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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 Fulfillment of Exercise Conditions 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.

Important reminders:

1. Exercise period: 1 November 2016 to 31 October 2017 (both dates inclusive)
2. Exercise price: RMB10.97 / share
3. Number of share options exercisable: 33,101,640
4. Method of exercise: voluntary exercise

As considered at the Ninth Meeting of the Seventh Session of the Board of Directors, exercise conditions for the second exercise period under the share option incentive scheme of the Company have been fulfilled, the details of which are announced as follows:

I. Overview of the Scheme

Pursuant to the “Resolution on the ZTE Corporation Share Option Incentive Scheme (Revised Draft) (the “Scheme”) and its Summary” 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 approved.

Under the 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 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 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” considered and approved at the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant was set for 31 October 2013 (the “Date of Grant”). 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 of the Company. The Sixth 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. On 13 November 2013, the registration of grants under the Scheme was completed and the initial exercise price of the share options was set at RMB13.69.

Pursuant to the “Resolution of ZTE Corporation on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors held on 22 July 2015, the number of share options was adjusted to 123,586,800 and the exercise price of the share options was adjusted to RMB11.22 after the implementation of the 2013 profit distribution plan and the 2014 plan for profit distribution and conversion of capital reserve. 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 and an unequivocal affirmative examination opinion on the adjustment was furnished.

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” and the “Resolution on the Fulfillment of Exercise Conditions for the First Exercise Period of the Share Option Incentive Scheme” were considered and approved to confirm the fulfillment of exercise conditions for the first exercise period under the Scheme. Following the adjustment, there shall be 1,424 participants entitled to exercise the share options and 34,884,360 exercisable share options for the first exercise period under the Scheme. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the fulfillment of exercise conditions for the first exercise period and the adjustment of participants entitled to exercise the share options and the number of share options. 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” and the “Resolution on the Fulfillment of Exercise Conditions for the First Exercise Period under the Share Option Incentive Scheme” were considered and approved to confirm the fulfillment of exercise conditions for the first exercise period under the Scheme and an unequivocal affirmative examination opinion on the adjusted list of participant and number of share options granted was furnished.

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” 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 adjustment by the Company and furnishing an unequivocal affirmative examination opinion on the adjustment.

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” and the “Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period of the Share Option Incentive Scheme” were considered and approved to confirm the fulfillment of exercise conditions for the second exercise period under the Scheme. Following the adjustment, there shall be 1,350 participants entitled to exercise the share options and 33,101,640 exercisable share options for the second exercise period under the Scheme. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the fulfillment of exercise conditions for the second exercise period and the adjustment of participants entitled to exercise the share options and the number of share options. 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” and the “Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period under the Share Option Incentive Scheme” were considered and approved to confirm the fulfillment of exercise conditions for the second exercise period under the Scheme and an unequivocal affirmative examination opinion on the adjusted list of participant and number of share options granted was furnished.

II. Details of the exercise conditions and fulfillment of exercise conditions for the second exercise period under the Scheme

(I) The second exercise period is forthcoming.

In accordance with the Scheme, participants may exercise their share options only after the expiry of a 2-year period from the Date of Grant. The first exercise period under the Scheme ends on 31 October 2016. The second exercise period under the Scheme will commence on 1 November 2016. A participant entitled to exercise his / her share options in the second exercise period, as adjusted and confirmed, may exercise 30% of the share options granted to him / her during the exercise period between 1 November 2016 and 31 October 2017 (both dates inclusive).

(II) Exercise conditions to be fulfilled for the second exercise period

Exercise conditions required to be fulfilled for the second exercise period are as follows:

1. Within the valid period of the Scheme, the net profit attributable to shareholders of the listed company and the net profit after extraordinary items attributable to shareholders of the listed company cannot be lower than the average of the three most recent accounting years before the Date of Grant and cannot be a negative figure.

2. The weighted average return on net assets for 2015 shall be no less than 8% and the growth rate of net profit attributable to shareholders of the listed company for 2015 over 2014 shall be no less than 20%.

Net profit adopted in the calculation of the above indicators is the lower of net profit before extraordinary items and net profit after extraordinary items. Net assets refer to net assets attributable to shareholders of the listed company.

3. None of the following has occurred to ZTE:

(1) the issue of an audit report containing an adverse opinion or indication of inability to give an opinion by a certified public accountant in respect of the financial and accounting report for the most recent financial year;

(2) The imposition of administrative penalties by the CSRC during the past year due to material non-compliance of laws and regulations; or

(3) Other circumstances as determined by the CSRC.

4. None of the following has occurred to the participant:

(1) having been publicly censured or declared as an ineligible candidate by the Shenzhen Stock Exchange in the last three years;

(2) having been imposed with administrative penalties by the CSRC during the last three years due to material non-compliance of laws and regulations;

(3) being prohibited from acting as a Director or a member of the senior management of the Company under the Company Law; or

(4) having committed other material violations of relevant regulations of the Company, as determined by the Board of Directors of the Company.

5. The participant has passed the performance appraisal for the previous year in accordance with the ZTE Share Option Incentive Scheme Performance Appraisal System.

(III) Exercise conditions of the second exercise period have been fulfilled.

1. According to the audited 2013 financial reports of the Company considered and passed at the 2013 Annual General Meeting of the Company, net profit of the Company attributable to shareholders of the listed company for 2013 amounts to RMB1,358 million, while net profit after extraordinary items attributable to shareholders of the listed company amounts to RMB73 million, which are not lower than the respective average amounts of RMB823 million and RMB-130 million for the three accounting years (2010-2012) immediately prior to the Date of Grant (31 October 2013).

According to the audited 2014 financial reports of the Company considered and passed at the 2014 Annual General Meeting of the Company, net profit of the Company attributable to shareholders of the listed company for 2014 amounts to RMB2,634 million, while net profit after extraordinary items attributable to shareholders of the listed company amounts to RMB2,072 million, which are not lower than the respective average amounts of RMB823 million and RMB-130 million for the three accounting years (2010-2012) immediately prior

to the Date of Grant (31 October 2013).

According to the audited 2015 financial reports of the Company considered and passed at the 2015 Annual General Meeting of the Company, net profit of the Company attributable to shareholders of the listed company for 2015 amounts to RMB3,208 million, while net profit after extraordinary items attributable to shareholders of the listed company amounts to RMB2,578 million, which are not lower than the respective average amounts of RMB823 million and RMB-130 million for the three accounting years (2010-2012) immediately prior to the Date of Grant (31 October 2013).

2. According to the audited 2015 financial reports of the Company considered and passed at the 2015 Annual General Meeting of the Company, the weighted average return on net assets for 2015 is 12.28%, and the weighted average return on net assets after extraordinary items for 2015 is 9.87%; the net profit growth rate for 2015 compared to 2014 is 21.81%, while the net profit growth rate after extraordinary items for 2015 compared to 2014 is 24.42%, which fulfills the exercise conditions for the second exercise period that requires “the weighted average return on net assets for 2015 to be not lower than 8% and the growth rate of net profit attributable to shareholders of the listed company for 2015 over 2014 to be not lower than 20%.”

Notes:

(1) In accordance with the Scheme, net profit adopted in the calculation of the weighted average return on net assets (ROE) and the growth rate of net profit attributable to shareholders of the listed company (net profit growth rate) shall be the lower of net profit before extraordinary items and net profit after extraordinary items. Net assets refer to net assets attributable to shareholders of the listed company.

(2) The weighted average return on net assets (ROE) is calculated in accordance with “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》).

(3) Comparison between the net profit growth rate for 2015 over 2014 is conducted as follows:

Comparison between the net profit growth rate for 2015 over 2014 is arrived at by: $[(\text{Net profit attributable to shareholders of the listed company for 2015} \div \text{Net profit attributable to shareholders of the listed company for 2014}) - 1] \times 100\%$

Comparison between the growth rate of net profit after extraordinary items for 2015 over 2014 is arrived at by: $[(\text{Net profit after extraordinary items attributable to shareholders of the listed company for 2015} \div \text{Net profit after extraordinary items attributable to shareholders of the listed company for 2014}) - 1] \times 100\%$

3. None of the events described under Paragraph II (II) 3 above has occurred to ZTE, while none of the events described under Paragraph II (II) 4 above has occurred to any participants. The participants have also passed the performance appraisal for the previous year in accordance with the ZTE Share Option Incentive Scheme Performance Appraisal System.

(IV) Share options not qualified to be exercised

In accordance with the Scheme, share options not qualified to be exercised or share options not exercised after the conclusion of the exercise period will lapse with immediate effect and will be withdrawn and cancelled by the Company without compensation.

Based on the above and a review of the actual conditions of the Company against conditions required to be fulfilled for the second exercise period under the Scheme, the exercise conditions for the second exercise period of the Company have been fulfilled.

III. Arrangements for exercise in the second exercise period under the Scheme

(I) Source of underlying Shares of the Scheme

The source of the underlying shares for the exercise of share options in the second exercise period under the Scheme shall be additional ordinary A Shares denominated in RMB placed to participants by the Company.

(II) Participants entitled to exercise their share options and number of share options exercisable in the second exercise period under the Scheme

As certain participants no longer fulfill the conditions for becoming a participant or for exercising the share options in the second exercise period prior to the current exercise by reason of departure, decease, being subject to action by judiciary authorities owing to material violations of disciplinary, termination by the Company due to material violations of regulations, became a Supervisor, not having passed the annual performance appraisal corresponding to the second exercise period, being subject to punishment by the Company with a demerit owing to his dereliction of duty or malfeasance damaging the interests or reputation of the Company and other instances of non-fulfilment of the exercise conditions, there shall be 1,350 participants entitled to exercise their share options and 33,101,640 share options exercisable in the second exercise period under the Scheme. For details, please refer to the “Announcement on the Adjustment of Participants and Number of Share Options for the Second Exercise Period under the Share Option Incentive Scheme” published by the Company on 27 October 2016.

After the adjustment, participants entitled to exercise their share options and the number of share options exercisable in the second exercise period under the Scheme are as follows:

Position	Name	Number of share options exercisable in the second exercise period
		(Unit: in ten thousands)
Director and President	Zhao Xianming	18.0000
Director	Zhang Jianheng	1.0800
Executive Vice President	Fan Qingfeng	18.0000
Executive Vice President	Zeng Xuezhong	16.2000
Executive Vice President	Xu Huijun	12.6000
Executive Vice President	Pang Shengqing	16.2000
Executive Vice President	Zhang Zhenhui	7.0200

Position	Name	Number of share options exercisable in the second exercise period
		(Unit: in ten thousands)
Executive Vice President	Chen Jianzhou	16.2000
Secretary to the Board	Cao Wei	2.5200
Other participants	1,341 persons	3,202.3440
Total	1,350 persons	3,310.1640

(III) Exercise price

The exercise price for the second exercise period of the share options was adjusted to RMB10.97 after the implementation of the 2013 profit distribution plan, 2014 plan for profit distribution and conversion of capital reserve and the 2015 profit distribution plan. In the event of any dividend distribution, increase of share capital by way of conversion of capital reserve, issue of bonus shares, share division or consolidation during the exercise period, the exercise price will be adjusted accordingly.

(IV) Exercise period

The second exercise period under the Scheme shall be from 1 November 2016 to 31 October 2017 (both dates inclusive). Participants shall not exercise their share options during the following periods:

1. The period commencing from 30 days prior to the publication of periodic report, or in the event of delay in publishing the periodic report for special reasons, 30 days prior to the original date of publication, and ending on the second trading day after the publication of the periodic report;
2. The period commencing on the date which is 10 days prior to the preliminary results announcement or express results announcement of the Company and ending on the second trading day after the announcement;
3. The period during which the decision-making in respect of a substantial transaction or significant event is in process until the second trading day after the announcement of such event;
4. The period commencing on the date on which other significant events that may affect the share price take place and ending on the second trading day after the announcement of such event;
5. In case the participant is a Director, the period of 60 days immediately preceding the publication date of the annual results of the Company up to (and including) the publication date of the results, and the period of 30 days immediately preceding the publication date of the interim or quarterly results of the Company up to (and including) the publication date of such results.

Participants who are Directors or members of the senior management should avoid short-term trading, namely, they shall not sell their holdings of shares in the Company within 6 months after exercising any share options, nor shall they exercise the share options within 6 months

after selling any of their holdings of shares in the Company.

(V) Trading in the Company's shares by participants who are Directors or senior management during the 6 months immediately prior to the date of this announcement

There was no trading in the shares of the Company during the 6 months immediately prior to the date of this announcement by Directors or members of the senior management who were also participants.

(VI) Method of exercise

The participants shall exercise the share options on a voluntary basis and shall complete custodian registration procedures with China Securities Depository & Clearing Corporation Limited, Shenzhen Branch.

(VII) Management of proceeds from the exercise of share options and arrangements for the payment of personal income tax

Proceeds received from the exercise of share options shall be placed in a designated account of the Company. The participants shall fund the exercise of share options at their own costs. Gains generated by the participants under the Scheme shall be subject to personal income tax and other tax charges in accordance with national laws and regulations on taxation.

(VIII) The exercise of share options will not result in the distribution of shareholdings not meeting listing requirements

The 33,101,640 share options currently exercisable account for 0.80% of the total share capital of the Company of 4,159,606,203 shares. The full exercise of share options exercisable in the second exercise period will result in the increase of the Company's share capital to 4,192,707,843 shares, which will not result in non-compliance with listing requirements regarding the breakdown of shareholdings.

IV. The effect of the exercise on the financial conditions and results of operation of the Company for the relevant year

In accordance with "ASBE 11 – Share-based Payment," services rendered by participants are charged to relevant costs or expenses at the fair value of the share options on the Date of Grant and the capital reserve is credited accordingly, based on the best estimates of number of exercisable share options. Costs and expenses thus recognised will not be adjusted during the exercise period of the share options. At each balance sheet date, share options exercised are transferred to and recognised in the capital reserve.

The share options shall be exercised by participants on a voluntary basis. The fair value on the Date of Grant of equity-settled share options granted is estimated by an independent third party engaged by the Company using the Binomial Tree model taking into account the terms and conditions for the grant of share options. The fair value of share options granted in 2013 is RMB524,023,000, while the amounts of share option expenses recognised for 2013, 2014 and 2015 are RMB29,707,000, RMB178,241,000 and RMB166,829,000, respectively, and the estimated amounts of share expenses to be recognised for 2016 and 2017 are RMB101,102,000 and RMB48,144,000, respectively.

If the exercisable share options are exercised in full, the total share capital of the Company will increase by 33,101,640 shares, and its capital reserve will increase by RMB330,023,351. Based on relevant figures as at the end of 2015, basic earnings per share for 2015 would have decreased by RMB0.00618, and fully diluted return on net assets would have decreased by 0.131%. The actual figures of the effect are subject to figures audited by the accountant.

V. Verification opinion of the Remuneration and Evaluation Committee on matters pertaining to the exercise of share options in the second exercise period

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

VI. Independent opinion of the Independent Non-executive Directors on matters pertaining to the exercise of share options in the second exercise period

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

VII. Examination opinion of the Supervisory Committee on matters pertaining to the exercise of share options in the second exercise period

Pursuant to the “Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period of the Share Option Incentive Scheme” considered and approved at the Seventh Meeting of the Seventh Session of the Supervisory Committee held on 27 October 2016, the Supervisory Committee is of the view that the exercise conditions for the second exercise period under the Scheme have been fulfilled and approves the exercise of share options by participants that have fulfilled the conditions, and has further furnished an examination opinion on entitled participants and the corresponding number of share options. For details, please refer to the Overseas Regulatory Announcement published by the Company on the same date as this announcement.

VIII. 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 current exercise has been duly authorised and approved and fulfilled necessary procedures for the current stage; and the exercise conditions for the current exercise have been fulfilled. The current exercise period will commence on 1 November 2016.

IX. 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. 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;

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. 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;
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.