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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)**

**Overseas Regulatory Announcement  
Announcement Non-fulfillment of Exercise Conditions for the Second Exercise Period  
under the 2017 Share Option Incentive Scheme**

*This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.*

*The Company and all the members of the Board of Directors confirm that all the information contained in this announcement is true, accurate and complete and that there is no false and misleading statement or material omission in this announcement.*

**I. Overview of the 2017 Share Option Incentive Scheme**

On 24 April 2017, the “Resolution on ‘ZTE Corporation 2017 Share Option Incentive Scheme (Draft)’ (the ‘Draft Scheme’) and its summary”, “Resolution on the ‘ZTE Corporation 2017 Share Option Incentive Scheme Performance Appraisal System’” and “Resolution on a mandate granted to the Board of Directors by the General Meeting of ZTE Corporation to deal with matters pertaining to the 2017 Share Option Incentive Scheme” were considered and passed at the Seventeenth Meeting of the Seventh Session of the Board of Directors and Fourteenth Meeting of the Seventh Session of the Supervisory Committee of the ZTE Corporation (the “Company”). The Supervisory Committee of the Company has verified the list of participants to be granted share options as confirmed under the Draft Scheme and the Independent Non-executive Directors and legal advisor of the Company have furnished opinions on matters relating to share option incentives, respectively.

The Company published the “Public Notice of the List of Participants for the 2017 Share Option Incentive Scheme of the Company” on the Company’s website ([www.zte.com.cn](http://www.zte.com.cn)) on 24 April 2017 to give public notice of the names and positions of the aforesaid Participants. The public notice period commenced on 24 April 2017 and ended on 4 May 2017. No instances of Participants’ non-fulfillment of relevant qualifications had been identified upon the expiry of the public notice period. The Company disclosed the result of the verification of the list of Participants by the Supervisory Committee and the result of the public notice 5 days prior to the general meeting held to consider the 2017 Share Option Incentive Scheme.

The 2017 Share Option Incentive Scheme was approved pursuant to the “Resolution on the ‘ZTE Corporation 2017 Share Option Incentive Scheme (Draft)’ and its Summary”, “Resolution on the ‘ZTE Corporation 2017 Share Option Incentive Scheme Performance Appraisal System’” and “Resolution on a mandate granted to the Board of Directors by the General Meeting of ZTE Corporation to deal with matters pertaining to the 2017 Share Option Incentive Scheme” considered and approved at the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017

and the First H Shareholders' Class Meeting of 2017 (together, the "Shareholders' Meetings") on 20 June 2017.

Under the 2017 Share Option Incentive Scheme, share options are employed as an incentive means. Upon satisfaction of specific conditions by the Company and the participants, the Company may grant share options to the participants in accordance with the provisions of the Draft Scheme. All share options shall be subject to a vesting period of 24 months from the date of grant, during which the rights are not exercisable. Thereafter upon each exercise period, it will be determined, on the basis of whether the Company and the participants have satisfied the exercise conditions, whether the share options corresponding to such period are exercisable.

Pursuant to the "Resolution on Matters pertaining to the Grant of Shares Options under the 2017 Share Option Incentive Scheme" and "Resolution on the Adjustment to the List of Participants and Number of Share Options to be Granted under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the date of grant for the 2017 Share Option Incentive Scheme of the Company was set for 6 July 2017 (Thursday), and share options were granted to participants according to the adjusted list of participants and the number of share options to be granted; the Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on adjustments to the list of participants and the number of share options to be granted and the grant of share options to participants as adjusted; The "Resolution on Matters pertaining to the Grant of Shares Options under the 2017 Share Option Incentive Scheme" and "Resolution on the Adjustment to the List of Participants and Number of Share Options to be Granted under the 2017 Share Option Incentive Scheme" were considered and passed at the Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, and the Seventh Session of the Supervisory Committee of the Company has furnished an unequivocal affirmative examination opinion on the adjusted list of participants and number of share options to be granted. The registration of the grant under the 2017 Share Option Incentive Scheme was completed on 20 July 2017. The initial exercise price was RMB17.06 per share.

On 1 July 2019, the "Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme", "Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme", "Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme" and "Resolution on the cancellation of certain share options", among others, were considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company, pursuant to which the adjustments to participants and number of share options granted under the 2017 Share Option Incentive Scheme, confirmation of the fulfillment of exercise conditions for the first exercise period and non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of share options previously granted to participants who no longer fulfilled the conditions to be a participant or share options that did not meet the exercise conditions were approved; the Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the adjustments to participants and number of share options granted, fulfillment of exercise conditions for the first exercise period and non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of certain share options; at the Fifth Meeting of the Eighth Session of the Supervisory Committee, the "Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme", "Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme", "Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme" and "Resolution on the cancellation of certain share options", among others, were considered and passed, and the Supervisory Committee has furnished an unequivocal affirmative examination opinion on the adjusted list of participants and number of share options, fulfillment of exercise conditions for the first exercise period and non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of certain share options.

## **II. Non-fulfillment of exercise conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme**

### **(I) Exercise conditions to be fulfilled for the Second Exercise Period under the Draft Scheme**

1. Exercise conditions for the second exercise period in relation to the Company's business performance:

The weighted average return on net assets (ROE) for 2018 not lower than 10% and net profit growth rate attributable to holders of ordinary shares of the listed company (net profit growth rate) for 2018 not lower than 20% on the basis of RM3,825 million.

2. Events described in Paragraph 1 under Article 20<sup>①</sup> of the Draft Scheme not having happened to the Company.

3. Subject to the fulfilment of conditions relating to the Company's business performance, personal exercise conditions in relation to the participant:

(1) Events described in Paragraph 2 under Article 20 of the Draft Scheme not having happened to the participant during the valid period of the Scheme date prior to the commencement of the current exercise period;

(2) The participant having passed the performance appraisal for the previous year in accordance with the "ZTE Corporation 2017 Share Option Incentive Scheme Performance Appraisal System" of the Company.

### **(II) Non-fulfillment of exercise conditions for the Second Exercise Period**

According to the audited 2018 financial reports of the Company considered and passed at the 2018 Annual General Meeting of the Company, ROE for 2018 was -26.10% and net profit growth rate for 2018 was -282.59% based on an amount of RMB3,825 million. The exercise condition for the second exercise period of "ROE for 2018 not lower than 10% and net profit growth rate for 2018 not lower than 20% on the basis of RM3,825 million" has not been fulfilled.

Notes:

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① Article 20: Conditions of grant of the share options

The Company shall grant share options to the participants in accordance with the Scheme only if it is not subject to the following:

1. None of the following has occurred to the Company

(1) A certified public accountant furnishing an audit report containing an opinion of disapproval or indicating the inability to give an opinion in respect of the financial accounting report for the most recent accounting year;

(2) A certified public accountant furnishing an audit report containing an opinion of disapproval or indicating the inability to give an opinion in respect of the internal control of financial reporting for the most recent accounting year;

(3) 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;

(4) Prohibition from the implementation of share option incentives under laws and regulations;

(5) Other circumstances as determined by the CSRC.

2 None of the following circumstances has occurred to the participant:

(1) Having been declared an inappropriate candidate by the Shenzhen Stock Exchange in the past 12 months; (2) Having been declared an inappropriate candidate by the CSRC or its local bureaus in the past 12 months; (3) Having been subject to administrative penalties or prohibited from market entry by the CSRC or its local bureaus in the past 12 months due to material violation of laws and regulations; (4) Being prohibited from acting as a director or a senior management personnel of a company under the Company Law; (5) Being prohibited from participating in share option incentive schemes of listed companies under laws and regulations; (6) Other circumstances as determined by the CSRC; (7) Other serious violation of pertinent provisions of the Company as determined by the Board of Directors of the Company.

(1) In accordance with the Draft Scheme net profit adopted in the calculation of the weighted average return on net assets (ROE) and net profit growth rate attributable to holders of ordinary shares of the listed company (net profit growth rate) shall be the net profit attributable to holders of ordinary shares in the listed company . Net assets refer to net assets attributable to holders of ordinary shares in the listed company.

(2) The weighted average return on net assets (ROE) is calculated in accordance with the “No. 9 of the Rules for the Preparation of Information Disclosure by Public Issuer of Securities – Calculation and Disclosure of Return on Net Assets and Earnings Per Share” (China Securities Regulatory Commission Announcement [2010] No. 2) (中國證券監督管理委員會公告 [2010] 2號《公開發行證券的公司信息披露編報規則第9號——淨資產收益率和每股收益的計算及披露》).

### **(III) How non-fulfilled share options will be dealt with**

In accordance with the Draft Scheme, share options that cannot be exercised owing to the non-fulfillment of conditions pertaining to business results will lapse with immediate effect and withdrawn and cancelled by the Company without compensation. Following adjustments to the participants and number of options pursuant to the “Announcement on the Adjustment of Participants and Number of Share Options under the 2017 Share Option Incentive Scheme”, 39,724,952<sup>②</sup> share options for the second exercise period shall be withdrawn and cancelled by the Company without compensation.

### **III. The impact of the non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme on the financial conditions and operating results of the Company for the relevant year**

As a result of the non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme, the Company wrote back in 2018 share option expenses amounting to approximately RMB110,909,000 in aggregate recognized for 2017, resulting in an increase in the Company’s profit before taxation for 2018 by approximately RMB110,909,000.

### **IV. Verification opinion of the Remuneration and Evaluation Committee on the non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme**

For details, please refer to the “Opinion of the Remuneration and Evaluation Committee of the Board of Directors in respect of matters pertaining to the 2017 Share Option Incentive Scheme” published on the same date as this announcement.

### **V. Independent Opinion of the Independent Non-executive Directors on the non-fulfillment of exercise conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme**

For details, please refer to the “Independent opinion of the Independent Non-executive Directors in respect of matters pertaining to the 2017 Share Option Incentive Scheme” published on the same date as this announcement.

### **VI. Examination opinion of the Supervisory Committee on the non-fulfillment of exercise conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme**

On 1 July 2019, the “Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme” was considered and passed at the Fifth

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<sup>②</sup> In the second exercise period, the participants are entitled to exercise 1/3 of the share options granted, rounded down to the nearest unit.

Meeting of the Eighth Session of the Supervisory Committee. The Supervisory Committee examined the non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme, and considered that the exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme of the Company were not fulfilled. It is approved that 39,724,952 share options for the second exercise period not qualified to be exercised shall lapse with immediate effect and withdrawn and cancelled by the Company without compensation. For details, please refer to the “Examination opinion of the Supervisory Committee on matters pertaining to the 2017 Share Option Incentive Scheme” published on the same date as this announcement.

## **VII. Conclusion of the legal opinion**

Beijing Jun He Law Offices (Shenzhen Office) is of the view that: the non-fulfillment of exercise conditions for the second exercise period and the cancellation of previously granted share options have been duly authorised and approved and conducted according to currently required procedures; and procedures performed in connection with the non-fulfillment of exercise conditions for the second exercise period and the cancellation of previously granted share options are in compliance with relevant provisions of pertinent laws and regulations, the Draft Scheme and the Articles of Association. The Company shall process the cancellation of previously granted share options and fulfill its information disclosure obligations.

## **VIII. Documents for inspection**

1. Resolution of the Fifth Meeting of the Eighth Session of the Board of Directors;
2. Resolution of the Fifth Meeting of the Eighth Session of the Supervisory Committee;
3. Opinion of the Remuneration and Evaluation Committee of the Board of Directors on Matters pertaining to the 2017 Share Option Incentive Scheme;
4. Independent Opinion of the Independent Non-executive Directors on Matters pertaining to the 2017 Share Option Incentive Scheme;
5. Examination Opinion of the Supervisory Committee on Matters pertaining to the 2017 Share Option Incentive Scheme;
6. “Legal opinion on matters pertaining to adjustments to the participants and volume of grant, fulfillment of exercise conditions for the first exercise period, non-fulfillment of exercise conditions for the second exercise period and cancellation of certain share option previously granted under the 2017 Share Option Incentive Scheme of ZTE Corporation” furnished by Beijing Jun He Law Offices (Shenzhen Office).

By Order of the Board

**Li Zixue**

*Chairman*

Shenzhen, the PRC

1 July 2019

*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, Yuming Bao, Gordon Ng.*