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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)

Announcement on the Adjustment of Participants and Number of Share Options for the Second Exercise Period under the Share Option Incentive Scheme

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.

Pursuant to the “Resolution on the Adjustment of Participants and Number of Share Options for the Second Exercise Period of the Share Option Incentive Scheme” considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors of ZTE Corporation (the “Company”), the adjustment of participants and number of share options under the share option incentive scheme (the “Scheme”) was approved. Following the adjustment, the number of participants of the Scheme will be adjusted from 1,429 to 1,357, and the number of share options granted will be adjusted from 116,613,000 to 112,014,630 and, for the second exercise period, the number of participants entitled to exercise share options will be adjusted from 1,429 to 1,350, and the number of exercisable share options will be adjusted from 35,026,560 to 33,101,640. Matters pertaining to the adjustment are announced as follows:

I. Overview of the Scheme

(I) Pursuant to the “Resolution on the ZTE Corporation Share Option Incentive Scheme (Revised Draft) (the “Scheme”) and its Summary” and the “Resolution of ZTE Corporation on A Mandate Granted to the Board of Directors by the General Meeting to Deal with Matters pertaining to the Share Incentive Option Scheme” considered and approved at the Third Extraordinary General Meeting of 2013, the First A Shareholders’ Class Meeting of 2013 and the First H Shareholders’ Class Meeting of 2013 (together the “Meetings”) held on 15 October 2013, the Scheme was sanctioned and the Board of Directors was authorized by the general meeting of the Company to deal with matters pertaining to the Scheme.

(II) Pursuant to the “Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company” and the “Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted under the Share Option Incentive Scheme of the Company” (the “First Adjustment”) considered and approved at the Eleventh Meeting of the Sixth Session of the Board of Directors, the date of grant was set for 31 October 2013 and it was resolved that 102,989,000 share options would be granted to 1,528 participants, as adjusted, at an exercise price of RMB13.69. 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. On 31 October 2013, the “Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company” and the “Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted under the Share Option Incentive Scheme of the Company” were considered and approved at the Ninth Meeting of the Sixth Session of the Supervisory Committee. The Supervisory Committee has furnished an unequivocal affirmative examination opinion on the adjusted list of participants and number of share options to be granted. On 13 November 2013, the registration of grants under the Scheme was completed.

(III) At the Twenty-eighth Meeting of the Sixth Session of the Board of Directors held on 22 July 2015, the “Resolution on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” (the “Second Adjustment”) was considered and approved. After the implementation of the 2013 profit distribution plan, the exercise price of the share options was adjusted to RMB13.66. After the implementation of the 2014 plan for profit distribution and conversion of capital reserve, the number of share options was adjusted to 123,586,800 and the exercise price was adjusted to RMB11.22. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the adjustment of the number and exercise price of share options under the Scheme pursuant to the rules. At the Twenty-first Meeting of the Sixth Session of the Supervisory Committee held on 22 July 2015, the “Resolution on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” was considered and approved, giving consent to the implementation of the Second Adjustment by the Company and furnishing an unequivocal affirmative examination opinion on the Second Adjustment.

(IV) At the Thirty-second Meeting of the Sixth Session of the Board of Directors held on 27 October 2015, the “Resolution on the Adjustment of Participants and Number of Share Options for the First Exercise Period of the Share Option Incentive Scheme” (the “Third Adjustment”) was considered and approved. As 96 original participants had departed the Company, 1 original participant had deceased and 2 original participants had been terminated by the Company due to material violations of regulations, they were no longer qualified as participants under the Scheme. Accordingly, the Company disqualified the 99 aforesaid persons from participation in the Scheme and a total of 6,831,600 share options previously granted to them were cancelled. As 5 persons had not met the exercise conditions having not passed the annual performance appraisal for the first exercise period of the Scheme, a total of 142,200 granted original share options to be exercisable during the first exercise period were withdrawn and cancelled by the Company without compensation. The number of participants of the Scheme was adjusted from 1,528 to 1,429, and the number of share options granted was adjusted from 123,586,800 to 116,613,000 and, for the first exercise period, the number of participants entitled to exercise share options was adjusted from 1,528 to 1,424, and the number of exercisable share options was adjusted from 37,076,040 to 34,884,360. The Remuneration and Evaluation Committee of the Board of Directors of the Company has furnished an unequivocal affirmative opinion on the adjustment of participants and the number of share options for the first exercise period. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the adjustment of participants and the number of share options for the first exercise period. At the Twenty-fourth Meeting of the Sixth Session of the Supervisory Committee held on 27 October 2015, the “Resolution on the Adjustment of Participants and Number of Share

Options for the First Exercise Period of the Share Option Incentive Scheme” was considered and approved and the Supervisory Committee also furnished an unequivocal affirmative examination opinion on the Third Adjustment.

(V) At the Seventh Meeting of the Seventh Session of the Board of Directors held on 15 July 2016, the “Resolution on the Adjustment of the Exercise Prices of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” (the “Fourth Adjustment”) was considered and approved. After the implementation of the 2015 profit distribution plan, the exercise price of the share options was adjusted to RMB10.97. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the adjustment of the exercise price of share options under the Scheme pursuant to the rules. At the Fifth Meeting of the Seventh Session of the Supervisory Committee held on 15 July 2016, the “Resolution on the Adjustment of the Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” was considered and approved, giving consent to the implementation of the Fourth Adjustment by the Company and furnishing an unequivocal affirmative examination opinion on the Fourth Adjustment.

(VI) At the Ninth Meeting of the Seventh Session of the Board of Directors held on 27 October 2016, the “Resolution on the Adjustment of Participants and Number of Share Options for the Second Exercise Period of the Share Option Incentive Scheme” (the “Fifth Adjustment”) was considered and approved. As 17 participants under the Scheme have certain unexercised options outstanding as at the end of the exercisable period of the first exercise period¹ and 2 original participants have been terminated by the Company and disqualified as participants under the Scheme during the first exercise period due to material violations of regulations, a total of 327,690 share options previously granted to the 19 aforesaid persons but remained unexercised for the first exercise period shall be withdrawn and cancelled by the Company without compensation. As 65 original participants under the Scheme of the Company departed, 1 became a Supervisor, 2 were deceased, 1 was subject to action by judiciary authorities due to material violations of discipline and 3 were terminated by the Company due to material violations of regulations during the period from 2 November 2015 (namely, the commencement of the first exercise period) to the date of this announcement, they no longer qualify as participants under the Scheme. The Company shall disqualify the 72 aforesaid persons from participation in the Scheme and 1,759,320 share options previously granted to the 72 aforesaid persons for the second exercise period and 2,345,760 share options granted for the third exercise period (totaling 4,105,080 share options) shall be withdrawn and cancelled by the Company without compensation. 1 participant was punished by the Company with a demerit owing to his dereliction of duty or malfeasance damaging the interests or reputation of the Company during the period from 2 November 2015 to the date of this announcement and 6 participants did not pass the annual performance appraisal for the second exercise period of the Scheme. Such 7 persons did not meet the exercise conditions for the second exercise period and a total of 165,600 of their granted share options for the second exercise period shall be withdrawn and cancelled by the Company without compensation. Following the Fifth Adjustment, the number of participants entitled to exercise share options will be adjusted from 1,429 to 1,357, and the number of share options granted will be adjusted from 116,613,000 to 112,014,630. For the second exercise period, the number of participants entitled to exercise share options will be adjusted

¹The first exercise period under the Scheme lasted from 2 November 2015 to 31 October 2016. As participants are not allowed to exercise their share options during the period falling between 30 days before the announcement of regular reports and 2 trading days after such announcement, share options granted for the first exercise period cannot be exercised during the period from 27 September 2016 to 31 October 2016. As of now, the first exercise period under the Scheme has ended.

from 1,429 to 1,350, and the number of exercisable share options will be adjusted from 35,026,560 to 33,101,640. The Remuneration and Evaluation Committee of the Board of Directors of the Company has furnished an unequivocal affirmative opinion on the adjustment of participants and the number of share options for the second exercise period. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the adjustment of participants and the number of share options for the second exercise period. At the Seventh Meeting of the Seventh Session of the Supervisory Committee held on 27 October 2016, the “Resolution on the Adjustment of Participants and Number of Share Options for the Second Exercise Period of the Share Option Incentive Scheme” was considered and approved, giving consent to the implementation of the Fifth Adjustment by the Company and the Supervisory Committee also furnished an unequivocal affirmative examination opinion on the Fifth Adjustment.

II. Reasons for and method of the adjustments

(I) Reasons for the adjustments

As at the date of this announcement, as 17 participants under the Scheme have certain unexercised options outstanding as at the end of the exercisable period of the first exercise period and 2 original participants have been terminated by the Company and disqualified as participants under the Scheme during the first exercise period due to material violations of regulations, a total of 327,690 share options previously granted to the 19 aforesaid persons but remained unexercised for the first exercise period shall be withdrawn and cancelled by the Company without compensation.

As 65 original participants under the Scheme of the Company departed, 1 became a Supervisor, 2 were deceased, 1 was subject to action by judiciary authorities due to material violations of discipline and 3 were terminated by the Company due to material violations of regulations during the period from 2 November 2015 to the date of this announcement, they are no longer qualified as participants under the Scheme. The Company shall disqualify the 72 aforesaid persons from participation in the Scheme and a total of 1,759,320 share options previously granted to the 72 aforesaid persons for the second exercise period and 2,345,760 share options granted for the third exercise period (totaling 4,105,080 share options) shall be withdrawn and cancelled by the Company without compensation.

As 1 participant was punished by the Company with a demerit owing to his dereliction of duty or malfeasance damaging the interests or reputation of the Company during the period from 2 November 2015 to the date of this announcement and 6 participants did not pass the annual performance appraisal for the second exercise period of the Scheme, such 7 persons did not meet the exercise conditions for the second exercise period and a total of 165,600 of their granted share options for the second exercise period shall be withdrawn and cancelled by the Company without compensation.

Accordingly, a total of 4,598,370 share options previously granted to the aforesaid original participants shall be cancelled by the Company.

Following the Fifth Adjustment, the number of participants under the Scheme will be adjusted from 1,429 to 1,357, and the number of granted share options will be adjusted from 116,613,000 to 112,014,630, accounting for 2.69% of the current total share capital of the Company of 4,159,606,203 shares. The number of participants for the second exercise period

will be adjusted from 1,429 to 1,350, and the number of exercisable share options will be adjusted from 35,026,560 to 33,101,640.

(II) Comparison of particulars of the Scheme before and after adjustment

Item	Before Adjustment	After Adjustment
Total number of share options	116,613,000	112,014,630
As a percentage of the current total share capital of the Company	2.80%	2.69%
Total number of participants	1,429 persons	1,357 persons
Number of share options exercisable during the second exercise period	35,026,560	33,101,640
As a percentage of the current total share capital of the Company	0.84%	0.80%
Number of persons entitled to exercise the share options during the second exercise period	1,429 persons	1,350 persons

(III) Exercise of share options during the second exercise period after the adjustment

Following the Fifth Adjustment, the number of exercisable share options of the Company in the second exercise period shall be 33,101,640, accounting for 0.80% of the current total share capital of the Company. There shall be a total of 1,350 participants entitled to exercise the share options, comprising 9 Directors and senior management of the Company and 1,341 other participants, the details of which are set out as follows:

No.	Position	Name	Number of exercisable share options for the second exercise period	As a percentage of the total number of share options granted after the adjustment	As a percentage of the current total share capital
			(Unit: in ten thousands)		
1	Director and President	Zhao Xianming	18.0000	0.1607%	0.0043%
2	Director	Zhang Jianheng	1.0800	0.0096%	0.0003%
3	Executive Vice President	Fan Qingfeng	18.0000	0.1607%	0.0043%
4	Executive Vice President	Zeng Xuezhong	16.2000	0.1446%	0.0039%
5	Executive Vice President	Xu Huijun	12.6000	0.1125%	0.0030%
6	Executive Vice President	Pang Shengqing	16.2000	0.1446%	0.0039%
7	Executive Vice President	Zhang Zhenhui	7.0200	0.0627%	0.0017%
8	Executive Vice President	Chen Jianzhou	16.2000	0.1446%	0.0039%
9	Secretary to the Board	Cao Wei	2.5200	0.0225%	0.0006%
10	Other participants	1,341 persons	3,202.3440	28.5886%	0.7699%
	Total	1,350 persons	3,310.1640	29.5512%	0.7958%

For details, please refer to the Overseas Regulatory Announcement published by the Company on the same date as this announcement.

III. Opinion of the Remuneration and Evaluation Committee in respect of the adjustment of participants and number of share options for the second exercise period under the Scheme

For details, please refer to the Overseas Regulatory Announcement published by the Company on the same date as this announcement.

IV. Independent opinion of the Independent Non-executive Directors in respect of the adjustment of participants and number of share options for the second exercise period under the Scheme

For details, please refer to the Overseas Regulatory Announcement published by the Company on the same date as this announcement.

V. Examination of the adjustment of participants and number of share options for the second exercise period under the Scheme by the Supervisory Committee

The Supervisory Committee considered and approved the “Resolution on the Adjustment of Participants and Number of Share Options for the Second Exercise Period of the Share Option Incentive Scheme” at the Seventh Meeting of the Seventh Session of the Supervisory Committee held on 27 October 2016 and furnished an examination opinion on the adjustment of participants and number of share options under the Scheme. For details, please refer to the Overseas Regulatory Announcement published by the Company on the same date as this announcement.

VI. Conclusion of the legal opinion

Beijing Jun He Law Offices (Shenzhen Office) is of the view that, as at the date of issue of its “Legal Opinion on Matters pertaining to the Exercise of Share Options for the Second Exercise Period of ZTE Corporation,” the participants and number of share options for the current exercise, as adjusted by the Board of Directors of the Company pursuant to the mandate of general meeting of the Company and relevant provisions of the Scheme, are in compliance with relevant provisions of pertinent laws and regulations, the Scheme and the Articles of Association of ZTE Corporation.

VII. Documents for inspection

1. Resolution of the Ninth Meeting of the Seventh Session of the Board of Directors;
2. Resolution of the Seventh Meeting of the Seventh Session of the Supervisory Committee;
3. Examination Opinion of the Supervisory Committee on Matters pertaining to the Exercise of Share Options for the Second Exercise Period under the Share Option Incentive Scheme;
4. Independent Opinion of the Independent Non-executive Directors on Matters pertaining to the Exercise of Share Options for the Second Exercise Period under the Share Option Incentive Scheme;

5. Opinion of the Remuneration and Evaluation Committee of the Board of Directors on Matters pertaining to the Exercise of Share Options for the Second Exercise Period under the Share Option Incentive Scheme;

6. “Legal Opinion on Matters pertaining to the Exercise of Share Options for the Second Exercise Period of ZTE Corporation” furnished by Beijing Jun He Law Offices (Shenzhen Office).

By Order of the Board

Zhao Xianming

Chairman

Shenzhen, the PRC

27 October 2016

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Zhao Xianming, Yin Yimin and Wei Zaisheng; six non-executive directors, Zhang Jianheng, Luan Jubao, Shi Lirong, 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.