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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 the Management Stock Ownership Scheme

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 12 October 2020, the Board passed a resolution in respect of the proposed adoption of the Management Stock Ownership Scheme by the Company, and the Board also proposed the draft of the Management Stock Ownership Scheme. The Management Stock Ownership 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 Management Stock Ownership Scheme as follows:

1. PROPOSED ADOPTION OF THE MANAGEMENT STOCK OWNERSHIP SCHEME

In order to (i) further improve the internal governance mechanism of the Company, establish and perfect the mechanism for the mutual sharing of benefits and risks among the shareholders, the Company and the employee, advocate the concept of sustainable co-development for the Company and the individual and to keep motivated the Company's senior management and key talents; and (ii) attract and retain high-calibre talents and key business personnel with a view to both the long-term and short-term interests of the Company and attract different types of talents with more flexibility in order to better facilitate the Company's long-term, sustainable and healthy development, the relevant resolutions regarding the Management Stock Ownership Scheme were considered and approved at the Twenty-fifth meeting of the Eighth session of the Board held on 12 October 2020.

The Company has plans to set aside an management stock ownership scheme fund of RMB114,765,557, accounting for approximately 2.23% of the Company's audited Net Profit for 2019, to be utilised as incentive for the key management team under the Management Stock Ownership Scheme. The source of Shares under the Management Stock Ownership Scheme shall be A shares in the Company's designated securities repurchase account. The Company had repurchased a total of 2,973,900 A shares, representing 0.06% of the Company's total share capital. Upon approval of the Management Stock Ownership Scheme (Draft) at the general meeting, the Management

Stock Ownership Scheme shall acquire repurchased A shares in the Company through non-trading transfer or other permissible means under the laws and regulations.

The final number and identity of management participating in the Management Stock Ownership Scheme and their subscription entitlements shall be determined by the Board according to the actual conditions. The total number of A shares held under the Management Stock Ownership Scheme shall not exceed, on a cumulative basis, 10% of the total share capital of the Company and the number of A Shares corresponding to the entitlements of Management Stock Ownership Scheme (including each tranche) held by any single Holder shall not, in aggregate, exceed 1% of the Company's total share capital.

The Management Stock Ownership Scheme is formulated in accordance with the requirements of the Company Law, the Securities Law, Guidance for the Pilot Implementation of Employee Stock Ownership Scheme by Listed Companies, Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, Guidelines for Standardised Operations of Companies Listed on the Shenzhen Stock Exchange, Guideline for Information Disclosure by Companies Listed on the Shenzhen Stock Exchange No. 4 - Employee Stock Ownership Scheme, the Hong Kong Listing Rules and other laws, regulations, regulatory documents and the Articles of Association.

I. Management Stock Ownership Scheme

Principal terms of the Management Stock Ownership Scheme

Participants: Target participants of the Management Stock Ownership Scheme shall be among the following: (1) Directors, Supervisors and senior management of the Company such as the chairman, president and executive vice presidents; and (2) other key management personnel. The total number of participants of the Management Stock Ownership Scheme shall not exceed 27.

Number and amount of Shares to be subscribed: The source of Shares under the Management Stock Ownership Scheme shall be A shares in the Company's designated securities repurchase account. The Company had repurchased a total of 2,973,900 A shares, representing 0.06% of the Company's total share capital. Upon approval of the Management Stock Ownership Scheme (Draft) at the general meeting, the Management Stock Ownership Scheme shall acquire repurchased A shares in the Company through non-trading transfer or other permissible means under the laws and regulations. The Company has plans to set aside a designated stock ownership scheme fund of RMB114,765,557 to be utilised as incentive for the key management team under the Management Stock Ownership Scheme. The price at which repurchased A shares are acquired for the Management Stock

Ownership Scheme is RMB38.59 per share, being the average trading price for the Company's repurchased A shares.

The aggregate entitlements in the Management Stock Ownership Scheme of Directors, Supervisors and senior management (being Mr. Li Zixue, Mr. Xu Ziyang, Mr. Gu Junying, Mr. Xie Daxiong, Mr. Wang Xiyu, Ms. Li Ying, Mr. Xie Junshi and Mr. Ding Jianzhong) represent approximately 54.55% of the total entitlements in the Management Stock Ownership Scheme; while the aggregate entitlements in the Management Stock Ownership Scheme of other management represent approximately 45.45% of the total entitlements in the Management Stock Ownership Scheme.

Lock-up period:

The lock-up period for Shares acquired under the Management Stock Ownership Scheme shall be 12 months from the date on which the completion of acquisition of Shares from the Company's designated securities repurchase account is announced by the Company.

The performance indicator for the Management Stock Ownership Scheme shall be the Company's Net Profit for 2020 being no less than RMB3.0 billion. The respective portion of shares entitled by the management shall be determined according to the operating results of businesses under the charge of the management and outcomes of personal appraisal, and the ascertained portion of shares shall be vested in the Holder in two tranches being an interval of 12 months, with 50% of the ascertained portion of shares being vested for each tranche.

If the Company fails to attain its business appraisal indicator for the vesting appraisal period, the Shares interests under the Management Stock Ownership Scheme shall be reverted to the Company in full and none of the Holders shall continue to be entitled to the Shares interests under the Management Stock Ownership Scheme.

Term of the Management Stock Ownership Scheme:

The term of the Management Stock Ownership Scheme shall be three years from the date on which the Management Stock Ownership Scheme is considered and approved at the general meeting and shall automatically lapse upon its conclusion, or extended after consideration and approval by the Board upon the request of the management committee of the Management Stock Ownership Scheme.

Disposal of equity interests of the Management Stock Ownership Scheme: I) Disposal of the equity interests of the Management Stock Ownership Scheme

During the term of the Management Stock Ownership Scheme, except in the event that the Company disqualifies the relevant Participant(s), the units of the Holders held under the Management Stock Ownership Scheme shall neither be withdrawn or transferred, nor be mortgaged, pledged, guaranteed or used for debts repayment.

II) The disposal measures for the Holder who is not eligible to participate in the Management Stock Ownership Scheme during the term of the Management Stock Ownership Scheme

In the event of any situation listed below, a Holder's interests held under the Management Stock Ownership Scheme shall remain unchanged:

- (i) a change in the Holder's position within the term of the Management Stock Ownership Scheme provided such change does not affect his/her eligibility for the Management Stock Ownership Scheme;
- (ii) loss of a Holder's working capacity;
- (iii) retirement of a Holder retires upon reaching the national statutory retirement age;
- (iv) death of a Holder within the term of the Management Stock Ownership Scheme and his/her entitlements under the Management Stock Ownership Scheme shall be inherited by his/her lawful inheritor without any change in his/her interests held under the Management Stock Ownership Scheme. Such inheritor shall not be subject to the constraints of eligibility for participation in the Management Stock Ownership Scheme

II. Target participants' subscription for the Management Stock Ownership Scheme

There shall be no more than 27 target participants in the Management Stock Ownership Scheme. There shall be no more than 114.766 million units of RMB1.00 each under the Management Stock Ownership Scheme.

A total of 8 Directors, Supervisors and senior management of the Company shall subscribe for not more than 62.606 million units, accounting for 54.55% of the total

amount under the Management Stock Ownership Scheme. Other target participants shall subscribe for not more than 52.16 million units, accounting for 45.45% of the total amount under the Management Stock Ownership Scheme. The details are set out as follows:

Name	Position	Subscription entitlements (ten thousand units)	Percentage of subscription entitlements
Li Zixue	Chairman	1,200	10.46%
Xu Ziyang	Director and President	1,200	10.46%
Gu Junying	Director and Executive Vice President	900	7.84%
Xie Daxiong	Chairman of Supervisory Committee	302.6	2.64%
Wang Xiyu	Executive Vice President	1,000	8.71%
Li Ying	Executive Vice President and Chief Financial Officer	800	6.97%
Xie Junshi	Executive Vice President	700	6.10%
Ding Jianzhong	Board Secretary	158	1.38%
Total of Directors, Supervisors and senior management (8 persons)		6,260.6	54.55%
Total of other key management personnel (not more than 19 persons)		5,216.0	45.45%
Total		11,476.6	100.00%

Note: Save for the proposed participation in the Management Stock Ownership Scheme by the aforesaid Directors, Supervisors and senior management, the Management Stock Ownership Scheme is not related to or acting in concert with the controlling shareholder or single largest shareholder, de facto controller, Director, Supervisor or senior management of the Company.

The final number and identity of management participating in the Management Stock Ownership Scheme and their subscription entitlements shall be determined by the Board according to the actual conditions.

III. Management of the Management Stock Ownership Scheme

The Holders' Meeting shall be the internal supreme authority of the Management Stock Ownership Scheme and all Holders are entitled to attend and vote at the Holders' Meeting in person or by proxy. The Holders' Meeting shall exercise its duties and powers, such as electing or removing members of the management committee and delegating the management committee to be responsible for the management of the Management Stock Ownership Scheme. A management committee shall be formed under the Management Stock Ownership Scheme to carry out day-to-day management of the Management Stock Ownership Scheme, and the Holders' Meeting shall have the right to delegate the exercise of shareholders' rights on behalf of the Holders to the management committee. The management committee comprises three members with one officer of the management committee. All members of the management committee shall be elected by the Holders' Meeting.

In addition, an asset management agency, which will be an independent third party with relevant asset management qualifications (such as a securities firm or trust company) will be appointed by the Company after the Extraordinary General Meeting. The Asset Management Agency will be entrusted by the Management Stock Ownership Scheme to hold the Shares for the Management Stock Ownership Scheme through the securities account of the Management Stock Ownership Scheme, and be responsible for the subsequent management of the Shares.

2. BOARD CONFIRMATION

The Board is of the view that the terms of the Management Stock Ownership Scheme are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying, being the Directors who are proposed grantees under the Management Stock Ownership Scheme, had abstained from voting on the relevant Board resolutions to approve the Management Stock Ownership Scheme and the related matters. Save as disclosed above, none of the Directors has a material interest in the Management Stock Ownership Scheme or the related matters and is required to abstain from voting on the relevant Board resolutions.

3. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

The Management Stock Ownership Scheme does not constitute a share option scheme under the Chapter 17 of the Hong Kong Listing Rules.

The Asset Management Agency will become a connected person of the Company as the number of the A Shares held by the Asset Management Agency for the benefit of the connected persons of the Company will exceed 30% of the aggregate number of the A Shares held by the Asset Management Agency. Accordingly, the transfer of 2,973,900 Shares from the Company to the Asset Management Agency for the purposes of the Management Stock Ownership Scheme will constitute a connected transaction for the

Company. The Board is of the view that the transfer is on normal commercial terms for a transaction of similar purpose, fair and reasonable and in the interests of the Company and its shareholders as a whole. Since the applicable percentage ratios in respect of the transfer of Shares to the Asset Management Agency pursuant to the Management Stock Ownership Scheme are all below 0.1%, the relevant transfer is exempt from the announcement, reporting and shareholders' approval requirement under the Hong Kong Listing Rules.

4. THE EXTRAORDINARY GENERAL MEETING

Pursuant to the relevant PRC laws and regulations, the draft of the management stock ownership scheme proposed by the board of directors of a listed company shall be approved at a general meeting.

Resolutions will be proposed at the Extraordinary General Meeting to approve the Management Stock Ownership Scheme and authorize the Board to deal with the relevant matters in relation to the Management Stock Ownership Scheme. A circular containing, among other things, (i) summary of the principal terms of the Management Stock Ownership Scheme; and (ii) the notice of the Extraordinary General Meeting will be despatched to the Shareholders as soon as possible.

The Company will close its H share register from Tuesday, 3 November 2020 to Friday, 6 November 2020 (both days inclusive) to determine qualifications of shareholders to attend and vote at the EGM. Any H Shareholder who wishes to attend and vote at the EGM shall lodge an instrument of transfer, together with the corresponding share certificate(s) with Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m., Monday, 2 November 2020.

DEFINITIONS

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

“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
“Asset Management Agency”	the asset management agency to be entrusted by Management Stock Ownership Scheme
“Asset Management Plan”	the asset management plan to be established by the Asset Management Agency entrusted by the Management Stock Ownership Scheme in relation to the Management Stock Ownership Scheme

“Board”		the board of Directors
“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
“connected persons”		has the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”		the director(s) of the Company
“Management Ownership Scheme”	Stock	the proposed management stock ownership scheme (draft) of the Company
“Extraordinary Meeting” or “EGM”	General	the second extraordinary general meeting of 2020 of the Company to be held at 4/F, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China at 3:30 p.m. on Friday, 6 November 2020 to consider and, if thought fit, approve the Management Stock Ownership Scheme and the related matters or any adjournment thereof (as the case may be)
“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
“Holder(s)”		the management of the Company who contribute to the Management Stock Ownership Scheme
“Holders’ Meeting”		the meeting of the Holders
“Hong Kong”		the 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 Exchange”	Stock	The Stock Exchange of Hong Kong Limited
“Net Profit”		net profit attributable to the holders of ordinary shares of the Company
“PRC”		the People’s Republic of China

“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 Stock Exchange”	the Shenzhen Stock Exchange
“Supervisor(s)”	the supervisor(s) of the Company

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC

12 October 2020

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.

** English translation denotes for identification purposes only.*