



**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)**

**ZTE CORPORATION**

**The Share Option Incentive Scheme Performance Appraisal System**

*(This document is an English translation of the Share Option Incentive Performance Appraisal System of ZTE Corporation (《中興通訊股份有限公司股票期權激勵計畫績效考核制度》). Should there be any inconsistencies or conflicts between the English and Chinese versions, the Chinese version shall prevail)*

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## **ZTE CORPORATION**

### **The Share Option Incentive Scheme Performance Appraisal System**

The Share Option Incentive Scheme Performance Appraisal System of ZTE Corporation (“Performance Appraisal System”) is formulated in accordance with the Company Law of the People’s Republic of China (“Company Law”) and other pertinent laws and regulations as well as the prevailing performance appraisal systems with a view to improving the corporate governance structure, strengthening performance management and the incentive and binding mechanism of ZTE Corporation (the “Company” or “ZTE”), and assuring smooth implementation of the Company’s Share Option Incentive Scheme.

#### **I. Purpose of Performance Appraisal**

The scientific and comprehensive performance management system has been developed with the aim of fully implementing strategic goals in the Company’s overall development, assuring concerted efforts on the part of the Company staff to develop work and expand business in the overall interests of the Company, ensuring a high level of consistency between operational targets and the Company’s strategy, strengthening the Company’s incentive and binding mechanism and ensuring smooth implementation of the Share Option Incentive Scheme.

#### **II. Participants of Performance Appraisal**

1. Participants to be evaluated under the Performance Appraisal System shall be participants of Share Option Incentive Scheme.
2. The Company shall determine scheme participants subject to appraisal based on relevant provisions of the Company Law, Securities Law of the People’s Republic of China, Administrative Measures on Share Incentives of Listed Company (Trial) (《上市公司股權激勵管理辦法（試行）》) and Articles of Association of ZTE Corporation (the “Articles”) and other pertinent laws, regulations and regulatory documents; subject to compliance with laws and regulations and the Articles, the Company may adjust the scope of scheme participants to reflect changes in the Company’s business development and according to results of individual performance appraisals.
3. The Share Option Incentive Scheme shall be subject to consideration and approval by the board of directors of the Company (the “Board”) and verification by the supervisory committee of the Company, which shall give an account of the findings of the verification at the Company’s general meeting.

#### **III. Bases and Principles for Performance Appraisal**

Different appraisal indicators and corresponding targets shall be set for different job positions and duties under the ZTE performance appraisal criteria, and such indicators and targets shall

be subject to annual review and necessary adjustments. The share option incentives concerned shall be bound by the Performance Appraisal System, and the Board shall determine the number of exercisable options for scheme participants according to the results of the Company's overall performance appraisal and the extent of completion of individual performance.

The Company shall conduct a breakdown of its key business performance indicators to job positions at various levels in accordance with approved job duties. Management officers and their staff at various units shall agree on performance targets, performance indicators and evaluation criteria through mutual discussions. Specific requirements are as follows:

1. The targets should be specific, quantitative, with an appropriate measure of challenge and subject to deadlines. Individual targets should be set in close tandem with the targets of the entity with a view to mutual benefit.
2. In respect of a position subject to matrix management, performance targets for the employee concerned shall be jointly determined by his / her immediate administrative supervisor together with his / her immediate business supervisor.

#### **IV. Duties of the Organization Responsible for the Performance Appraisal System**

The Performance Appraisal System, formulated and subject to interpretation and revision by the Company's human resources department (the "Human Resources Department"), shall come into effect on the date of publication. Departments responsible for organizing and implementing performance appraisal shall include the Company's operations management department, strategic planning department, financial management department and the Human Resources Department.

1. As the highest authority in the performance appraisal system, the Board and the remuneration and evaluation committee thereunder shall be responsible for formulating the targets of performance appraisal and the principles for appraisal and shall be vested with the authority to finalize appraisal results.
2. The Human Resources Department shall be responsible for setting up, in association with the Company's operations management department, strategic planning department and the financial management department, a Company appraisal and evaluation team, which shall be in charge of monitoring and coordinating appraisal and evaluation activities of various business units and relevant subsidiaries ("Units") of the Company.
3. Appraisal and evaluation teams at the respective Units shall be responsible for the selection, evaluation and examination, appraisal and assessment and determination of option quotas in respect of scheme participants in the respective Units under the teams' jurisdiction.

## **V. The Performance Appraisal System**

### **1. Contents of Appraisal**

Performance appraisals in respect of the Company's directors (the "Director(s)") and senior management on the one hand and key personnel on the other shall be separately conducted.

#### **(1) Appraisal of the Company's Directors and senior management**

Appraisal of the Company's Directors and senior management shall be conducted by the remuneration and evaluation committee of the Board and reported to the Board for examination and confirmation. Appraisal of the Directors shall be based on the overall business performance indicators of the Company. Principal business performance indicators for the senior management shall be distinguished into two groups, namely financial indicators and non-financial indicators, in connection with which appraisal targets corresponding to such indicators shall be set annually based on pole data of industry peers and the Company's actual requirements by the remuneration and evaluation committee of the Board.

The Human Resources Department shall compute the performance results of the Company's Directors and senior management based on the extent of actual completion of the aforesaid appraisal indicators and specific targets.

#### **(2) Appraisal of Key Personnel**

1) Appraisal shall be conducted on an annual basis; and

2) Appraisal and evaluation teams at various levels shall evaluate scheme participants in the respective Units under the teams' jurisdiction in terms of their business performance, competence and values, in order to generate performance appraisal results.

### **2. Management of Appraisal Results**

#### **(1) Revision of Appraisal Indicators and Results**

In the event of material force majeure or exceptional reasons occurring during the appraisal period that has affected the work and business performance of persons under appraisal, the Company's remuneration and evaluation committee may revise appraisal indicators and appraisal results with significant deviation;

#### **(2) Feedback on Appraisal Results**

Personnel under appraisal shall be notified of the appraisal results within 10 working days after the appraisal is completed.

## **VI. How Performance Appraisal Might Affect Share Option Incentives**

The exercise of share options granted to scheme participants shall be subject to the fulfillment of the Company's overall business performance indicators / targets and the achievement of a passing level for individual performance appraisal. Specifically, the conditions of fulfillment are as follows:

1. Achievement of the Company's overall performance appraisal targets; and
2. Achievement of the individual performance appraisal targets of the participant under appraisal: scheme participants having achieved a passing level in the appraisal for the previous year in accordance with the Performance Appraisal System.

If a scheme participant meets the aforesaid precedent conditions for the exercise of options, he / she may exercise all options exercisable during the relevant exercise period. If a scheme participant does not meet the precedent conditions for the exercise of options, the exercisable options granted to the scheme participant for the relevant exercise period will be withdrawn and cancelled by the Company without any compensation.

Provisions of ZTE Corporation Share Option Incentive Scheme (Draft) relating to the exercise of options of scheme participants, if any, shall otherwise prevail.

## **VII. Supplementary Provisions**

The Performance Appraisal System shall be subject to interpretation and revision by the Human Resources Department and shall come into effect upon consideration and approval by the Board and the general meeting.

Shenzhen, the PRC

22 July 2013