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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**

### **Repurchase and Cancellation of Restricted Shares**

#### **Not Qualified for Unlocking**

*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 or misleading statement or material omission in this announcement*

In accordance with “Phase I of the Share Incentive Scheme (Version Dated 5 February 2007)” (the “**Phase I Share Incentive Scheme**”) considered and passed at the First Extraordinary General Meeting of 2007 of ZTE Corporation (“**ZTE**” or the “**Company**”) and the resolution passed by the Board of Directors (the “**Board**”) of the Company on 25 November 2008, the Company has granted a designated volume of restricted A share quotas (the “**Subject Shares**”) to the Scheme Participants. As at 24 December 2012, all Subject Shares qualified for unlocking had been listed for trading, while 2,536,742 shares remained in lock-up due to non-fulfillment of unlocking conditions stipulated under the Phase I Share Incentive Scheme, such as resignations or non-fulfillment of benchmarks in performance appraisals by Scheme Participants. In accordance with the provisions of the Phase I Share Incentive Scheme, the Company has proposed to repurchase and cancel such shares.

#### **I. Overview of the Phase I Share Incentive Scheme of the Company**

Pursuant to the “Resolution with respect to Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007),” “Resolutions regarding the grant of Subject

Shares (including the number of shares) to 21 Scheme Participants who are Directors and Senior Management of the Company pursuant to Phase I of the Share Incentive Scheme of ZTE Corporation” and “Resolution regarding requesting the general meeting of ZTE Corporation to authorise the Board to deal with certain matters regarding Phase I of the Share Incentive Scheme” considered and passed at the First Extraordinary General Meeting of 2007 of the Company, it was determined that 2.06 million Subject Shares would be allocated to 21 Directors and senior management personnel, while 41,122,000 Subject Shares would be allocated to 3,414 Scheme Participants who were key personnel (the “**First Award**”), and 4,798,000 Subject Shares would be reserved for important employees making significant contributions to the Company and those recruited by the Company. The Board was authorised to deal with practical matters relating to the Phase I Share Incentive Scheme.

Pursuant to the “Resolution of the Company regarding the adjustment of the number of Subject Shares and granting of Reserved Subject Shares to the staff under Phase I of the Share Incentive Scheme” considered and approved at the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the Board approved the adjustment of the total number of Subject Shares provided for in the Phase I Share Incentive Scheme to 67,172,000 A shares and the adjustment of the number of reserved Subject Shares (being 10% of the total number of Subject Shares) to 6,717,200 A shares accordingly as a result of the Company’s implementation of the 2007 plans for profit distribution and capitalisation of capital reserves on 10 July 2008. It was also resolved that 794 Scheme Participants (including 23 employees who were also Scheme Participants under the First Award) be awarded the reserved Subject Shares, namely 10% of the total Subject Share quota equivalent to 6,717,200 shares (the “**Second Award**”).

At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was confirmed that, as a result of the implementation of the 2008 plans for profit distribution and capitalisation of capital reserve, the number of Subject Shares under the Share Incentive Scheme were accordingly adjusted to 87,323,600 shares, comprising 78,591,240 shares as adjusted under the First Award and 8,732,360 shares as

adjusted under the Second Award. At the said Board meeting, it was also verified and confirmed that, Subject Shares granted to certain employees who had left the Company or waived participation in the Share Incentive Scheme would lapse in accordance with provisions of the Phase I Share Incentive Scheme, and that the number of Scheme Participants under the First Award of the Phase I Share Incentive Scheme of the Company would be adjusted to 3,274 and the number of Subject Shares granted to them be adjusted to 76,563,578 shares accordingly; the number of Scheme Participants under the Second Award of the Phase I Share Incentive Scheme of the Company would be adjusted to 771, and the number of Subject Shares granted to them be adjusted to 8,486,660 shares accordingly.

In July 2009, a total of 85,050,238 Subject Shares were granted to 4,022 Scheme Participants who were in-service employees under the Phase I Share Incentive Scheme of the Company and registration with China Securities Depository & Clearing Corporation Limited, Shenzhen Branch was duly completed; the first unlocking of Subject Shares under the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009. After deduction of 43,425 shares, being Subject Share quotas cancelled as a result of non-fulfillment of conditions for the first unlocking, the Company's total share capital was increased by 85,006,813 shares.

As a result of the Company's implementation of the 2009 and 2010 profit distribution plans (2009: issue of 5 shares for every 10 shares held by way of capitalization of the capital reserve; 2010: issue of 2 shares for every 10 shares held by way of capitalisation of the capital reserve), the number of Subjects Shares under the First Award and the Second Award has been adjusted accordingly.

## **II. Bases and reasons for the current repurchase and cancellation of restricted shares**

### **1. Resignation of Scheme Participants**

In accordance with Paragraph IX.(I).2 of the Phase I Share Incentive Scheme, "Scheme Participants who leave the Company as a result of resignation or lay-off by the Company may exercise their normal rights in respect of the unlocked Subject Shares they held in accordance with the provisions of the Share Incentive Scheme. Their Subject Shares still subject to

lock-up shall not be unlocked. The Company shall return to the Scheme Participants the subscription cost for the Subject Shares still subject to lock-up purchased by the Scheme Participants at their own cost and the quota for such Subject Shares shall be cancelled.” Since the completion of registration of Subject Shares under the Company’s Phase I Share Incentive Scheme with China Securities Depository & Clearing Corporation Limited, Shenzhen Branch in July 2009, 75 Scheme Participants under the First Award have resigned prior to the unlocking of the corresponding restricted shares held by them and a total of 2,003,628 shares that would no longer be unlocked have been repurchased by the Company at a price equivalent to the cost payable for the subscription of Subject Shares<sup>1</sup> (RMB3.49/share); 36 Scheme Participants under the Second Award have resigned prior to the unlocking of the corresponding restricted shares held by them and a total of 424,505 shares that would no longer be unlocked have been repurchased by the Company at a price equivalent to the cost payable for the subscription of Subject Shares (RMB4.73/share).

## 2. Non-fulfillment of conditions for the unlocking of Subject Shares

In accordance with Paragraph IX.(IV) of the Phase I Share Incentive Scheme, “where the conditions for unlocking have not been satisfied for any one year in the Unlocking Period, no application made by the Scheme Participants during such year or in subsequent years for the unlocking of the Subject Shares for that year will be accepted. The Company shall return to the Scheme Participants the subscription cost for the Subject Shares purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.”

Since the increase of the Company’s share capital with the completion of registration of the Company’s Phase I Share Incentive Scheme with China Securities Depository & Clearing Corporation Limited, Shenzhen Branch in July 2009, 102,099 shares granted to 14 Scheme Participants under the First Award (1 of whom had left the Company prior to the unlocking of his restricted shares) that would no longer be unlocked have been repurchased by the

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<sup>1</sup> In accordance with pertinent provisions of the Phase I Share Incentive Scheme of the Company, restricted shares under the share incentive scheme are entitled to shares issued by way of capitalisation of the capital reserve, but are not entitled to cash dividend distribution. The "prices equivalent to the cost payable for the subscription of Subject Shares" referred to in this Announcement have been adjusted according to the plans for capitalisation of the capital reserve implemented for the years subsequent to the grant of Subject Shares by the Company.

Company at a price equivalent to the cost payable for the subscription of Subject Shares (RMB3.49/share); 6,510 shares granted to 2 Scheme Participants under the Second Award that would no longer be unlocked have been repurchased by the Company at a price equivalent to the cost payable for the subscription of Subject Shares (RMB4.73/share).

To sum up, the number of restricted shares proposed to be repurchased from 126 Scheme Participants is 2,536,742 shares, accounting for 1.61% of the Subject Shares under the Phase I Share Incentive Scheme and approximately 0.07% of the current total share capital of the Company. The repurchase will be funded by the Company's internal resources.

### 3. Disposal of repurchased shares

Following the completion of the implementation of the current repurchase plan, the Company will cancel all repurchased shares within 10 days of the repurchase in accordance with the law, and will process capital reduction and amend the Articles of Association of ZTE Corporation (the “**Articles of Association**”) in accordance with the Company Law and other pertinent laws and regulations.

Meanwhile, in accordance with the “Prospectus for the Public Issue of 2012 Corporate Bonds by ZTE Corporation (First Tranche)” (《中興通訊股份有限公司公開發行 2012 年公司債券募集說明書 (第一期)》) issued in June 2012, any capital reduction by the Company during the effective term of the bonds shall be subject to the approval of bondholders or their proxies representing more than one-half of the total voting rights attached to the bonds at a bondholders' meeting.

### **III. Changes in the share capital structure of the Company following the repurchase and cancellation of certain restricted shares**

Following the completion of the repurchase, the total share capital of the Company shall be changed from 3,440,078,020 shares to 3,437,541,278 shares. The change in the Company's share capital structure is set out as follows:

Unit: shares

Type of shares	Prior to the change		Increase / decrease (+/-) as a result of the change	After the change	
	Number of shares (shares)	Percentage (%)		Number of shares (shares)	Number of shares (shares)
<b>I. Shares subject to lock-up</b>	11,510,476	0.33%	-2,536,742	8,973,734	0.26%
1. State-owned shares	-	-	-	-	-
2. State-owned corporate shares	-	-	-	-	-
3. Other domestic shares	2,536,742	0.07%	-2,536,742	-	-
Comprising: domestic corporate shares	-	-	-	-	-
Domestic natural person shares	2,536,742	0.07%	-2,536,742	-	-
4. Foreign shares	-	-	-	-	-
Comprising: foreign corporate shares	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-
5. Senior management shares	8,973,734	0.26%	-	8,973,734	0.26%
<b>II. Shares not subject to lock-up</b>	3,428,567,544	99.67%	-	3,428,567,544	99.74%
1. RMB ordinary shares	2,798,982,099	81.37%	-	2,798,982,099	81.43%
2. Domestic-listed foreign shares	-	-	-	-	-
3. Overseas-listed foreign shares (H shares)	629,585,445	18.30%	-	629,585,445	18.31%
4. Others	-	-	-	-	-
<b>III. Total number of shares</b>	3,440,078,020	100.00%	-	3,437,541,278	100.00%

#### IV. Effect of the repurchase and cancellation of restricted shares on the Company

The current repurchase and cancellation of restricted shares represents actions taken by the Company in respect of Subject Shares not fulfilling conditions for unlocking in accordance with the Phase I Share Incentive Scheme. The volume of restricted shares to be repurchased and cancelled is relatively small, as is the small amount of funds is required for the repurchase. Therefore, the Company's financial conditions and operating results will not be materially affected.

#### V. Opinion of the Independent Non-executive Directors

In accordance with pertinent provisions of the "Measures for the Administration of Share Incentives at Listed Companies (Trial)," "Guiding Opinion for the Establishment of Independent Director Systems at Listed Companies," "Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange" and other laws, regulations and regulatory documents and

the Articles of Association, the Independent Non-executive Directors, namely Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Tan Zhenhui, have expressed their opinion on the Company's repurchase and cancellation of restricted shares of Scheme Participants remaining in lock-up: In accordance with relevant provisions of the Phase I Share Incentive Scheme of the Company, 2,536,742 shares have not been unlocked owing to non-fulfillment of unlocking conditions stipulated under the Phase I Share Incentive Scheme as a result of the resignation(s) of Scheme Participants or non-fulfillment of benchmarks in performance appraisals. The Company, according to the Phase I Share Incentive Scheme, has proposed to repurchase and cancel such Subject Shares at cost equivalent to the price paid by Scheme Participants for the subscription of such shares. We are of the view that the Company's current repurchase and cancellation of restricted shares of Scheme Participants remaining in lock-up is in the compliance with the law and regulations and we concur with the Company's repurchase and cancellation of restricted shares of Scheme Participants remaining in lock-up.

#### **VI. Verification opinion of the Supervisory Committee**

In accordance with pertinent provisions of the "Measures for the Administration of Share Incentives at Listed Companies (Trial)" and the Articles of Association, the Supervisory Committee has verified and expressed its opinion on the reasons, volumes and list of Scheme Participants in respect of the Company's current repurchase and cancellation of restricted shares as follows: As a total of 2,536,742 shares has not been unlocked owing to non-fulfillment of unlocking conditions stipulated under the Phase I Share Incentive Scheme as a result of the resignations or non-fulfillment of benchmarks in performance appraisals by 126 Scheme Participants, the Company's proposed repurchase and cancellation of such Subject Shares at cost equivalent to the price paid by Scheme Participants for the subscription of such shares is in compliance with the laws and regulations of "Measures for the Administration of Share Incentives at Listed Companies (Trial)," and relevant provisions of the Phase I Share Incentive Scheme of the Company. The repurchase and cancellation of restricted shares is legal and valid.

## **VII. Documents available for inspection**

1. Resolutions of the Third Meeting of the Sixth Session of the Board of the Company;
2. Resolutions of the Third Meeting of the Sixth Session of the Supervisory Committee of the Company;
3. Opinion of the Independent Non-executive Directors;
4. Verification opinion of the Supervisory Committee.

By Order of the Board  
**Hou Weigui**  
*Chairman*

Shenzhen, the PRC  
8 May 2013

*As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyong; six non-executive directors, Hou Weigui, Zhang Jianheng, Xie Weiliang, Wang Zhanchen, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Timothy Alexander Steinert.*