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If you are in any doubt about any aspect of this circular, or as to the action to be taken, you should consult a licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in **ZTE Corporation**, you should hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank, licensed securities dealers or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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ZTE中兴
ZTE CORPORATION
中兴通讯股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 763)

PROPOSED BONUS SHARES ISSUE
BY CONVERSION OF CAPITAL RESERVE AND DIVIDENDS AND
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

A letter from the Board is set out on pages 5 to 10 of this circular.

A notice convening the AGM 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 9:00 a.m. on Thursday, 3 June 2010 is enclosed with this circular.

Form of proxy for use at the AGM is enclosed with this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed forms of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for holding the meeting or any adjourned meeting thereof. Completion and return of the forms of proxy will not preclude you from attending and voting at the meetings or any adjournment thereof should you so wish.

Reply slip for use at the AGM is enclosed with this circular. Any H Shareholder intending to attend the AGM shall deliver the respective reply slip to the Company by courier, registered mail or fax on or before Friday, 14 May 2010.

The Company is incorporated, and its businesses are located, in the PRC. Potential investors in the Company should be aware of the differences in the legal, economic, and financial systems between the mainland of the PRC and Hong Kong and that there are different risk factors relating to making an investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the Shares of the Company. Such risk factors and differences are set out in the sections entitled "Appendix II — Risk Factors" and "Appendix III — Miscellaneous".

H Shareholders should note that existing H Shares are expected to be dealt in on an ex-entitlements basis from Friday, 30 April 2010. The Bonus Shares Issue is conditional upon the fulfillment of the conditions set out under the paragraph headed "Conditions of the Proposed Bonus Shares Issue" in this circular. If the conditions of the Bonus Shares Issue are not fulfilled, the Bonus Shares Issue will not proceed. If in any doubt, investors are recommended to consult their professional advisers.

19 April 2010

CONTENTS

| | <i>Page</i> |
|--|-------------|
| DEFINITIONS | 1 |
| EXPECTED TIMETABLE | 4 |
| LETTER FROM THE BOARD | 5 |
| BACKGROUND | 5 |
| A. PROPOSED BONUS SHARES ISSUE AND DIVIDENDS | 6 |
| B. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION | 8 |
| C. AGM | 9 |
| D. WAIVERS FROM STRICT COMPLIANCE WITH CERTAIN RULES OF THE HONG KONG LISTING RULES | 10 |
| E. RECOMMENDATION | 10 |
| F. GENERAL INFORMATION | 10 |
| APPENDIX I — GENERAL INFORMATION | 11 |
| APPENDIX II — RISK FACTORS | 13 |
| APPENDIX III — MISCELLANEOUS | 17 |

DEFINITIONS

In this circular, unless the context requires otherwise, the following terms and expressions shall have the following meanings:

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| “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 |
| “A Shareholder(s)” | holder(s) of the A Share(s) |
| “AGM” | the annual general meeting 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 9:00 a.m. on Thursday, 3 June 2010 |
| “Articles of Association” | the Articles of Association of ZTE Corporation |
| “Board” | the board of Directors |
| “Bonus A Share(s)” | new A Share(s) to be issued pursuant to the Bonus Shares Issue |
| “Bonus H Share(s)” | new H Share(s) to be issued pursuant to the Bonus Shares Issue |
| “Bonus Share(s)” | new Share(s) to be issued pursuant to the Bonus Shares Issue |
| “Bonus Shares Issue” | (a) if the Second Unlocking is not completed by the A Share record date, proposed issue of a total of 955,577,228 Bonus Shares (through capitalisation of the Company’s capital reserve) on the basis of 1,911,154,456 Shares in issue as at 8 April 2010, to the Shareholders whose names appear on the register of members of the Company at the close of business on the respective record date for the A Shareholders and the H Shareholders on the basis of five Bonus Shares for every 10 existing Shares held by them on such record date; or (b) if the Second Unlocking is completed by the A Share record date, the proposed issue of Bonus Shares (through capitalization of the Company’s capital reserve) will be based on the total share capital of the Company as at 8 April 2010 less the number of subject shares which are not unlocked owing to the failure of the participants of the Share Incentive Scheme to meet the performance appraisal requirements or their resignations and which may be required to be repurchased and cancelled prior to the A Share record date for the purpose of the 2009 profit distribution, to the Shareholders whose names appear on the register of members of the Company at the close of business on the respective record date for the A Shareholders and the H Shareholders on the basis of five Bonus Shares for every 10 existing Shares held by them on such record date |

DEFINITIONS

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| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Company”, “Our Company”, “we”, “us” or “our” | ZTE Corporation, a joint stock limited company incorporated on 11 November 1997 under the PRC Company Law in the PRC whose shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange |
| “Director(s)” | the director(s) of the Company |
| “Dividends” | proposed final dividend of RMB3 (before tax) for every 10 existing Shares for 2009 on the basis of the total share capital of the Company as at 8 April 2010 less the number of subject shares which remain to be lock-up under the Share Incentive Scheme and the number of restricted shares that may be repurchased and cancelled during the period in accordance with the implementation of the Share Incentive Scheme as at the A Share record date. As at 8 April 2010, 69,737,523 registered subject shares under the Share Incentive Scheme remained locked-up. In accordance with the relevant provisions under the Share Incentive Scheme, remaining restricted shares, which are lock-up shall not be entitled to cash dividend. If the Second Unlocking is not completed by the A Share record date, the number of Shares entitled to cash dividend under the proposed 2009 profit distribution will be 1,841,416,933 Shares. If the Second Unlocking is completed by the A Share record date, the maximum number of Shares to be unlocked in accordance with the Share Incentive Scheme will be 35% of the subject shares under the first award, namely an additional 26,797,252 Shares will be entitled to cash dividend |
| “First Unlocking” | the first unlocking of subject shares under the Share Incentive Scheme was completed on 22 July 2009. After deduction of 43,425 subject share quotas which had not been unlocked and which had lapsed, the total share capital of the Company had increased by 85,006,813 Shares. For details, please refer to the “Announcement on the Completion of Unlocking of Subject Shares under the First Unlocking of the Phase I Share Incentive Scheme” published by the Company on 22 July 2009 |
| “Group” | the Company and its subsidiaries |
| “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 |

DEFINITIONS

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| “H Share Record Date” | 4:30 p.m., 3 May 2010, the time determined by the Board for determining the H Shareholders’ entitlements to the Bonus Shares Issue and the Dividends |
| “H Shareholder(s)” | holder(s) of the H Shares |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | The Hong Kong Special Administrative Region of the People’s Republic of China |
| “Hong Kong Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Latest Practicable Date” | 13 April 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion herein |
| “PRC” | The People’s Republic of China |
| “PRC GAAP” | generally accepted accounting principles in China |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Second Unlocking” | the second unlocking of registered subject shares granted under the first award of the Share Incentive Scheme to be completed. In case the Second Unlocking is completed by the A Share record date, the maximum number of A Shares to be unlocked in accordance with the Share Incentive Scheme will be 35% of the subject shares under the first award, which is 26,797,252 A Shares, which will be entitled to the cash dividend |
| “Share(s)” | A Share(s) and H Share(s) |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Share Incentive Scheme” | phase I share incentive scheme (revised version dated 7 February 2007) approved by the Company at its extraordinary general meeting on 13 March 2007, the subject shares under the Share Incentive Scheme are in relation to A Shares only |
| “Shenzhen Stock Exchange” | The Shenzhen Stock Exchange |
| “%” | per cent |

EXPECTED TIMETABLE

2010

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| Last day of dealings in the H Shares cum-entitlements to the Bonus H Shares and the Dividends | Thursday, 29 April |
| First day of dealings in the H Shares ex-entitlements to the Bonus H Shares and the Dividends | Friday, 30 April |
| Latest time for lodging transfers of the H Shares to qualify for entitlements to the Bonus H Shares and the Dividends | 4:30 p.m., Monday, 3 May |
| H Share Record Date | 4:30 p.m., Monday, 3 May |
| H Shareholders' register closed | From Tuesday, 4 May to Wednesday, 2 June (both days inclusive) |
| Latest date for lodging reply slips for the AGM | Friday, 14 May |
| Latest time for lodging forms of proxy for the AGM | 9:00 a.m., Wednesday, 2 June |
| AGM | 9:00 a.m., Thursday, 3 June |
| H Shareholders' register re-opens | Thursday, 3 June |

ZTE中兴
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)

Executive Directors:

Shi Lirong
Yin Yimin
He Shiyou

Non-executive Directors:

Hou Weigui
Lei Fanpei
Xie Weiliang
Wang Zhancheng
Zhang Junchao
Dong Lianbo

Independent Non-executive Directors:

Li Jin
Qu Xiaohui
Wei Wei
Chen Naiwei
Tan Zhenhui

Legal address:

ZTE Plaza
Keji Road South
Hi-Tech Industrial Park
Nanshan District
Shenzhen, 518057
The Peoples' Republic of China

Place of business in Hong Kong:

8/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

19 April 2010

To the Shareholders

Dear Sirs or Madam,

**PROPOSED BONUS SHARES ISSUE OF SHARES
BY CONVERSION OF CAPITAL RESERVE AND DIVIDENDS AND
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

BACKGROUND

It was announced on 8 April 2010 in conjunction with the announcement of the Company's results for the year ended 31 December 2009 that, in addition to the recommendation of the Dividends (i.e., a final dividend of RMB3 per every 10 existing

LETTER FROM THE BOARD

Shares (before tax)), a Bonus Shares Issue would be proposed to the Shareholders, whose names appear on the register of holders of H Shares or the register of holders of A Shares on the respective record dates for the A Shareholders and the H Shareholders. The Board further proposed to amend the Articles of Association to reflect the changes in the total issued shares and the registered capital of the Company as the result of the exercise of the Share Incentive Scheme, the placing of H Shares under general mandate on 21 January 2010, the exercise of 23,348,590 “中興ZXC1” Warrants on 12 February 2010 and the Bonus Shares Issue. The aforesaid proposals are subject to the conditions set out in this circular.

The purpose of this circular is to provide you with further details of the proposed Bonus Shares Issue and Dividends and the proposed amendments to the Articles of Association, and to seek your approval at the AGM in respect of such matters.

A. PROPOSED BONUS SHARES ISSUE AND DIVIDENDS

As at 31 December 2009, the Company’s capital reserve under the PRC GAAP was RMB6,749,899,000. A special resolution will be proposed at the AGM to consider and, if thought fit, to approve (i) the declaration and payment of the Dividends; and (ii) subject to fulfillment of conditions set out in the section headed “Conditions of the Proposed Bonus Shares Issue” below, the Bonus Shares Issue will be made on the basis of five Bonus Shares (through capitalization of the capital reserve of the Company), credited as fully paid, for every 10 existing Shares held by the Shareholders whose names appear on the Shareholders’ registers at the close of business on the respective record dates for the A Shareholders and the H Shareholders.

Based on a total of 1,911,154,456 Shares in issue as at 8 April 2010 (comprising a total of 349,769,692 H Shares and a total of 1,561,384,764 A Shares) and assuming no change in the total number of the H Shares and the A Shares, respectively, during the period from 8 April 2010 to the respective record date for the A Shareholders and the H Shareholders and that the Second Unlocking has not been completed:

- (A) the Dividends in the total amount of RMB552,425,079.90, namely, RMB3 (before tax) for every 10 existing Shares will be paid to the Shareholders whose names appear on the Shareholders’ registers at the close of business on the respective record dates for the A Shareholders and the H Shareholders; and
- (B) subject to the fulfillment of the conditions set out in the section headed “Conditions of the Proposed Bonus Shares Issue” below, (i) a total of 174,884,846 Bonus H Shares will be issued to the H Shareholders whose names appear on the H Shareholders’ register at the close of business on the H Share Record Date; and (ii) a total of 780,692,382 Bonus A Shares to the A Shareholders whose names appear on the A Shareholders’ register at the close of business on the A Share record date, of which a total of 34,868,761 Bonus A Shares will be subject to lock-up conditions under the Share Incentive Scheme.

According to the Enterprise Income Law of the People’s Republic of China and the Implementation Regulations for Enterprise Income Tax of the People’s Republic of China which took effect on 1 January 2008, enterprise income tax is payable by non-resident

LETTER FROM THE BOARD

enterprises in respect of income derived from the PRC at an applicable tax rate of 10%, which shall be withheld and paid by the listed issuers on behalf of the non-resident enterprises. Cash dividend payable to H Share non-resident enterprises after the deduction of the said enterprise income tax is RMB2.7 per 10 Shares.

Conditions of the Proposed Bonus Shares Issue

The proposed Bonus Shares Issue is conditional, among the other things, upon:

- (i) the passing of the special resolution to approve the Bonus Shares Issue and the Dividends by the Shareholders at the AGM; and
- (ii) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Bonus H Shares.

Rights of Overseas H Shareholders

If at any time before the H Share Record Date, the registered address of any of the H Shareholders as shown on the register of members of the Company is in a territory other than Hong Kong, the Directors will, in compliance with Rule 13.36(2)(a) of the Hong Kong Listing Rules, seek legal advice as to whether or not it would be or might be unlawful or impracticable to offer the Bonus H Shares in such places. Subject to the legal advice, the Directors will exclude the overseas H Shareholders from the Bonus Shares Issue only if they consider that it is necessary or expedient not to offer the Bonus H Shares to the overseas H Shareholders on account either of the legal restrictions under the laws of the place of his/her registered address or the requirements of the relevant regulatory body or stock exchange in that place and such shares will be aggregated and sold for the benefit of the Company except when proceeds from such share sales amounted to HK\$100 or more for any single H Shareholder, such proceeds will be distributed to the H Shareholders concerned.

Based on the register of members of the Company as at the Latest Practicable Date, there was no H Shareholder who is a resident in a place outside Hong Kong.

Warning of Risks of Dealing in the H Shares

H Shareholders should note that the existing H Shares are expected to be dealt in on an ex-entitlements basis from Friday, 30 April 2010. If the conditions of the Bonus Shares Issue (as set out above under the paragraph headed “Conditions of the Proposed Bonus Shares Issue”) are not fulfilled, the Bonus Shares Issue will not proceed. If in any doubt, investors are recommended to consult their professional advisers.

Reasons for the Proposed Bonus Shares Issue

The Board believes that the proposed Bonus Shares Issue will allow the Shareholders to participate in the growth of the Company by way of capitalisation of the reserve fund. In addition, it will provide the Company with a wider capital base and therefore increase the marketability of the Shares.

LETTER FROM THE BOARD

Ranking of the Bonus Shares and Fractional Entitlements

The Bonus Shares shall rank *pari passu* in all respects with the existing Shares, save and except for that holders of the Bonus Shares will not be entitled to the Bonus Shares Issue. Fractional entitlement shall be dealt with in accordance with the relevant rules of the stock exchange(s) and the clearing house(s) of the place where the Shares are listed.

Listing and Dealings

The H Shares are listed on the Hong Kong Stock Exchange whereas the A Shares are listed on the Shenzhen Stock Exchange. Application will be made to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, the Bonus H Shares. Subject to the satisfaction of the conditions as set out in this circular (including but not limited to the granting of the aforesaid approval by the Hong Kong Stock Exchange), the Bonus H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS. All necessary arrangements will be made for the Bonus H Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. The Bonus Shares to be allotted and issued to the A Shareholders pursuant to the Bonus Shares Issue will be listed on the Shenzhen Stock Exchange. Dealings in Bonus H Shares will be subject to Hong Kong stamp duty.

Subject to the proposed Bonus Shares Issue becoming unconditional, the certificates for the Bonus H Shares and the cheque for the Dividends will be delivered by ordinary post to the H Shareholders who are entitled thereto at their own risk. In case of a joint shareholding, the certificate(s) of the Bonus H Shares will be posted to the first named person on the H Shareholder's register in respect of such joint shareholding. The Company will issue a separate announcement regarding the date of delivery of the certificates for the Bonus H Shares and the date of the commencement of dealings in the Bonus H Shares.

B. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Proposed Amendments to Articles 24 and 27 under Chapter 3 of the Articles Association

(1) Article 24

The original article which reads: Upon its incorporation, the Company shall have 1,746,329,402 ordinary shares in issue, comprising 291,474,892 H shares (representing 16.7% of the Company's issuable ordinary shares) and 1,454,854,510 domestic shares (representing 83.3% of the Company's issuable ordinary shares).

Is amended to read: Upon its incorporation, the Company shall have 1,911,154,456 ordinary shares in issue, comprising 349,769,692 H shares (representing 18.3% of the Company's issuable ordinary shares) and 1,561,384,764 domestic shares (representing 81.7% of the Company's issuable ordinary shares).

LETTER FROM THE BOARD

(2) *Article 27*

The original article which reads: The registered capital of the Company shall be RMB1,746,329,402.

Is amended to read: The registered capital of the Company shall be RMB1,911,154,456.

Note: The Board of Directors has submitted a proposed resolution to the AGM for an authorization to amend the relevant articles in the Articles of Association based on the result of the exercise of the Share Incentive Scheme, the placing of H Shares under general mandate on 21 January 2010, the exercise of 23,348,590 “中興ZXC1” Warrants on 12 February 2010 and the Bonus Shares Issue to reflect the increase in the registered capital and the new capital structure of the Company, and to deal with the filings of the changes in the registered share capital of the Company with the relevant administrative authorities for industry and commerce.

In accordance with the Share Incentive Scheme, the Company may need to repurchase and cancel Shares of those who are unable to fulfill the unlocking conditions under the Share Incentive Scheme and the Articles of Association will have to be amended to take into account the change in the registered capital of the Company as a result of the repurchase and cancellation of Shares, it will be proposed at the AGM to authorize the Board of Directors to amend the Articles of Association and to do all such acts which may result from the change in the registered capital of the Company as a result of the aforesaid repurchase and cancellation of Shares.

C. AGM

Notice, Proxy Form and Reply Slip

The AGM will 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 9:00 a.m. on Thursday, 3 June 2010, at which resolutions will be proposed to the Shareholders to consider and, if thought fit, approve, among the other things, the Bonus Shares Issue, the Dividends and the proposed amendments to the Articles of Association. A notice convening the AGM is enclosed with this circular.

A proxy form for use at the AGM is also enclosed with this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for holding the AGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

A reply slip for use at the AGM is also enclosed with this circular. Any Shareholder intending to attend the AGM shall deliver the reply slip to the Company by courier, registered mail or fax on or before Friday, 14 May 2010.

LETTER FROM THE BOARD

Closure of Share Registers

According to the Articles of the Association, the Company will close its share register from Tuesday, 4 May 2010 to Wednesday, 2 June 2010 (both days inclusive). H Shareholders should note that during such period no share transfer will be registered.

All the H Shareholders registered on the Company's share register maintained by Computershare Hong Kong Investor Services Limited at 4:30 p.m. on Monday, 3 May 2010 will be entitled to (i) attend the AGM; (ii) be allotted and issued the Bonus H Shares; and (iii) receive the Dividends. H Shareholders who wish to attend the AGM and be entitled to the Bonus Shares Issue and the Dividends must lodge the transfer documents together with the relevant share certificates with Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 3 May 2010.

D. WAIVERS FROM STRICT COMPLIANCE WITH CERTAIN RULES OF THE HONG KONG LISTING RULES

The Hong Kong Stock Exchange has granted to the Company (i) a waiver in respect of disclosure in this circular of a summary of all provisions of the constitutive documents of the Company in so far as they may affect shareholders' rights and protections and directors' powers as required under Rule 19A.27(2) of the Hong Kong Listing Rules; (ii) a waiver in respect of disclosure in this circular of a summary of the relevant PRC law in a form to be agreed upon by the Stock Exchange as required under Rule 19A.27(3) of the Hong Kong Listing Rules and; (iii) a waiver with respect to the requirement to convene separate class meetings pursuant to Rule 19A.38 of the Hong Kong Listing Rules.

E. RECOMMENDATION

The Board considers that (i) the proposed Bonus Shares Issue and the declaration of the Dividends; and (ii) the proposed amendments to the Articles of Association, are in the best interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the relevant resolutions at the AGM.

F. GENERAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully
Hou Weigui
ZTE CORPORATION
Chairman

FOREIGN EXCHANGE LIABILITIES

The Board considers that the Group will have sufficient foreign exchange to pay forecasted or planned dividends on H Shares and to meet its foreign exchange liabilities as they become due, with the Group's existing internal resources.

STATEMENTS TO BE MADE ON ACQUISITION OF SHARES

The Company shall ensure that all its listing documents and share certificates include the statements stipulated below and shall instruct and cause its share registrars not to register the subscription, purchase or transfer of any of its Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such Shares bearing statements to the following effect:

- (i) the acquirer of Shares agrees with the Company and each of its shareholder, and the Company agrees with each shareholder, to observe and comply with the Chinese Company Law, the Special Regulations and its Articles of Association;
- (ii) the acquirer of Shares agrees with the Company, each of its shareholders, Directors, Supervisors, Presidents and officers and itself (acting for the Company and for each Director, Supervisor, Presidents and officer) agrees with each shareholder, to refer all differences and claims arising from its Articles of Association or any rights or obligations conferred or imposed by the Chinese Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with its Articles of Association. Any reference to arbitration will be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;
- (iii) the acquirer of Shares agrees with the Company of its shareholders that H Shares in the Company are freely transferable by the holder of such Shares; and
- (iv) the acquirer of Shares authorizes the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in its Articles of Association.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong, 8/F Gloucester Tower, The Landmark, 15 Queen's Road, Central, Central, Hong Kong, during normal business hours on any weekday (public holidays excepted) from the date of this circular up to and including the 14th day from the date of this circular.

- (i) the Articles of Association;
- (ii) any service contracts of any existing directors or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (iii) the annual reports of the Company for the three years ended 31 December 2007, 2008 and 2009;
- (iv) the Company Law of the People's Republic of China, the Special Regulations, the Mandatory Provisions together with the unofficial English translation thereof;
- (v) the Telecommunications Regulations of the People's Republic of China together with the unofficial English translation thereof;
- (vi) a copy of each of the circulars pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since 31 December 2009, the date of the latest published audited accounts of the Group was made up;
- (vii) a copy of the contract referred to in the circulars mentioned in (vi) above; and
- (viii) this circular.

You should carefully consider all of the information in this circular including the risks and uncertainties described below before making an investment in our H Shares. You should pay particular attention to the fact that we are a company incorporated in China and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other jurisdictions. Our business, financial condition or results of operations could be materially adversely affected if any of these risks materializes. The trading price of our H Shares could decline if any of these risks materializes, and you may lose all or part of your investment.

The Chinese legal system has inherent uncertainties that could limit the legal protections available to you.

We are organized under the laws of China and are governed by our Articles of Association, which have been amended to comply with the Hong Kong Listing Rules. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the legal system in China develops, changes in such laws and regulations, their interpretation or their enforcement may have a negative effect on our business, financial condition and results of operations.

The direct enforcement by our shareholders of any rights of shareholders in respect of violations of corporate governance procedures may be limited. In this regard, our Articles of Association and the Hong Kong Listing Rules provide that most disputes between holders of H shares and our Company, directors, supervisors, officers or holders of legal person shares, arising out of our Articles of Association or Chinese Company Law and related regulations concerning the affairs of our Company, including the transfer of our shares, are to be resolved through arbitration by arbitration tribunal in Hong Kong or China, rather than by a court of law. Awards that are made by China arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China. However, to our knowledge, no action has been brought in China by any holder of H shares of other companies to enforce an arbitral award, and we are uncertain as to the outcome of any action brought in China to enforce an arbitral award made in favor of holders of H shares.

Current applicable laws of China do not expressly confer on shareholders the right to sue the directors, supervisors, officers or other shareholders on behalf of the corporation to enforce a claim against such party or parties that the corporation has failed to enforce itself. However, the Supreme People's Court is proposing to adopt a new interpretation of the relevant laws to allow for such rights. Unless and until such amendments are made, our shareholders may have to rely on other means to enforce directly their rights, such as

through administrative proceedings. In addition, our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of other jurisdictions.

Although we will be subject to the Hong Kong Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, the holders of H Shares will not be able to bring actions on the basis of violations of the Hong Kong Listing Rules or such Codes, and must rely on the Stock Exchange and the SFC to enforce the Hong Kong Listing Rules or such Codes, as the case may be.

Economic, political and social conditions and government policies in China could have a material adverse effect on our business, financial condition and results of operations.

The economy of China differs from the economies of most developed countries in many respects, including, but not limited to:

- structure
- government involvement
- level of development
- growth rate
- capital re-investment
- allocation of resources
- control of foreign exchange
- rate of inflation

The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industries by imposing industrial policies. It also exercises significant control over China's economic growth through allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Policies and other measures taken by the Chinese government to regulate the economy could have a significant negative impact on economic conditions in China, with a resulting negative impact on our business. For example, our financial condition and results of operations may be materially and adversely affected by:

- new laws and regulations and the interpretation of those laws and regulations;
- the introduction of measures to control inflation or stimulate growth;
- changes in the rate or method of taxation;
- the imposition of additional restrictions on currency conversion and remittances abroad; and

- any actions which limit our ability to develop, manufacture, import or sell our products in China, or to finance and operate our business in China.

Future movements in exchange rates may have a material adverse effect on our financial condition and results of operations.

At present, most of our sales are denominated in Renminbi, while we incur a portion of our cost of sales in US dollars and Japanese yen in the course of our purchase of imported production equipment, components and raw materials. Since 1994, the conversion of the Renminbi into foreign currencies has been based on rates set by the PBOC, and the exchange rate for the conversion of the Renminbi to US Dollars has generally been stable. However, the exchange rate may become volatile, the Renminbi may be devalued against the US Dollar or other currencies or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation in the value of the Renminbi against the US Dollar or other currencies, any of which could have a material adverse effect on our financial condition and results of operations.

Government control of foreign currency conversion may limit our foreign exchange transactions.

The Renminbi currently is not a freely convertible currency. Under the existing foreign exchange regulations in China, we may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from SAFE, by complying with certain procedural requirements. However, foreign exchange transactions for capital account purposes, which may include overseas investment and various international loans, require the prior approval of SAFE. If we are unable to obtain SAFE's consent to convert Renminbi into foreign currencies for such purposes, our capital expenditure plan and, consequently, our ability to grow our business could be affected.

The telecommunications industry in China is subject to extensive government regulation, which is still evolving.

We supply telecommunications equipment to the telecommunications industry, which is heavily regulated in China by The Ministry of Industry and Information Technology of the PRC ("MII"). The MII has broad discretion and authority to regulate all aspects of the telecommunications and information technology industry in China, including arranging the setting of network equipment specifications and standards, approving equipment for access to telecommunications networks, supervising the tender process for telecommunications infrastructure construction projects and formulating policies and regulations related to the telecommunications industry. In addition, the telecommunications regulatory framework in China is still in the process of being developed. The MII is in the process of drafting a national telecommunications law, which may include new legislation governing the telecommunications equipment industry. If the MII sets standards with which we are unable to comply or which render our products non-competitive, our ability to sell products in China may be limited.

The telecommunications equipment industry is dependent on capital expenditures by the telecommunications services industry.

In 2002, telecommunications service providers significantly reduced capital expenditures in developed countries due to overcapacity and generally adverse economic conditions. A number of telecommunications service providers outside of China filed for bankruptcy protection for a variety of reasons, further constraining demand for telecommunications equipment over such period. These developments had an adverse effect on the telecommunications equipment industry. Any future downturn of the industry or reduction in capital expenditure by telecommunications service providers would directly harm our sales.

Actual or perceived health risks associated with the use of handsets or other telecommunications equipment could negatively affect our business.

There have been public concerns about health risks arising from electromagnetic fields generated by handsets. Any perceived risk or new findings, regardless of their scientific basis, concerning the adverse health effects of telecommunications equipment could negatively affect our reputation and brand value and result in a reduction in sales. Although we comply with all current electromagnetic field safety standards and recommendations in China and other countries in which we sell our products, we cannot assure you that we will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business.

Set out below is a summary of applicable law matters relevant to the Company. Such description is, however, not intended to be exhaustive.

Hong Kong Company Law and its Comparison with the Chinese Laws Applicable to a Joint Stock Limited Company Incorporated under the Chinese Company Law

Hong Kong company law is primarily set out in the Hong Kong Companies Ordinance and its subsidiary legislation and supplemented by common law. There are material differences between Hong Kong company law and the Chinese laws applicable to a Stock Company incorporated under the Chinese Company Law, to which our Company will be subject, particularly in the area of investor protection. Certain of the material differences between the Chinese Company Law and Hong Kong company law are summarized below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to Stock Companies incorporated under the Chinese Company Law.

A. Derivative Action by Minority Shareholders

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders. The Civil Procedure Law of the People's Republic of China does not provide for such a procedure. Although the Chinese Company Law gives a shareholder or shareholders of a company the right to initiate proceedings in the People's Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under Hong Kong company law. However, each of our Directors and Supervisors (as required by the Hong Kong Listing Rules) has given a written undertaking to our Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in our Articles of Association. This allows minority shareholders to commence actions directly against defaulting Directors.

B. Remedies of Our Company

Under the Chinese Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company resulting in damage to the company, that director, supervisor or manager will be responsible to the company for such damages. In addition, in compliance with the Hong Kong Listing Rules, our Articles of Association set out remedies for our Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer).

C. Directors, Supervisors and Officers

The Chinese Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into certain prohibited business contracts with a company, and for prohibitions of certain unauthorized benefits, but contain no

provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders' approval. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in our Articles of Association.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors. However, a Chinese Stock Company must have supervisors whose main duties include ensuring compliance by its directors and managers with laws and regulations and the articles of association of the company. Each director owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

D. Minority Protection

There is no specific provision in the Chinese Company Law to guard against oppression by the majority shareholders of minority shareholders. However, our Company, as required by the Mandatory Provisions and the Hong Kong Listing Rules, has adopted in our Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong company law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to achieve certain objectives.

E. Receiving Agent

Under both Chinese and Hong Kong company law, dividends once declared become debts payable to shareholders, but the period for limitation of action is two years in China as opposed to six years in Hong Kong. Our Articles of Association provide for the appointment of an agent in Hong Kong, which must be a trust corporation registered under the Trustee Ordinance in Hong Kong, to receive all dividends payable to H Share holders on behalf of such shareholders as required by the Hong Kong Listing Rules.

F. Variation of Class Rights

The Chinese Company Law contains no specific provisions relating to variation of class rights. However, the Chinese Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect of such variations. These provisions have been incorporated in our Articles of Association. Under the Hong Kong company law, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question. Our Company (as required by the Hong Kong Listing Rules and the Mandatory Provisions) has adopted in our Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong company law. Domestic invested shares and overseas listed foreign invested shares are generally treated as

separate classes of shares, except in the case of (i) an issue and allotment, in any 12-month period, of domestic shares or overseas listed foreign invested shares (either separately or concurrently following the approval by a special resolution of the shareholders in a general meeting) not exceeding 20% of each respective class of shares existing as at the date of such special resolution; and (ii) the plan for the issue of domestic invested shares and overseas listed foreign invested shares upon our Company's establishment is implemented within 15 months following the date of approval by the CSRC.

G. Corporate Reorganizations

Corporate reorganizations involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under Section 166 of the Hong Kong Companies Ordinance and require court sanction. For Chinese companies, such reorganizations are subject to the Chinese Company Law and other relevant regulations and under certain circumstances administrative approvals are necessary.

H. Share Capital

For a Stock Company formed under the Chinese Company Law, the registered share capital is the amount of its issued share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. In the case of a Chinese company, any increase of the registered capital must be approved by the shareholders in general meeting, and may also require approvals from relevant Chinese regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant administration of industry and commerce.

The minimum registered capital of a company seeking a listing of its shares on a stock exchange is RMB30 million under the Chinese Securities Law. Hong Kong company law does not prescribe any minimum capital requirements for a Hong Kong company seeking a listing.

Under the Chinese Company Law, the promoters may make capital contribution by way of injection of non-monetary assets, including physical assets, intellectual property rights and land use rights, which may be valued in monetary terms and are lawfully transferrable based on their appraised value. The amount of monetary capital contributions of all shareholders shall not be less than 30% of the registered capital of the Stock Company.

I. Restriction on Shareholding and Transfer of Shares

The Chinese Company Law does not prescribe the class of shares which may be subscribed for or traded by overseas investors but has provisions that companies proposing to list its shares overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares

must be in registered form and include other matters some of which are referred to below. There is no restriction under Hong Kong company law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Chinese Company Law, shares in a Stock Company held by its promoters, directors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

J. Notice of Meetings

Under the Chinese Company Law, shareholders of a Stock Company must be given 30 days' notice of a general meeting or, in the case of bearer shares, such notice must be published 45 days before the meeting. Under the Special Regulations and the Mandatory Provisions (which apply to our Company) 30 days written notice must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to the company at least 20 days before the date of the meeting. For a Hong Kong company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and, where convened for the purpose of considering special resolutions 21 days. The notice period for an annual general meeting is also 21 days.

K. Quorum

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, except for single-shareholder companies and unless the articles of association provide otherwise. The Chinese Company Law does not prescribe when a quorum is regarded as being present. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting can be convened when written replies to the notice of that meeting have been received from shareholders whose shares represent 50% or more of the voting rights in the company at least 20 days before the proposed date. If that 50% level is not achieved, the company must within five days notify shareholders in a public announcement and the annual general meeting may then be held.

L. Voting

Under Hong Kong company law, ordinary resolutions are passed, if on a show of hands, by more than one-half in number of the shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three-quarters of such shareholders voting. On a poll, ordinary resolutions and special resolutions are passed by not less than one-half and not less than three-fourths, respectively, of the number of all the votes attached to the shares which are voted. Under the Chinese Company Law, the passing of any resolution requires the approval by more than one-half of the votes of the shareholders attending the meeting who have rights to vote on the meeting, except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company where the approval of a two-thirds majority is required. In addition, the Directions to Articles of Association of Listed Companies promulgated by the CSRC on December 16, 1997 require the approval by a shareholder resolution of more than two-

thirds of the voting rights represented at the meeting for an increase or reduction of share capital, for any issue of corporate bonds, for a repurchase of shares or for any matters which either the articles of association or the shareholders by ordinary resolution at a previous general meeting determined to have a material impact on the Stock Company and therefore requires a special resolution to be passed.

M. Dividends

Our Articles of Association empower our Company to withhold, and pay to the relevant tax authorities, any tax payable under Chinese law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under Chinese laws the relevant limitation period is two years.

N. Financial Disclosure

A Stock Company is required under the Chinese Company Law to make available at its office for inspection by shareholders its financial statements and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the Chinese Company Law must publish its financial statements. The financial statements must be verified by registered accountants. The Hong Kong Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under our Articles of Association (as required by the Hong Kong Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC GAAP, our Company must have its accounts prepared and audited in accordance with international accounting standards or HK GAAP. Our Company is further required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year respectively.

The Special Regulations require that there must not be any inconsistency between the information disclosed within and outside China and that, to the extent that there are differences in the information disclosed in accordance with the relevant Chinese and overseas laws, regulations and requirements of the relevant stock exchanges, such differences must also be disclosed simultaneously.

O. Information on Directors and Shareholders

The Chinese Company Law gives shareholders the right to inspect our Articles of Association, minutes of the shareholders' general meetings and financial reports. Under our Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

P. Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts. Our Articles of Association provide that disputes between a holder of H Shares and our Company, our Directors, managers or other senior officers or a holder of domestic shares, arising from our Articles of Association, the Chinese Company Law or other relevant law or administrative regulation which concerns the affairs of our Company must, with certain exceptions, be referred to arbitration at either the Hong Kong International Arbitration Centre or CIETAC. Such arbitration will be final and binding.

Q. Mandatory Deductions

Under the Chinese Company Law, after-tax profits of a company are subject to deductions of contributions to the statutory common reserve fund of the company before they can be distributed to shareholders. There is also prescribed limit under the Chinese Company Law for such deduction. There are no corresponding provisions under the Hong Kong Companies Ordinance.

R. Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duties of directors. Under the Chinese Company Law, the Special Regulations and our Articles of Association, Directors and managers owe a fiduciary duty towards our Company and our shareholders and are not permitted to engage in any activities which compete with or damage the interests of our Company.