scheme

Options will be granted under the 2017 Scheme as incentives. The underlying Shares are ordinary A Shares. Within the Validity Period and the exercise period, and subject to the fulfillment of the exercise conditions of the 2017 Scheme and the exercise arrangement, each Option entitles the holder to acquire one A Share at a pre-determined price.

5. Validity Period, date of grant, vesting period, Exercise Date, exercise period and lock-up provisions

(1) Validity Period

The 2017 Scheme shall be effective for five years from the Date of Grant under the 2017 Scheme.

(2) Date of Grant

Please see the section "Proposed Grant under the 2017 Scheme — Date of Grant" below for further information on the Date of Grant of the Options.

(3) Vesting period

The vesting period of the 2017 Scheme is two years from the Date of Grant.

(4) Exercise Date

Options granted under the 2017 Scheme are exercisable according to its proportion as required under each batch subject to a vesting period of two years.

The Exercise Date must be a trading day, which must not fall within any of the following periods:

- (i) the period commencing from 30 days prior to the publication of periodic reports of the Company; or in the event of delay in publishing the annual report or interim report of the Company due to special reasons, the period commencing from 30 days prior to the original date of publication and ending on one day immediately preceding the publication date;
- (ii) the period commencing from ten days prior to the publication of the Company's announcement of estimated results and preliminary results;
- (iii) the period commencing from the date of occurrence of a material event which may have a substantial impact on the trading prices of the Company's shares and their derivatives or the date on which relevant decision-making procedures start and ending on the second trading day following the publication of a relevant announcement in accordance with laws; and
- (iv) other periods as stipulated by the CSRC and the Shenzhen Stock Exchange.

(5) Exercise period

Subject to the fulfillment of the exercise conditions, Options granted under the 2017 Scheme can be exercised in batches after the expiry of the two-year period from the Date of Grant according to the following exercise arrangement:

Exercise period	Duration	Proportion of Options exercisable to the total number of Options granted
First exercise period	Commencing on the first trading day after expiry of the 24-month period from the Date of Grant and ending on the last trading day of the 36-month period from the Date of Grant	1/3
Second exercise period	Commencing on the first trading day after expiry of the 36-month period from the Date of Grant and ending on the last trading day of the 48-month period from the Date of Grant	1/3
Third exercise period	Commencing on the first trading day after expiry of the 48-month period from the Date of Grant and ending on the last trading day of the 60-month period from the Date of Grant	1/3

(6) Lock-up provisions to the underlying Shares

The A Shares acquired by the Participants pursuant to the exercise of the Options under the 2017 Scheme are subject to the following lock-up provisions:

- (i) Where the Participant is a Director or member of the senior management, the number of Shares which may be transferred by the Participant per year during his/her tenure of office shall not exceed 25% of the total number of the Shares held by him/her, and the Participant shall not transfer the Shares held by him/her within six months after his/her resignation.
- (ii) Where the Participant is a Director or member of senior management, all gains from the sale of Shares within six months of acquisition or from the acquisition of Shares within six months of sale by the Participant shall be accounted to the Company and the Board will collect all such gains.
- (iii) If, during the Validity Period, there is any amendment to the requirements regarding the Share transfer by a Director and senior management of the Company under the Company Law, the Securities Law, the Shenzhen Listing Rules, the Hong Kong Listing

Rules, relevant regulations and the Articles of Association, the amended restrictions shall apply.

6. Exercise price and basis of determination

Please see the section “Proposed Grant under the 2017 Scheme — Exercise price and basis of determination” below for further information on the exercise price and its basis of determination.

7. Conditions of grant and exercise of the Options

(1) Conditions of grant of Options

The following conditions must be fulfilled before Participants are granted with the Options:

- (i) None of the following circumstances has occurred in relation to the Company:
 - (a) Issue of the Company’s financial and accounting report for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
 - (b) Issue of an audit report containing an adverse opinion or indication of inability to give an opinion by a certified public accountant in the internal control of financial reporting for the most recent accounting year;
 - (c) Failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the past 36 months after listing;
 - (d) Prohibition from participation in share incentive schemes under laws and regulations;
 - (e) Other circumstances as determined by the CSRC.
- (ii) None of the following circumstances has occurred in relation to the Participant:
 - (a) Having been declared an inappropriate candidate by the Shenzhen Stock Exchange in the past 12 months;
 - (b) Having been declared an inappropriate candidate by the CSRC or its local bureaus in the past 12 months;
 - (c) Having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local bureaus in the past 12 months owing to material violations of laws and regulations;
 - (d) Being prohibited from acting as a Director or a member of the senior management of the Company under the Company Law;

- (e) Being prohibited from participation in the share incentive schemes of listed companies under laws and regulations;
 - (f) Other circumstances as determined by the CSRC;
 - (g) Other material violations of relevant regulations of the Company as determined by the Board.
- (iii) The average of audited net profit attributable to holders of ordinary shares of the listed company for the latest three financial years as announced by the Company not being negative.

(2) Conditions of exercise of Options

(i) Performance indicators

There are two performance indicators for the Options to be exercised: (a) weighted average return on net assets (“ROE”) and (b) growth rate of net profit attributable to holders of ordinary shares of the listed company (“Net Profit Growth”).

For the purpose of calculating the performance indicators, “net assets” shall refer to the net assets attributable to holders of ordinary shares of the listed company and “net profit” shall refer to the net profit attributable to holders of ordinary shares of the listed company.

(ii) Exercise conditions of the Options

Subject to the conditions abovementioned, the Options can only be exercised upon satisfaction of the following conditions:

- (a) No Option can be exercised unless the Company has achieved the following applicable performance targets in the relevant exercise period:

Exercise period	Performance target
First exercise period	ROE for the year 2017 shall be no less than 10% and on the basis of RMB3.825 billion, Net Profit Growth for 2017 shall be no less than 10%.
Second exercise period	ROE for the year 2018 shall be no less than 10% and on the basis of RMB3.825 billion, Net Profit Growth for 2018 shall be no less than 20%.
Third exercise period	ROE for the year 2019 shall be no less than 10% and on the basis of RMB3.825 billion, Net Profit Growth for 2019 shall be no less than 30%.

Net loss attributable to holders of ordinary shares of the listed company for the year ended 31 December 2016 amounted to RMB2.36 billion, which was primarily due to the provision for

relating loss of approximately USD892 million in accordance with the agreements reached by the Company with relevant U.S. governmental departments and based on applicable accounting standards. The basis of RMB3.825 billion represents the net profit attributable to holders of ordinary shares of the listed company for the year ended 31 December 2016 if the aforesaid provision for loss was disregarded. For details, please refer to the 2016 Annual Report.

Adjustment to the above performance indicators in light of equity financing conducted by the Company during the Validity Period are as follows:

- (A) If the Company conducts an equity financing during the Validity Period so as to fully settle or finance the consideration payable for an asset acquisition, then the relevant ROE and Net Profit Growth in the exercise period immediately after the year of completion of such equity financing shall be adjusted by excluding such new assets from the amount of net profit of the Company and excluding such new assets from the amount of net assets of the Company.
 - (B) If the Company conducts an equity financing during the Validity Period not for settlement or finance of the consideration payable for an asset acquisition, then the relevant ROE and Net Profit Growth in the exercise period immediately after the year of completion of such equity financing shall remain unchanged.
 - (C) If the Company conducts an equity financing during the Validity Period so as to partially settle or finance the consideration payable for an asset acquisition, then the relevant ROE and Net Profit Growth in the exercise period immediately after the year of completion of such equity financing shall be adjusted partially in light of the sub-paragraphs (A) and (B) above.
- (b) The following conditions shall also be fulfilled by the Participants in order to exercise the Options:
- (A) During the Validity Period, none of the circumstances as stipulated in paragraph 7(1)(ii) has occurred in relation to the Participant as at the end of the relevant exercise period, otherwise the Participant shall abstain from participating in the 2017 Scheme without any compensation.
 - (B) The Participant has passed his/her performance appraisal for the preceding year according to the “2017 Share Option Incentive Scheme Performance Appraisal System of ZTE Corporation”, otherwise the Options exercisable by him/her in the relevant exercise period will be withdrawn and cancelled by the Company without any compensation but the Participant will remain entitled to participate in the 2017 Scheme and the exercisable Options granted to him/her in other exercise periods shall remain valid.

If the above conditions are fulfilled, the Participants can exercise all his/her Options exercisable in the relevant exercise period.

8. Methods and procedures for adjustment of the number and the exercise price of the Options under the 2017 Scheme

(1) Method of adjusting the number of Options

From the Date of Grant, in the event of any capitalisation issue, bonus issue, sub-division or rights issue or consolidation of Shares, etc. in relation to the A Shares of the Company before the exercise of the Options, an adjustment to the number of Options shall be made accordingly.

The method of adjustment in principle is set out below:

(i) Capitalisation issue, bonus issue and sub-division of Shares

$$Q=Q0 \times (1+n)$$

Where: Q0 represents the number of Options before the adjustment; n represents the ratio of increase per Share resulting from the capitalisation issue, bonus issue and sub-division of Shares (i.e. the number of increased Shares per Share upon capitalisation issue, bonus issue or subdivision of Shares); Q represents the adjusted number of Options.

(ii) Rights Issue

$$Q=Q0 \times P1 \times (1+n) / (P1+P2 \times n)$$

Where: Q0 represents the number of Options before the adjustment; P1 represents the closing price as at the record date; P2 represents the subscription price of the rights issue; n represents the basis of the rights issue (i.e. the number of Shares to be issued under the rights issue in proportion to the total share capital of the Company before the rights issue); Q represents the adjusted amount of Options.

(iii) Consolidation of Shares

$$Q=Q0 \times n$$

Where: Q0 represents the number of Options before the adjustment; n represents the ratio of consolidation of Shares (i.e. one Share shall be consolidated into n Shares); Q represents the adjusted number of Options.

(2) Methods of adjusting the exercise price

From the Date of Grant, in the event of any dividend distribution, capitalisation issue, bonus issue, sub-division or rights issue or consolidation of Shares, etc. in relation to the A Shares before the exercise of the Options, an adjustment to the exercise price shall be made accordingly.

The method of adjustment in principle is set out below:

(i) Capitalisation issue, bonus issue and sub-division of Shares

$$P=P0 \div (1+n)$$

Where: P0 represents the exercise price before the adjustment; n represents the ratio of increase per Share resulting from the capitalisation issue, bonus issue and sub-division of Shares; P represents the adjusted exercise price.

(ii) Rights issue

$$P=P0 \times (P1+ P2 \times n) / (P1 \times (1+n))$$

Where: P0 represents the exercise price before the adjustment; P1 represents the closing price as at the record date; P2 represents the subscription price of the rights issue; n represents the basis of the rights issue (i.e. the number of Shares to be issued under the rights issue in proportion to the total share capital of the Company before the rights issue); P represents the adjusted exercise price.

(iii) Consolidation of Shares

$$P=P0 \div n$$

Where: P0 represents the exercise price before the adjustment; n represents the ratio of consolidation of Shares (i.e. one Share shall be consolidated into n Shares); P represents the adjusted exercise price.

(iv) Declaration of dividend

$$P=P0 - V$$

Where: P0 represents the exercise price prior to adjustment; V represents the amount of dividend per A Share; P represents the exercise price after adjustment.

(3) Adjustment procedures

The Board will be authorised by the Shareholders at a general meeting of the Company to adjust the exercise price and the number of Options under the 2017 Scheme upon occurrence of any of the abovementioned circumstances. The Company shall engage a legal adviser to advise the Board whether such adjustment, if any, is in compliance with the Incentive Measures, the Articles of Association and the 2017 Scheme.

Any adjustment to the exercise price, number of Options or other terms due to other reasons, after being reviewed by the Board, shall be submitted to a general meeting of the Company for approval before implementation.

Any adjustments required under the Rule 17.03(13) of the Hong Kong Listing Rules must give the Participants the same proportion of the share capital as that to which that person was previously entitled, but no adjustments may be made to the extent that the Share would be issued at less than its nominal value. In respect of any adjustments required under the Rule 17.03(13) of the Hong Kong Listing Rules, other than any adjustments made on a capitalisation issue, an independent financial adviser or the Company's auditors will confirm to the Directors in writing that the adjustments satisfy the requirements set out in the note of Rule 17.03(13) of the Hong Kong Listing Rules.

(4) Amendments to the 2017 Scheme

The Board may make amendments to the 2017 Scheme in accordance with the requirements of laws and regulations. Prior to the convening of a general meeting of the Company for approval of the 2017 Scheme, the Company may amend the draft of the 2017 Scheme upon requests of the PRC and/or Hong Kong regulatory authorities. In case of any discrepancies between the terms of the 2017 Scheme and the requirements of relevant laws, regulations, agreements, the Shenzhen Stock Exchange or the Hong Kong Stock Exchange or any amendment made thereto, the requirements of relevant laws, regulations, agreements, the Shenzhen Stock Exchange or the Hong Kong Stock Exchange shall prevail.

Amendments to the 2017 Scheme shall be approved at the general meeting if (i) certain amendments to the 2017 Scheme under the requirements of laws, regulations, agreements, the Shenzhen Stock Exchange or the Hong Kong Stock Exchange require the approval of a general meeting or of the CSRC, the Shenzhen Stock Exchange or the Hong Kong Stock Exchange; (ii) the amendments relate to matters provided in Rule 17.03 of the Hong Kong Listing Rules and are to the advantage of the Participants; (iii) the amendments to the provisions of the 2017 Scheme are of a material nature or any change to the terms of options granted, except where the alterations take effect automatically under the existing terms of the 2017 Scheme; or (iv) the amendments relate to the power of the Board in amending the terms of the 2017 Scheme.

9. Handling method on special cases

(1) Change of the largest Shareholder

Where there is a change of the largest Shareholder because of restructuring and merger and acquisition, the existing largest Shareholder shall add a term into the share transfer agreement (or other agreements resulting in the change of the largest Shareholder) that the new largest Shareholder shall guarantee that the 2017 Scheme will remain unchanged, ensure an effective implementation of the 2017 Scheme and complete the 2017 Scheme.

(2) Merger and demerger

Where there is merger or demerger of the Company, the parties shall undertake in the relevant merger/demerger agreements to continue implementing the 2017 Scheme and to adjust the content of the 2017 Scheme based on actual situations. The parties thereto cannot change the Participants, the number of Options granted under the 2017 Scheme, the exercise price and the exercise conditions without reasons.

(3) Termination of the 2017 Scheme

If any of the following occurs in relation to the Company, the 2017 Scheme shall be terminated. Options which are granted but not yet exercised by the Participants shall cease to be exercisable and shall lapse immediately. Such Options shall be withdrawn and cancelled by the Company without any compensation:

- (i) Issue of the Company's financial and accounting report for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;

- (ii) Issue of an audit report containing an adverse opinion or indication of inability to give an opinion by a certified public accountant in the internal control of financial reporting for the most recent accounting year;
- (iii) Failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the past 36 months after listing;
- (iv) Prohibition from participation in share incentive schemes under laws and regulations;
- (v) Other circumstances as determined by the CSRC.

(4) False statements

Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with arrangements for the grant or exercise of Options, all outstanding Options shall be repurchased and cancelled. In respect of Options already exercised, Participants concerned shall return to the Company all interests obtained from the 2017 Scheme after false statements or misleading statements in or material omissions from the information disclosure documents have been confirmed. Participants who bear no responsibility for the aforesaid matters and who incur losses as a result of the return of interests granted may seek compensation from the Company or responsible parties in accordance with relevant arrangements under the 2017 Scheme.

(5) Change of personal particulars of the Participant

- (i) Should any of the following occur in relation to a Participant, all his/her Options which are exercisable but not yet exercised shall cease to be exercisable and Options which are not yet exercisable shall lapse forthwith at the date of occurrence:
 - (a) becoming a supervisor of the Company or other staff who cannot hold Shares or options of the Company;
 - (b) having been declared an inappropriate candidate by any stock exchange;
 - (c) having been declared an inappropriate candidate by the CSRC or its local bureaus;
 - (d) having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local bureaus owing to material violations of laws and regulations;
 - (e) having been imposed with criminal penalties due to violation of laws and regulations, or disciplinary treatment due to violation of internal management regulations of the Company;
 - (f) having violated laws or regulations of the State and the provisions of Articles of Associations resulting in major economic loss to the Company;

- (g) having been dismissed by the Company due to material non-compliance and violation of internal rules and regulations;
 - (h) having other situations as determined by the remuneration and evaluation committee of the Board; or
 - (i) during the Validity Period, where the Participants damage the interests or reputation of the Company as a result of his/her dereliction of duty or malfeasance which leads to a demerit record or a more severe disciplinary action imposed by the Company (excluding dismissal situations as stipulated in paragraph (e), (f) and (g) above), he/she cannot exercise his/her Options which are exercisable in the closest exercise period, and such Options which are exercisable but not yet exercised in the relevant exercise period cannot be exercised in the future, but other Options which are exercisable in the subsequent exercise periods will not be affected.
- (ii) Should any of the following occur in relation to a Participant, all his/her Options which are exercisable but not yet exercised shall be exercised within six months from the date of occurrence and Options which are not yet exercisable shall lapse forthwith at the date of occurrence:
- (a) his/her labor contract or employment contract with the Company having been unilaterally terminated or cancelled by the Participant;
 - (b) either party having decided not to renew the labor contract or employment contract after its expiration; or
 - (c) other situations as determined by the remuneration and evaluation committee of the Board.
- (iii) Should any of the following occur in relation to a Participant, all his/her Options which are exercisable but not yet exercised shall be exercised within six months from the date of occurrence and Options which are not yet exercisable shall lapse forthwith at the date of occurrence:
- (a) death or incapacity;
 - (b) retirement;
 - (c) termination of the labor contract or employment contract in advance in consensus with the Company ; or
 - (d) other situations as determined by the remuneration and evaluation committee of the Board.
- (iv) The Options held by a Participant shall not be affected by any change in his/her job position or his/her transfer to a wholly-owned or controlled subsidiary of the Company, and he/she shall remain entitled to the grant and exercise of Options.
- (v) Other unspecified situations and its handling method shall be determined by the remuneration and evaluation committee of the Board.

10. Supplementary Provisions

(1) The 2017 Scheme shall be effective upon approval of the 2017 Scheme at the general meeting of the Company.

(2) In case of any conflicts between relevant terms of the 2017 Scheme and relevant laws, regulations and administrative rules, regulatory documents of the State or the Hong Kong Listing Rules, the relevant laws, regulations and administrative rules, regulatory documents of the State and the Hong Kong Listing Rules shall prevail. Any issues not specified in the 2017 Scheme shall be implemented in accordance with the relevant laws, regulations, administrative rules, regulatory documents of the State and the Hong Kong Listing Rules.

(3) The right of interpretation of the 2017 Scheme belongs to the Board.

(4) The issue of Shares pursuant to the exercise of the Options granted under the 2017 Scheme shall be in accordance with provisions of the Articles of Association as at the date of issue of Shares (the "Issue Date"), and shall rank *pari passu* in all respects with all paid-up A Shares in issue as at the Issue Date, entitling the Participants to qualify for all dividends and other distributions declared, paid or made after the Issue Date (except dividends and other distributions declared, paid or made before the Issue Date if resolutions for approving each distribution or payment are passed before the Issue Date). Participants are bound by the blackout provisions of the 2017 Scheme (if applicable).

(5) The Company shall not provide any loans or any other forms of financial assistance (including providing guarantee for the loan extended to the Participants) to the Participants for exercising the Options.

(6) Options granted to the Participants under the 2017 Scheme are personal and the Participants shall not sell, assign, charge or mortgage or create any encumbrances in respect of any Options.

II. PROPOSED GRANT UNDER THE 2017 SCHEME

The principal terms of the proposal in respect of the Proposed Grant of the Options are set out in details in this section. Relevant requirements of the proposal of the Proposed Grant of the Options shall also comply with the restrictive provisions under the 2017 Scheme. Other requirements not provided for in the proposal in respect of the Proposed Grant of Options shall be determined by reference to the relevant terms under the 2017 Scheme.

1. Number of underlying Shares in relation to the Options under the Proposed Grant

The total number of underlying A Shares in relation to the Options that may be granted under the Proposed Grant shall not exceed 150,000,000 A Shares, representing approximately 3.6% of the Company's existing total issued share capital and approximately 4.4% of the total number of A Shares currently in issue. It is proposed that the Proposed Grant will involve Options to subscribe for not exceeding 150,000,000 A Shares, representing approximately 3.6% of the Company's existing total issued share capital (4,185,896,909 Shares) and approximately 4.4% of the total number of A Shares currently in issue (3,430,394,375 A Shares).

2. Allocation of the Options under the Proposed Grant

The total number of proposed Participants under the Proposed Grant is 2,013, representing approximately 3.5% of the total number of employees of the Company as at the date of this announcement. The proposed Participants of the 2017 Scheme include the Directors, senior management and key business personnel who have direct impact on the overall results and continuous development of the Company or who have outstanding contribution to the Company. Details of the allocation of the Proposed Grant under the 2017 Scheme are as follows:

Name of the Participant	Position of the Participant	Number of Options to be granted to the Participant under the 2017 Scheme	Percentage of number of Options to be granted to the Participant to the total number of Options under the 2017 Scheme	Percentage of underlying A Shares to the total number of share capital of the Company as at the date of this announcement
Zhang Jianheng 張建恒	Vice chairman	50,000	0.03%	0.0012%
Luan Jubao 樂聚寶	Vice chairman	50,000	0.03%	0.0012%
Zhao Xianming 趙先明	Director and president	800,000	0.54%	0.0191%
Wang Yawen 王亞文	Director	50,000	0.03%	0.0012%
Tian Dongfang 田東方	Director	50,000	0.03%	0.0012%
Zhan Yichao 詹毅超	Director	50,000	0.03%	0.0012%
Xu Huijun 徐慧俊	Executive vice president	550,000	0.37%	0.0131%
Zhang Zhenhui 張振輝	Executive vice president	550,000	0.37%	0.0131%
Pang Shengqing 龐勝清	Executive vice president	450,000	0.30%	0.0108%
Xiong Hui 熊輝	Executive vice president	450,000	0.30%	0.0108%
Cao Wei 曹巍	Board secretary	200,000	0.13%	0.0048%
Other key personnel (2,002)		146,750,000	97.84%	3.5058%
Total		150,000,000	100%	3.5835%

All of the participants are employees of the Group and save as disclosed above, none of them is a Director, chief executive or substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company or an associate of any of them (as defined in the Hong Kong Listing Rules). Of the 2,002 participants who are the other key personnel of the Company under the Proposed Grant, no single individual would be granted share options the underlying shares of which would represent 1% or more of the total A share capital of the Company.

In addition, the aggregate number of A Shares to be issued to a Participant upon exercise of his/her Options under the 2017 Scheme pursuant to the Proposed Grant and the 2013 Scheme would not exceed 1% of the Company's total A share capital in issue, and the maximum entitlement which may be granted to a Participant (including exercised, cancelled and outstanding Options) within any 12-month period would not exceed 1% of the Company's total A share capital.

In accordance with Rule 17.04(1) of the Hong Kong Listing Rules, the above grant of options to directors and chief executives of the Company have been approved by the independent non-executive Directors. None of the proposed Participant is a substantial shareholder or independent non-executive director of the Company or their respective associates. The above grant of options to directors and chief executives of the Company have also been reviewed and approved by the remuneration and evaluation committee of the Company.

3. Date of Grant

Within 60 days after the approval of the 2017 Scheme at a general meeting of the Company, the Board shall determine the Date of Grant and complete the relevant registration procedures and publication of an announcement.

The Date of Grant must be a trading day and must not fall within any of the following periods:

(1) where the Participant is a Director, the period commencing from 60 days immediately preceding the publication date of the annual results and ending on the publication date of the annual results (publication date included); and the period commencing from 30 days immediately preceding the publication date of the quarterly results and half-year results and ending on the publication date of the quarterly results and half-year results (publication date included);

(2) period commencing on the date on which the Company becomes aware of any inside information and ending on the publication of such information. In particular, no options can be granted in the period commencing one month immediately before the earlier of: (a) the date of the Board meeting for approving the Company's results of any year, half-year, quarterly or any other interim period; and (b) the deadline for the Company to announce its results for any year or half-year under the applicable listing rules, or any quarterly or any other interim period.

4. Exercise price and basis of determination

The exercise price of the Options proposed to be granted under the 2017 Scheme shall be RMB17.06 per A Share. Upon fulfilment of exercise conditions, each Option granted to the Participant entitles the Participant to acquire one A Share at RMB17.06 per A Share.

The above exercise price is the higher of the following:

(i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of the announcement of the summary of the 2017 Scheme (i.e. 19 April 2017), which was RMB17.06 per A Shares; and

(ii) the average of the trading prices of the A Shares for the last 120 trading days immediately preceding the date of the announcement of the summary of the 2017 Scheme, which was RMB16.34 per A Share.

According to the Incentive Measures promulgated by the CSRC, the exercise price of the Options shall be the higher of:

(i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of announcement of the draft scheme; and

(ii) one of the average of the trading prices of the A Shares for the last 20 trading days, 60 trading days or 120 trading days immediately preceding the date of the announcement of the draft scheme.

In respect of (ii) above, the Company has selected the average of the trading prices of the A Shares for the last 120 trading days immediately preceding the date of the announcement of the summary of the 2017 Scheme.

During the Validity Period, in the event of any dividend distribution, capitalization issue, bonus issue, sub-division or rights issue or consolidation of Shares, etc. in relation to the A Shares before the exercise of the Options, an adjustment to the exercise price shall be made accordingly.

5. Conditions of Proposed Grant and exercise of the Options

The Proposed Grant of Options and the exercise of the Options are also subject to the satisfaction of the conditions stipulated under the 2017 Scheme (the principal terms of which are set out in the section “I. PROPOSED ADOPTION OF THE 2017 SCHEME - 7. Conditions of grant and exercise of the Options” above).

III. HONG KONG LISTING RULES IMPLICATIONS AND WAIVER FROM STRICT COMPLIANCE WITH NOTE 1 OF RULE 17.03(9) OF THE HONG KONG LISTING RULES

The 2017 Scheme constitutes a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules.

The exercise price of the Options proposed to be granted under the 2017 Scheme shall be RMB17.06 per A Share, which is the higher of:

(i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of the announcement of the summary of the 2017 Scheme (i.e. 19 April 2017), which was RMB17.06 per A Share; and

(ii) the average of the trading prices of the A Shares for the last 120 trading days immediately preceding the date of announcement of the summary of the 2017 Scheme, which was RMB16.34 per A Share.

Note 1 of Rule 17.03(9) of the Hong Kong Listing Rules requires that the exercise price of any option must be at least the higher of (i) the closing price of the securities as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the daily quotations sheets for the five business days immediately preceding the date of grant.

However, since the Options subject to the Proposed Grant relate to A Shares only and are subject to the approval of the Shareholders at a general meeting, A Share class meeting and H share class meeting, and the determination of the exercise price is in accordance with the relevant rules and regulations promulgated by the CSRC and in view of the practical difficulties involved, the Company has applied for and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Note 1 of Rule 17.03(9) of the Hong Kong Listing Rules in respect of the exercise price of the Options that may be granted under the 2017 Scheme. Any grant of Options under the 2017 Scheme to any Participant who is a connected person of the Company will be exempted from all the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.92(3) of the Hong Kong Listing Rules.

IV. GENERAL MEETING AND CIRCULAR

Resolutions will be proposed at the forthcoming annual general meeting and class meetings will be held to approve the 2017 Scheme. A circular containing, among other things, (i) terms of the 2017 Scheme; (ii) details of the Proposed Grant; (iii) the supplementary notice of the annual general meeting of the Company; and (iv) a notice convening the class meeting for holders of H Shares, will be despatched to the Shareholders as soon as possible.

DEFINITIONS

“2013 Scheme”	the A-Share option incentive scheme adopted by the Company in 2013, details of which were disclosed in the circular of the Company dated 30 August 2013 and the announcements of the Company dated 31 October 2013, 22 July 2015, 27 October 2015, 15 July 2016, 27 October 2016 and 23 March 2017
“2017 Scheme”	the proposed 2017 A-Share option incentive scheme (draft) of the Company
“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

“Articles of Association”	the articles of association of the Company
“Board”	the board of directors of the Company
“Company”	ZTE Corporation (中興通訊股份有限公司), a joint stock limited company incorporated in the PRC and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange (stock code: 0763) and the Shenzhen Stock Exchange (stock code: 000063), respectively
“Company Law”	the Company Law of the PRC
“CSRC”	China Securities Regulatory Commission
“Date of Grant”	the date on which the Options are granted to Participants by the Company, which must be a trading day and within 60 days after the approval of the 2017 Scheme by the Shareholders
“Director(s)”	the director(s) of the Company
“Exercise Date”	the date on which a Participant is entitled to exercise an Option, which must be a trading day
“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
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Incentive Measures”	the Administrative Measures on Share Incentives of Listed Company* (《上市公司股權激勵管理辦法》) issued by the CSRC
“Option(s)”	the right to be granted to a Participant to acquire certain number of A Shares of the Company at a pre-determined price in a particular period of time and subject to certain conditions under the 2017 Scheme
“Participant(s)”	the person to be granted Option(s) under the 2017 Scheme
“PRC”	the People’s Republic of China

“Proposed Grant”	the proposed grant of not exceeding 150,000,000 Options to the Participants pursuant to the 2017 Scheme
“RMB”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the PRC
“Share(s)”	A Share(s) and H Share(s), or the context requires, either of them
“Shareholder(s)”	the holders of Shares
“Shenzhen Listing Rules”	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange
“Significant Event of Material Effect”	a transaction requiring disclosure under the Shenzhen Listing Rules or Hong Kong Listing Rules or any other significant event
“Supervisor(s)”	the supervisor(s) of the Company
“Validity Period”	the period during which the 2017 Scheme remains effective

By Order of the Board
Yin Yimin
Chairman

Shenzhen, the PRC
24 April 2017

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Zhao Xianming and Wei Zaisheng; five non-executive directors, Zhang Jianheng, Luan Jubao, Wang Yawen, Tian Dongfang and Zhan Yichao; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.

** English translation denotes for identification purposes only.*