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

If you have sold or transferred all your shares in **ZTE CORPORATION**, you should at once hand this circular, together with the enclosed proxy form and the Independent Director's Proxy Form 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

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)

**(1) PROPOSED ADOPTION OF 2020 A-SHARE OPTION
INCENTIVE SCHEME
AND PROPOSED GRANT THEREUNDER
(2) PROPOSED ADOPTION OF THE MANAGEMENT STOCK
OWNERSHIP SCHEME
AND
(3) NOTICE OF THE SECOND EXTRAORDINARY GENERAL
MEETING OF 2020**

A letter from the Board of ZTE Corporation is set out on pages 6 to 23 of this circular.

A notice of the EGM 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 3:30 p.m. on Friday, 6 November 2020 is set out on pages 65 to 70 of this circular.

The proxy form and the Independent Director's Proxy Form for use at the EGM, are enclosed with this circular and are also published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.zte.com.cn>). Whether or not you are able to attend the EGM, please complete and return the enclosed proxy form for use at the EGM and the Independent Director's Proxy Form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable and in any event not less than 24 hours before the time appointed for holding the EGM. Completion and return of the proxy form or the Independent Director's Proxy Form will not preclude you from attending and voting at the EGM or any adjournment thereof (as the case may be) should you so wish.

21 October 2020

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DEFINITIONS

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

“2017 Scheme”	the A-Share option incentive scheme adopted by the Company in 2017, details of which were disclosed in the circular of the Company dated 26 April 2017 and the announcements of the Company dated 6 July 2017, 20 July 2017, 1 July 2019, 5 July 2019, 14 July 2019, 28 August 2020 and 2 September 2020
“2020 Scheme”	the proposed 2020 A-Share option incentive scheme (draft) of the Company
“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 Shareholders”	holders of A Shares
“Articles of Association”	the articles of association of the Company
“Asset Management Agency”	the asset management agency to be entrusted by Management Stock Ownership Scheme
“Asset Management Plan”	the asset management plan to be established by the Asset Management Agency entrusted by the Management Stock Ownership Scheme in relation to the Management Stock Ownership Scheme
“Board”	the board of Directors
“Company”	ZTE Corporation (中興通訊股份有限公司), a joint stock limited company incorporated in the PRC and the H shares and A shares of which are listed on the Hong Kong Stock Exchange (stock code: 0763) and the Shenzhen Stock Exchange (stock code: 000063), respectively
“Company Law”	the Company Law of the PRC
“connected persons”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSRC”	China Securities Regulatory Commission
“Date of First Grant”	the date on which the Options under the First Grant are granted to the Participants by the Company under the 2020 Scheme
“Date of Grant”	the date on which Options are granted to Participants by the Company under the 2020 Scheme

DEFINITIONS

“Date of Reserved Grant”	the date on which Options under the Reserved Grant are granted to Participants by the Company under the 2020 Scheme
“Director(s)”	the director(s) of the Company
“EGM”	the second extraordinary general meeting of 2020 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 3:30 p.m. on Friday, 6 November 2020 to consider and, if thought fit, approve the proposed 2020 Scheme, the Management Stock Ownership Scheme and the related matters or any adjournment thereof (as the case may be)
“Management Stock Ownership Scheme”	the proposed management stock ownership scheme (draft) of the Company and the summary of the Management Stock Ownership Scheme of ZTE Corporation (Draft) is set out in the Appendix III to this circular
“Exercise Date”	the date on which a Participant is entitled to exercise an Option, which must be a trading day
“First Grant”	the proposed first grant of not more than 158,492,000 Options to the Participants pursuant to the 2020 Scheme
“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
“H Shareholders”	holders of H Shares
“HKSF”	the Securities and Futures Commission of Hong Kong
“Holder(s)”	the management of the Company who participate in the Management Stock Ownership Scheme
“Holders’ Meeting”	the meeting of the Holders
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Incentive Measures”	the Administrative Measures on Share Incentives of Listed Company* (《上市公司股權激勵管理辦法》) issued by the CSRC
“Independent Director’s Proxy Form”	the proxy form for the solicitation of votes by independent non-executive directors sent out by Ms. Cai Manli, an independent non-executive Director, to solicit votes from the Shareholders on the resolutions regarding the 2020 Scheme, the Management Stock Ownership Scheme and the related matters at the EGM
“Latest Practicable Date”	15 October 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Net Profit”	net profit attributable to the holders of ordinary shares of the Company
“Option(s)”	the right to be granted to a Participant to acquire certain number of A Shares at a pre-determined price in a particular period of time and subject to certain conditions under the 2020 Scheme
“Participant(s)”	the person to be granted Option(s) under the 2020 Scheme
“Performance Appraisal System”	the 2020 Share Option Incentive Scheme Performance Appraisal System of ZTE Corporation, details of which are set out in Appendix II to this circular
“PRC”	the People’s Republic of China
“Proposed Grant”	the proposed grant of not more than 163,492,000 Options to the Participants pursuant to the 2020 Scheme (including the First Grant and the Reserved Grant)
“Reserved Grant”	the proposed reserved grant of not more than 5,000,000 Options to the Participants pursuant to the 2020 Scheme, the Participants of which shall be determined by the Board within 12 months after the 2020 Scheme is approved by the Shareholders
“Reserved Share Options”	not more than 5,000,000 Options proposed to be granted under the Reserved Grant within 12 months after the 2020 Scheme is approved by the Shareholders
“RMB”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the PRC
“Share(s)”	A Share(s) and H Share(s), or the context requires, either of them

DEFINITIONS

“Shareholder(s)”	the holders of Shares
“Shenzhen Listing Rules”	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange
“Supervisor(s)”	the supervisor(s) of the Company
“Validity Period”	the period during which the 2020 Scheme remains effective

* *English translation denotes for identification purposes only.*

EXPECTED TIMETABLE

2020

Latest time for lodging transfers of the H Shares to
qualify for attendance and voting at the EGM 4:30 p.m., Monday,
2 November

H Share register closed Tuesday, 3 November 2020
to Friday, 6 November 2020
(both dates inclusive)

Latest time for lodging proxy forms for the EGM 3:30 p.m., Thursday,
5 November 2020

EGM. 3:30 p.m., Friday,
6 November 2020

H Share register re-opens Monday,
9 November 2020



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:

Li Zixue
Xu Ziyang
Gu Junying

Non-executive Directors:

Li Buqing
Zhu Weimin
Fang Rong

Independent non-executive Directors:

Cai Manli
Gordon Ng
Zhuang Jiansheng

Registered address:

ZTE Plaza
Keji Road South
Hi-Tech Industrial Park
Nanshan District
Shenzhen, 518057
Guangdong Province
The PRC

Principal place of business

in Hong Kong:
31/F, Tower Two
Times Square
1 Matheson Street, Causeway Bay
Hong Kong

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED ADOPTION OF 2020 A-SHARE OPTION
INCENTIVE SCHEME
AND PROPOSED GRANT THEREUNDER
(2) PROPOSED ADOPTION OF THE MANAGEMENT STOCK
OWNERSHIP SCHEME
AND
(3) NOTICE OF THE SECOND EXTRAORDINARY GENERAL
MEETING OF 2020**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 12 October 2020 which contain the details of the resolutions to be tabled before the EGM for Shareholders' approval.

LETTER FROM THE BOARD

At the EGM, resolutions will be proposed to the Shareholders to, among other things, approve and adopt the 2020 Scheme, the Management Stock Ownership Scheme and the related matters.

The purpose of this circular is to provide you with more detailed information concerning the proposed resolutions at the EGM in relation to the 2020 Scheme, the Management Stock Ownership Scheme and the related matters.

II. PROPOSED ADOPTION OF THE 2020 SCHEME

The 2020 Scheme is formulated to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibility of the management and key personnel of the Company, retain talent for sustainable development of the Company and safeguard the realization of development targets of the Company.

A summary of the principal terms of the 2020 Scheme is set out in Appendix I on pages 24 to 43 to this circular.

III. PROPOSED GRANT

1. Source and number of Shares under the 2020 Scheme

The source of the underlying shares of the Options which are proposed to be granted to the Participants under the 2020 Scheme shall be A Shares denominated in RMB.

The total number of underlying A Shares in relation to the Options that may be granted under the 2020 Scheme shall not exceed 163,492,000 A Shares, representing approximately 3.5438% of the Company's total issued share capital as at the Latest Practicable Date and approximately 4.2378% of the total number of A Shares as at the Latest Practicable Date. Specifically, 158,492,000 Options will be granted initially, representing 96.9417% of the total Options available under the 2020 Scheme, and accounting for approximately 3.4354% of the Company's total issued share capital as at the Latest Practicable Date; and 5,000,000 Options will be reserved, representing 3.0583% of the total Options available under the 2020 Scheme, and accounting for approximately 0.1084% of the Company's total issued share capital as at the Latest Practicable Date.

The First Grant (including the Options to be granted to the Directors and chief executives) has been approved by the independent non-executive Directors on 12 October 2020. Participants for the Reserved Share Options shall be determined within 12 months after the 2020 Scheme is approved by the Shareholders at the EGM with reference to the basis for determination of the First Grant under the 2020 Scheme. If the Participants for the Reserved Share Options are not determined within the abovementioned 12-month period, the Reserved Share Options will lapse.

LETTER FROM THE BOARD

Based on the terms of the 2020 Scheme, the Proposed Grant and the share options granted under the 2017 Scheme, the total number of Shares issued and to be issued upon exercise of the share options granted to each participant (including both exercised and outstanding options) in any 12-month period would not exceed 1% of the Company's total A share capital.

2. Validity period

The 2020 Scheme shall be effective for four years from the Date of First Grant.

3. Exercise periods and performance targets before Options can be exercised

The exercise of the Options under the First Grant is subject to a vesting period of one year, during which period the Options are not exercisable. Subject to the fulfillment of the exercise conditions, the Options under the First Grant can be exercised in batches in the manner set forth below:

Exercise period	Duration	Proportion of Options exercisable to the total number of Options granted
First exercise period	Commencing on the first trading day after the expiry of the 12-month period from the Date of First Grant and ending on the last trading day of the 24-month period from the Date of First Grant	1/3
Second exercise period	Commencing on the first trading day after the expiry of the 24-month period from the Date of First Grant and ending on the last trading day of the 36-month period from the Date of First Grant	1/3
Third exercise period	Commencing on the first trading day after the expiry of the 36-month period from the Date of First Grant and ending on the last trading day of the 48-month period from the Date of First Grant	1/3

LETTER FROM THE BOARD

The exercise of the Options under the Reserved Grant is subject to a vesting period of one year, during which period the Options are not exercisable. Subject to the fulfillment of the exercise conditions, the Options under the Reserved Grant can be exercised in batches in the manner set forth below:

Exercise period	Duration	Proportion of Options exercisable to the total number of Options granted
First exercise period	Commencing on the first trading day after the expiry of the 12-month period from the Date of Reserved Grant and ending on the last trading day of the 24-month period from the Date of Reserved Grant	1/2
Second exercise period	Commencing on the first trading day after the expiry of the 24-month period from the Date of Reserved Grant and ending on the last trading day of the 36-month period from the Date of Reserved Grant	1/2

For detailed information, please also refer to the paragraph headed “Validity period, date of grant, vesting period, exercise date, exercise period and lock-up provisions” in Appendix I to this circular. The one-year vesting period may provide incentives to the Participants to remain employed with the Company during such period and thereby enable the Company to benefit from the continued service of such Participants, thus providing long-term rewards and retention incentives to the Participants and retain human resources that are valuable to the growth and development of the Company as a whole.

In addition, Options may only be exercised by the Participants upon fulfillment of the conditions as set out in the paragraph headed “Conditions of grant and exercise of the Options” in Appendix I to this circular. Besides, Options granted to the Participants can only be exercised after the Participant has passed the performance appraisal for the relevant year. These requirements, together with the exercise period as mentioned above, may enable the Company to provide incentives to the Participants to motivate their pro-activeness and creativity in using their best endeavors to facilitate the growth and development of the Company. The above also correlates their interests with the long term development of the Company, and allows sustainable development of the Company.

Details of the Proposed Grant, including the information of the Participants in the First Grant, the number of A Shares subject to the Options which are proposed to be granted to the Participants and the exercise price in respect of the First Grant, are set out in Appendix I on pages 24 to 43 to this circular.

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IV. THE 2020 SHARE OPTION INCENTIVE SCHEME PERFORMANCE APPRAISAL SYSTEM

Under the 2020 Scheme, the Participants must pass the performance appraisal in the preceding year according to the Performance Appraisal System before the exercise of any Option by the Participants. Details of the Performance Appraisal System are set out in Appendix II on pages 44 to 47 to this circular.

V. CONDITIONS OF THE 2020 SCHEME BECOMING EFFECTIVE

The 2020 Scheme shall be effective upon approval of the 2020 Scheme at the EGM of the Company. The grant of Options and its effectiveness are also subject to the satisfaction of the conditions stipulated under the 2020 Scheme.

VI. VALUE OF THE OPTIONS

Basis for Determination of the Exercise Price of the Options under the First Grant

The Company used the Binominal Tree option pricing model to calculate the value of the Options. By taking the last trading day immediately preceding the date of the announcement of the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange (i.e. 12 October 2020) as the measurement date, the estimated value of the Options granted under the First Grant is RMB8.42 per A Share, representing 24.15% of the closing price of the A Shares as quoted on the Shenzhen Stock Exchange as at the measurement date. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Exercise price	RMB34.47 per A Share

The exercise price used herein was determined in accordance with the relevant provisions stated in the 2020 Scheme, being the higher of:

- (i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of the announcement of the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange (i.e. 12 October 2020), which was RMB34.47 per A Share; and
- (ii) the average of the trading prices of the A Shares for the last 20 trading days immediately preceding the date of the announcement of the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange, which was RMB34.16 per A Share.

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Factors	Amount of factors and description
Market price	RMB34.86, being the closing price of the A Shares as quoted on the Shenzhen Stock Exchange on the last trading day immediately preceding the date of the announcement of the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange.
Expected life	The Participants shall exercise all his/her Options exercisable in the first, second and third exercise period within the second year, the third year and the fourth year from the Date of Grant, respectively.
Expected price volatility rate	The price volatility rates for the first, second and third exercise periods were based on the historical price volatility rate of SWS Index on Telecommunication Equipment in the last two, three, and four years being 34.50%, 33.37% and 30.11% respectively.
Expected dividend <i>(Note 1)</i>	RMB0.165 per Share
Risk-free interest rate <i>(Note 2)</i>	The risk-free interest rate for the first, second and third exercise period being 2.91%, 3.02% and 3.07% respectively
Value of Options per A Share <i>(Note 3)</i>	RMB8.42

Notes:

1. The expected dividend was calculated based on the historical dividends of the Company.
2. For the first, second and third exercise period, the Company adopted the two-year, three-year and four-year national bond yield rate as quoted in Reuters as at the last trading day immediately preceding the date of the announcement of the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange as the risk-free interest rate respectively.
3. The calculation results of the value of the Options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, and therefore, the estimate value of the Options may be subjective and uncertain.

LETTER FROM THE BOARD

Basis for Determination of the Exercise Price of the Options under the Reserved Grant

Before each grant of the Options under the Reserved Grant, the Company shall hold a board meeting to pass the relevant resolution, and shall disclose the information of such grant. The exercise price of the Options under the Reserved Grant shall not be lower than the par value of the A Shares, and shall be the higher of the following:

- (i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of the announcement on the Board approval of the Reserved Grant published on the Shenzhen Stock Exchange; and
- (ii) one of the average of the trading prices of the A Shares for the last 20 trading days, 60 trading days or 120 trading days immediately preceding the date of the announcement on the Board approval of the Reserved Grant published on the Shenzhen Stock Exchange.

The Company will publish further announcements disclosing the details of the subsequent grant of the Options under the Reserved Grant, including the number of Options and the exercise price, in accordance with the Hong Kong Listing Rules.

VII. WAIVER FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

The exercise price of the Options proposed to be granted under the First Grant pursuant to the 2020 Scheme shall be RMB34.47 per A Share, which is the higher of:

- (i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of the announcement of the Company on the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange (i.e. 12 October 2020), which was RMB34.47 per A Share; and
- (ii) the average of the trading prices of the A Shares for the last 20 trading days immediately preceding the date of announcement of the Company on the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange, which was RMB34.16 per A Share.

The exercise price of the Options proposed to be granted under the First Grant was determined at the time of the Board approval of the proposed adoption of the 2020 Scheme.

Before each grant of the Options under the Reserved Grant, the Company shall hold a board meeting to pass the relevant resolution, and shall disclose the information of such grant. The exercise price of the Options under the Reserved Grant shall not be lower than the par value of the A Shares, and shall be the higher of the following:

- (i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of the announcement on the Board approval of the Reserved Grant published on the Shenzhen Stock Exchange; and

LETTER FROM THE BOARD

- (ii) one of the average of the trading prices of the A Shares for the last 20 trading days, 60 trading days or 120 trading days immediately preceding the date of the announcement on the Board approval of the Reserved Grant published on the Shenzhen Stock Exchange.

Note 1 to Rule 17.03(9) and Rule 19A.39C of the Hong Kong Listing Rules

Note 1 of Rule 17.03(9) of the Hong Kong Listing Rules requires that the exercise price of any option must be at least the higher of (i) the closing price of the securities as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the daily quotations sheets for the five business days immediately preceding the date of grant.

Rule 19A.39C provides that the Hong Kong Stock Exchange may waive the exercise price requirement under Note 1 to Rule 17.03(9) for a share option scheme of a PRC issuer dually listed on the Hong Kong Stock Exchange and a PRC stock exchange, provided that: (i) the scheme involves only shares listed on the PRC stock exchange; and (ii) the scheme contains provisions to ensure that the exercise price of the options is no less than the prevailing market price of the relevant shares on the PRC stock exchange at the time of grant of the options.

Since (i) the Options subject to the Proposed Grant relate to A Shares only which are listed on the Shenzhen Stock Exchange; (ii) the 2020 Scheme is subject to the approval of the Shareholders at a general meeting; (iii) the determination of the exercise price is in accordance with the relevant rules and regulations promulgated by the CSRC; and (iv) the 2020 Scheme contains provisions to ensure that the exercise price of the Options is no less than the prevailing market price of the relevant shares on the PRC stock exchange as at the time of the relevant announcement and Board approval as described above, and in view of the practical difficulties involved, the Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Note 1 of Rule 17.03(9) of the Hong Kong Listing Rules.

VIII. 2017 SCHEME

The 2017 Scheme was approved and adopted on 20 June 2017 and all share options under the 2017 Scheme were granted on 6 July 2017 to a total of 1,996 participants involving options to subscribe for 149,601,200 A Shares, with three separate exercise periods upon fulfillment of the respective exercise conditions. The registration of the grants under the 2017 Scheme was completed and the initial exercise price of the share options was RMB17.06.

As disclosed in the announcement of the Company dated 1 July 2019, the exercise conditions for the first exercise period of the share options were fulfilled, and there were 1,684 participants entitled to exercise the share options, and the exercisable share options for the first exercise period was 39,664,153. As disclosed in the announcement of the Company dated 1 July 2019, the exercise conditions for the second exercise period of the share options were not fulfilled due to the non-fulfillment of conditions pertaining to the

LETTER FROM THE BOARD

business results of the Group for the year ended 31 December 2018. As a result, share options in respect of the second exercise period of 39,724,952 shares in aggregate will lapse with immediate effect and will be withdrawn and cancelled by the Company. As disclosed in the announcement of the Company dated 28 August 2020, 66 granted and unexercised share options outstanding as at the end of the first exercise period of the 2017 Scheme were withdrawn and cancelled by the Company without compensation. As disclosed in the announcement of the Company dated 28 August 2020, the number of share options remained unchanged and the exercise price was adjusted to RMB16.86 after the implementation of the 2019 profit distribution plan.

In accordance with the terms of the 2017 Scheme, the first exercisable period for the share options expired on 5 July 2020.

Of the share options granted under 2017 Scheme, as at the Latest Practicable Date, a total of 70,210,627 share options had lapsed or cancelled in accordance with its terms, and 39,664,087 A Shares had been issued in respect of the exercise of the share options granted. As at the Latest Practicable Date, the number of outstanding share options granted under the 2017 Scheme was 39,726,486.

Other than the 2017 Scheme, the Company had not adopted any other share option scheme as at the Latest Practicable Date. As the Board had adopted “one-off” grant of share options to participants under the 2017 Scheme pursuant to the then applicable “Administrative Measures for Equity Incentive of Listed Companies” promulgated by the CSRC, no further options may be granted under the 2017 Scheme as at the Latest Practicable Date. Based on the terms of the 2020 Scheme and the Proposed Grant: (i) the total number of A Shares which may be issued upon exercise of all options to be granted under the 2020 Scheme would not in aggregate exceed 10% of the Company’s A share capital as at the date of approval of the 2020 Scheme; and (ii) the maximum number of A Shares which may be issued upon exercise of all options to be granted under the 2020 Scheme and all outstanding options granted and yet to be exercised under the 2017 Scheme would not exceed 30% of the Company’s A share capital in issue from time to time.

IX. PROPOSED MANAGEMENT STOCK OWNERSHIP SCHEME

In order to (i) further improve the internal governance mechanism of the Company, establish and perfect the mechanism for the mutual sharing of benefits and risks among the shareholders, the Company and the employees, advocate the concept of sustainable co-development for the Company and the individual and to keep motivated the Company’s senior management and key talents; and (ii) attract and retain high-calibre talents and key business personnel with a view to both the long-term and short-term interests of the Company and attract different types of talents with more flexibility in order to better facilitate the Company’s long-term, sustainable and healthy development, the relevant resolutions regarding the Management Stock Ownership Scheme were considered and approved at the Twenty-fifth Meeting of the Eighth Session of the Board held on 12 October 2020.

LETTER FROM THE BOARD

The Company has plans to set aside an management stock ownership scheme fund of RMB114,765,557, accounting for approximately 2.23% of the Company's audited Net Profit for 2019, to be utilised as incentive for the key management team under the Management Stock Ownership Scheme. The source of Shares under the Management Stock Ownership Scheme shall be A shares in the Company's designated securities repurchase account. The Company had repurchased a total of 2,973,900 A shares, representing 0.06% of the Company's total share capital. Upon approval of the Management Stock Ownership Scheme (Draft) at the general meeting, the Management Stock Ownership Scheme shall acquire repurchased A shares in the Company through non-trading transfer or other permissible means under the laws and regulations.

The final number and identity of management participating in the Management Stock Ownership Scheme and their subscription entitlements shall be determined by the Board according to the actual conditions. The total number of A shares held under the Management Stock Ownership Scheme shall not exceed, on a cumulative basis, 10% of the total share capital of the Company and the number of A Shares corresponding to the entitlements of Management Stock Ownership Scheme held by any single Holder shall not, in aggregate, exceed 1% of the Company's total share capital.

The Management Stock Ownership Scheme is formulated in accordance with the requirements of the Company Law, the Securities Law, Guidance for the Pilot Implementation of Employee Stock Ownership Scheme by Listed Companies, Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, Guidelines for Standardised Operations of Companies Listed on the Shenzhen Stock Exchange, Guideline for Information Disclosure by Companies Listed on the Shenzhen Stock Exchange No. 4 — Employee Stock Ownership Scheme, the Hong Kong Listing Rules and other laws, regulations, regulatory documents and the Articles of Association. The summary of the Management Stock Ownership Scheme (Draft) is set out in the Appendix III to this circular.

LETTER FROM THE BOARD

Principal terms of the Management Stock Ownership Scheme

Participants: Target participants of the Management Stock Ownership Scheme shall be among the following: (1) Directors, Supervisors and senior management of the Company such as the chairman, president and executive vice presidents; and (2) other key management personnel. The total number of participants of the Management Stock Ownership Scheme shall not exceed 27.

Number and amount of Shares to be subscribed: The source of Shares under the Management Stock Ownership Scheme shall be A shares in the Company's designated securities repurchase account. The Company had repurchased a total of 2,973,900 A shares, representing 0.06% of the Company's total share capital. Upon approval of the Management Stock Ownership Scheme (Draft) at the general meeting, the Management Stock Ownership Scheme shall acquire repurchased A shares in the Company through non-trading transfer or other permissible means under the laws and regulations. The Company has plans to set aside a designated stock ownership scheme fund of RMB114,765,557 to be utilised as incentive for the key management team under the Management Stock Ownership Scheme. The price at which repurchased A shares are acquired for the Management Stock Ownership Scheme is RMB38.59 per share, being the average trading price for the Company's repurchased A shares.

The aggregate entitlements in the Management Stock Ownership Scheme of Directors, Supervisors and senior management (being Mr. Li Zixue, Mr. Xu Ziyang, Mr. Gu Junying, Mr. Xie Daxiong, Mr. Wang Xiyu, Ms. Li Ying, Mr. Xie Junshi and Mr. Ding Jianzhong) represent approximately 54.55% of the total entitlements in the Management Stock Ownership Scheme; while the aggregate entitlements in the Management Stock Ownership Scheme of other management represent approximately 45.45% of the total entitlements in the Management Stock Ownership Scheme.

LETTER FROM THE BOARD

Lock-up period: The lock-up period for Shares acquired under the Management Stock Ownership Scheme shall be 12 months from the date on which the completion of acquisition of Shares from the Company's designated securities repurchase account is announced by the Company.

The performance indicator for the Management Stock Ownership Scheme shall be the Company's Net Profit for 2020 being no less than RMB3.0 billion. The respective portion of shares entitled by the management shall be determined according to the operating results of businesses under the charge of the management and outcomes of personal appraisal, and the ascertained portion of shares shall be vested in the Holder in two tranches being an interval of 12 months, with 50% of the ascertained portion of shares being vested for each tranche.

If the Company fails to attain its business appraisal indicator for the vesting appraisal period, the Shares interests under the Management Stock Ownership Scheme shall be reverted to the Company in full and none of the Holders shall continue to be entitled to the Shares interests under the Management Stock Ownership Scheme.

Term of the Management Stock Ownership Scheme: The term of the Management Stock Ownership Scheme shall be three years from the date on which the Management Stock Ownership Scheme is considered and approved at the general meeting and shall automatically lapse upon its conclusion, or extended after consideration and approval by the Board upon the request of the management committee of the Management Stock Ownership Scheme.

Disposal of equity interests of the Management Stock Ownership Scheme: **(I) Disposal of the equity interests of the Management Stock Ownership Scheme**

During the term of the Management Stock Ownership Scheme, except in the event that the Company disqualifies the relevant Participant(s), the units of the Holders held under the Management Stock Ownership Scheme shall neither be withdrawn or transferred, nor be mortgaged, pledged, guaranteed or used for debts repayment.

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(II) The disposal measures for the Holder who is not eligible to participate in the Management Stock Ownership Scheme during the term of the Management Stock Ownership Scheme

In the event of any situation listed below, a Holder's interests held under the Management Stock Ownership Scheme shall remain unchanged:

- (i) a change in the Holder's position within the term of the Management Stock Ownership Scheme provided such change does not affect his/her eligibility for the Management Stock Ownership Scheme;
- (ii) loss of a Holder's working capacity;
- (iii) retirement of a Holder retires upon reaching the national statutory retirement age;
- (iv) death of a Holder within the term of the Management Stock Ownership Scheme and his/her entitlements under the Management Stock Ownership Scheme shall be inherited by his/her lawful inheritor without any change in his/her interests held under the Management Stock Ownership Scheme. Such inheritor shall not be subject to the constraints of eligibility for participation in the Management Stock Ownership Scheme.

Management of the Management Stock Ownership Scheme

The Holders' Meeting shall be the internal supreme authority of the Management Stock Ownership Scheme and all Holders are entitled to attend and vote at the Holders' Meeting in person or by proxy. The Holders' Meeting shall exercise its duties and powers, such as electing or removing members of the management committee and delegating the management committee to be responsible for the management of the Management Stock Ownership Scheme. A management committee shall be formed under the Management Stock Ownership Scheme to carry out day-to-day management of the Management Stock Ownership Scheme, and the Holders' Meeting shall have the right to delegate the exercise of shareholders' rights on behalf of the Holders to the management committee. The management committee comprises three members with one officer of the management committee. All members of the management committee shall be elected by the Holders' Meeting.

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In addition, an asset management agency, which will be an independent third party with relevant asset management qualifications (such as a securities firm or trust company) will be appointed by the Company after the EGM. The Asset Management Agency will be entrusted by the Management Stock Ownership Scheme to hold the Shares for the Management Stock Ownership Scheme through the securities account of the Management Stock Ownership Scheme, and be responsible for the subsequent management of the Shares.

X. THE SUBMISSION TO THE EGM FOR FULL AUTHORIZATION TO THE BOARD TO DEAL WITH RELEVANT MATTERS IN RELATION TO THE MANAGEMENT STOCK OWNERSHIP SCHEME

The Board proposed the EGM to fully authorize the Board to grant a mandate to the Board giving full discretion in dealing with matters relating to the Management Stock Ownership Scheme, the terms and scope of the mandate shall include but shall not be limited to:

- (1) To formulate the specific plan for the Management Stock Ownership Scheme, including but not limited to the determination of the number of target participants, eligibility of target participants, finalised list of target participants, source of fund, size of scheme, volume and price of Shares, term, lock-up period and management, among others, within the framework of the “Management Stock Ownership Scheme (Draft) of ZTE Corporation” considered and approved at the general meeting based on the actual conditions of the Company in accordance with pertinent provisions of applicable laws, regulations and regulatory authorities and resolutions of the general meeting;
- (2) To make adjustments to matters pertaining to the Management Stock Ownership Scheme according to the opinions of regulatory authorities, policy changes or changes in market conditions, other than matters required to be put to vote again at the general meeting under pertinent laws, regulations and the Articles of Association and handling matters pertaining to the Management Stock Ownership Scheme, including consideration of any modifications, extension (including extension of the term) and termination (including early termination), among others;
- (3) To process with full discretion various approvals required by the Management Stock Ownership Scheme in accordance with pertinent provisions, including but not limited to the processing of ratifications, filings, registrations and declarations, among others, as well as the preparation, revision, submission and endorsement of relevant materials, and the disclosure of information in accordance with pertinent provisions of relevant laws, regulations and listing rules of the stock exchange of the place where the Company’s securities are listed;

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- (4) To confirm the asset management agency and custodian of the Management Stock Ownership Scheme in accordance with pertinent provisions of applicable laws, regulations and regulatory authorities and resolutions of the general meeting to assist the Company in the implementation of the Management Stock Ownership Scheme;
- (5) To handle formalities relating to the securities accounts, fund accounts and other relevant accounts involved in the Management Stock Ownership Scheme, as well as all matters pertaining to the registration, settlement, lock-up and unlocking of shares purchased;
- (6) To deal with other matters as are required under the Management Stock Ownership Scheme, other than rights specifically required to be exercised by the general meeting under pertinent provisions;
- (7) Authorisation for the Board to delegate authorisations set out in (3) to (5) above to the Company's management for handling in accordance with pertinent regulations and processes, unless otherwise required under pertinent laws, regulations, regulatory documents and the Articles of Association, subject to the obtaining of the aforesaid authorisations.

If any of the aforesaid matters delegated to the Board by the general meeting require consideration at a meeting of the Holders of the Management Stock Ownership Scheme, such matters shall be submitted to the Holders' meeting or the management committee authorised by the Holders' meeting. The aforesaid authorisation shall come into effect on the date on which the Management Stock Ownership Scheme is being considered and approved at the general meeting of the Company and remain effective until the completion of the implementation of the Management Stock Ownership Scheme.

XI. BOARD CONFIRMATION

The Board is of the view that the terms of the 2020 Scheme and the Management Stock Ownership Scheme are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying, being the Directors who are Participants of the First Grant and proposed grantees under the Management Stock Ownership Scheme, have abstained from voting on the relevant Board resolutions to approve the 2020 Scheme, the Management Stock Ownership Scheme and the related matters. Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong, being the Directors who are Participants of the First Grant, have abstained from voting on the relevant Board resolutions to approve the 2020 Scheme and the related matters. Save as disclosed above, none of the Directors has a material interest in the 2020 Scheme, the Management Stock Ownership Scheme and the related matters and is required to abstain from voting on the relevant Board resolutions.

XII. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

2020 Scheme

The 2020 Scheme constitutes a share option scheme under Chapter 17 of the Hong Kong Listing Rules. Accordingly, any grant of Options under the 2020 Scheme to any Participant who is a connected person of the Company will be exempted from the reporting, announcement and independent shareholder approval requirements pursuant to Rule 14A.92(3)(a) of the Hong Kong Listing Rules.

The Shares to be issued under the Options proposed to be granted under the 2020 Scheme will be issued pursuant to the general mandate granted by the Shareholders to the Board at the annual general meeting of the Company held on 19 June 2020 to allot, issue and otherwise deal with the A Shares and H Shares, each not more than 20% of the aggregate nominal amount of the Company's A Shares and H Shares, respectively, in issue as at the date of the meeting. As at the Latest Practicable Date, no Shares had been issued or agreed to be issued pursuant to such general mandate.

Management Stock Ownership Scheme

The Management Stock Ownership Scheme does not constitute a share option scheme under the Chapter 17 of the Hong Kong Listing Rules.

The Asset Management Agency will become a connected person of the Company as the number of the A Shares held by the Asset Management Agency for the benefit of the connected persons of the Company will exceed 30% of the aggregate number of the A Shares held by the Asset Management Agency. Accordingly, the transfer of 2,973,900 Shares from the Company to the Asset Management Agency for the purposes of the Management Stock Ownership Scheme will constitute a connected transaction for the Company. The Board is of the view that the transfer is on normal commercial terms for a transaction of similar purpose, fair and reasonable and in the interests of the Company and its shareholders as a whole. Since the applicable percentage ratios in respect of the transfer of Shares to the Asset Management Agency pursuant to the Management Stock Ownership Scheme are all below 0.1%, the relevant transfer is exempt from the announcement, reporting and shareholders' approval requirement under the Hong Kong Listing Rules.

XIII. EGM

The EGM will be held by the Company at 4/F, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the PRC, at 3:30 p.m. on Friday, 6 November 2020 at which relevant resolutions will be proposed to, among other things, approve and adopt the 2020 Scheme, the Management Stock Ownership Scheme and the related matters by poll. The notice of the EGM is set out in pages 65 to 70 of this circular.

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Please note that Ms. Cai Manli, an independent non-executive Director, has sent out the Independent Director's Proxy Form in accordance with the relevant regulations of the PRC to solicit votes from the Shareholders on the resolutions regarding the 2020 Scheme, the Management Stock Ownership Scheme and the related matters at the EGM. Should you wish to appoint Ms. Cai Manli as your proxy to vote for you and on your behalf at the EGM on the resolutions regarding the 2020 Scheme, the Management Stock Ownership Scheme and the related matters, please complete the Independent Director's Proxy Form. Alternatively, if you wish to appoint any person other than Ms. Cai Manli as your proxy to vote for you and on your behalf at the EGM on the resolutions regarding the 2020 Scheme, the Management Stock Ownership Scheme and the related matters, you may simply disregard the Independent Director's Proxy Form and complete and return the proxy form for use at the EGM. The Report on the Solicitation of Voting Rights by the Independent Non-executive Directors prepared by Ms. Cai Manli has also been published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.zte.com.cn>) by an announcement of the Company dated 12 October 2020.

The proxy form for use at the EGM and the Independent Director's Proxy Form are enclosed with this circular and are also published on the websites of Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.zte.com.cn>). Whether or not you are able to attend the EGM, please complete and return the enclosed proxy form for use at the EGM and the Independent Director's Proxy Form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable and in any event not less than 24 hours before the time appointed for holding the EGM. Completion and return of the proxy form for the EGM or the Independent Director's Proxy Form will not preclude you from attending and voting at the EGM or any adjournment thereof (as the case may be) should you so wish.

The H Share register of members of the Company will be closed from Tuesday, 3 November 2020 to Friday, 6 November 2020 (both days inclusive) to determine qualifications of shareholders to attend and vote at the EGM. Any H Shareholder who wishes to attend and vote at the EGM shall lodge an instrument of transfer, together with the corresponding share certificate(s) with Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m., Monday, 2 November 2020.

Proposed grantees under the 2020 Scheme and the Management Stock Ownership Scheme and their close associates shall be required to abstain from voting in respect of the relevant resolutions to be proposed at the EGM under the Hong Kong Listing Rules to approve the 2020 Scheme and the Management Stock Ownership Scheme, respectively. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, save as aforementioned, none of the Shareholders is required to abstain from voting in respect of any of the resolutions to be proposed at the EGM under the Hong Kong Listing Rules.

LETTER FROM THE BOARD

XIV. RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the proposed relevant resolutions for approving and adopting the 2020 Scheme (including the proposed First Grant), the Management Stock Ownership Scheme and the related matters (including the authorization to the Board and the Performance Appraisal System) are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

XV. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix I (Summary of the principal terms of the 2020 Scheme and the Proposed Grant thereunder), Appendix II (The 2020 Share Option Incentive Scheme Performance Appraisal System) and Appendix III (Summary of the principal terms of the Management Stock Ownership Scheme) to this circular.

A copy of the 2020 Scheme is available for inspection at the principal place of business of the Company in Hong Kong at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong during normal business hours from the date hereof up to and including 6 November 2020, being the date of the EGM.

XVI. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained herein or this circular misleading.

Yours faithfully,
By Order of the Board
Li Zixue
ZTE Corporation
Chairman

Shenzhen, the PRC
21 October 2020

The following is a summary of the principal terms of the 2020 Scheme to be approved and adopted at the EGM. It does not form part of nor is it intended to be part of, the terms of the 2020 Scheme and it should not be taken as affecting the interpretation of the terms of the 2020 Scheme. As the 2020 Scheme is prepared in Chinese, should there be any inconsistencies or conflicts between the English and the Chinese versions, the Chinese version shall prevail.

I. SUMMARY OF THE PRINCIPAL TERMS OF THE 2020 SCHEME

1. Purpose of the 2020 Scheme

The 2020 Scheme is to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibilities of the management and key personnel of the Company, retain talent for sustainable development of the Company and safeguard the realization of development targets of the Company.

2. Basis for determining the Participants and the scope of Participants of the 2020 Scheme

(1) Basis for determining the Participants

The Participants of the 2020 Scheme are determined taking into account the Company's actual situations, and in accordance with the Company Law, the Securities Law, the Incentive Measures, the Hong Kong Listing Rules as well as the relevant laws and regulations and the relevant provisions of the Articles of Association.

(2) Scope of Participants

The proposed Participants of the 2020 Scheme include Directors, senior management and key business personnel who have direct impact on the overall results and continuous development of the Company or who have outstanding contribution to the Company (but excluding any independent non-executive Directors, Supervisors, substantial Shareholders or de facto controllers which individually or together hold Shares representing 5% voting rights of the Company or above, and their spouse, parents and children).

In addition, persons cannot be Participants under the 2020 Scheme, if they:

- (i) have been declared an inappropriate candidate by the Shenzhen Stock Exchange in the past 12 months;
- (ii) have been declared an inappropriate candidate by the CSRC or its local bureaus in the past 12 months;

- (iii) have been imposed with administrative penalties or prohibited from market entry by the CSRC or its local bureaus in the past 12 months owing to material violations of laws and regulations;
- (iv) have been prohibited from acting as a Director or a member of the senior management of the Company under the Company Law;
- (v) have been prohibited from participation in the share incentive schemes of listed companies under laws and regulations;
- (vi) fall within other circumstances as determined by the CSRC; or
- (vii) have committed other material violations of relevant regulations of the Company as determined by the Board.

3. Source and number of Shares under the 2020 Scheme

(1) Source of underlying Shares of the 2020 Scheme

The source of the underlying Shares of the 2020 Scheme shall be A Shares denominated in RMB.

(2) Number of underlying Shares

The total number of underlying A Shares in relation to the Options that may be granted under the 2020 Scheme shall not exceed 163,492,000 A Shares, representing approximately 3.5438% of the Company's total issued share capital as at the Latest Practicable Date and approximately 4.2378% of the total number of A Shares as at the Latest Practicable Date. Specifically, 158,492,000 Options will be granted initially, representing 96.9417% of the total Options available under the 2020 Scheme, and accounting for approximately 3.4354% of the Company's total issued share capital as at the Latest Practicable Date; and 5,000,000 Options will be reserved, representing 3.0583% of the total Options available under the 2020 Scheme, and accounting for approximately 0.1084% of the Company's total issued share capital as at the Latest Practicable Date.

Unless approved by the Shareholders in a general meeting, the aggregate number of A Shares to be issued to a Participant upon exercise of his/her Options under the 2020 Scheme or other effective share incentive schemes of the Company (if any) at any time must not exceed 1% of the Company's total A share capital, and the maximum entitlement which may be granted to a Participant (including exercised, cancelled and outstanding Options) within any 12-month period shall not exceed 1% of the Company's total A share capital.

4. Incentive Method of the 2020 Scheme

Options will be granted under the 2020 Scheme as incentives. The underlying Shares are ordinary A Shares. Within the Validity Period and the exercise period, and subject to the fulfillment of the exercise conditions of the 2020 Scheme and the exercise arrangement, each Option entitles the holder to acquire one A Share at a pre-determined price.

5. Validity Period, date of grant, vesting period, Exercise Date, exercise period and lock-up provisions***(1) Validity Period***

The 2020 Scheme shall be effective for four years from the Date of First Grant under the 2020 Scheme.

(2) Date of Grant

Please see the section “Proposed Grant under the 2020 Scheme — Date of Grant” below for further information on the Date of Grant of the Options.

(3) Vesting period

The vesting period of the 2020 Scheme is one year from the Date of Grant.

(4) Exercise Date

Options granted under the 2020 Scheme are exercisable according to its proportion as required under each batch subject to a vesting period of one year.

The Exercise Date must be a trading day, which must not fall within any of the following periods:

- (i) the period commencing from 30 days prior to the publication of periodic reports of the Company; or in the event of delay in publishing the annual report or interim report of the Company due to special reasons, the period commencing from 30 days prior to the original date of publication and ending on one day immediately preceding the publication date;
- (ii) the period commencing from ten days prior to the publication of the Company’s announcement of estimated results and quick summary of results;
- (iii) the period commencing from the date of occurrence of a material event which may have a substantial impact on the trading prices of the Company’s shares and their derivatives or the date on which relevant

decision-making procedures start and ending on the second trading day following the publication of a relevant announcement in accordance with laws; and

- (iv) other periods as stipulated by the CSRC and the Shenzhen Stock Exchange.

(5) Exercise period

(i) Options under the First Grant

The exercise of the Options under the First Grant is subject to a vesting period of one year, during which period the Options are not exercisable. Subject to the fulfillment of the exercise conditions, the Options under the First Grant can be exercised in batches in the manner set forth below:

Exercise period	Duration	Proportion of Options exercisable to the total number of Options granted
First exercise period	Commencing on the first trading day after the expiry of the 12-month period from the Date of First Grant and ending on the last trading day of the 24-month period from the Date of First Grant	1/3
Second exercise period	Commencing on the first trading day after the expiry of the 24-month period from the Date of First Grant and ending on the last trading day of the 36-month period from the Date of First Grant	1/3
Third exercise period	Commencing on the first trading day after the expiry of the 36-month period from the Date of First Grant and ending on the last trading day of the 48-month period from the Date of First Grant	1/3

(ii) Options under the Reserved Grant

The exercise of the Options under the Reserved Grant is subject to a vesting period of one year, during which period the Options are not exercisable. Subject to the fulfillment of the exercise conditions, the Options under the Reserved Grant can be exercised in batches in the manner set forth below:

Exercise period	Duration	Percentage of Options exercisable to the total number of Options granted
First exercise period	Commencing on the first trading day after the expiry of the 12-month period from the Date of Reserved Grant and ending on the last trading day of the 24-month period from the Date of Reserved Grant	1/2
Second exercise period	Commencing on the first trading day after the expiry of the 24-month period from the Date of Reserved Grant and ending on the last trading day of the 36-month period from the Date of Reserved Grant	1/2

(6) Lock-up provisions to the underlying Shares

The A Shares acquired by the Participants pursuant to the exercise of the Options under the 2020 Scheme are subject to the following lock-up provisions:

- (i) Where the Participant is a Director or member of the senior management, the number of Shares which may be transferred by the Participant per year during his/her tenure of office shall not exceed 25% of the total number of the Shares held by him/her, and the Participant shall not transfer the Shares held by him/her within six months after his/her resignation.

- (ii) Where the Participant is a Director or member of senior management, all gains from the sale of Shares within six months of acquisition or from the acquisition of Shares within six months of sale by the Participant shall be accounted to the Company and the Board will collect all such gains.
- (iii) If, during the Validity Period, there is any amendment to the requirements regarding the Share transfer by a Director and senior management of the Company under the Company Law, the Securities Law, the Shenzhen Listing Rules, the Hong Kong Listing Rules, relevant regulations and the Articles of Association, the amended restrictions shall apply.

6. Exercise price and basis of determination

Please see the section “Proposed Grant under the 2020 Scheme — Exercise price and basis of determination” below for further information on the exercise price and its basis of determination.

7. Conditions of grant and exercise of the Options

(1) Conditions of grant of Options

The following conditions must be fulfilled before Participants are granted with the Options:

- (i) None of the following circumstances has occurred in relation to the Company:
 - (a) Issue of the Company’s financial and accounting report for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
 - (b) Issue of an audit report containing an adverse opinion or indication of inability to give an opinion by a certified public accountant in the internal control of financial reporting for the most recent accounting year;
 - (c) Failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the past 36 months after listing;
 - (d) Prohibition from participation in share incentive schemes under laws and regulations;
 - (e) Other circumstances as determined by the CSRC.

- (ii) None of the following circumstances has occurred in relation to the Participant:
 - (a) Having been declared an inappropriate candidate by the Shenzhen Stock Exchange in the past 12 months;
 - (b) Having been declared an inappropriate candidate by the CSRC or its local bureaus in the past 12 months;
 - (c) Having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local bureaus in the past 12 months owing to material violations of laws and regulations;
 - (d) Being prohibited from acting as a Director or a member of the senior management of the Company under the Company Law;
 - (e) Being prohibited from participation in the share incentive schemes of listed companies under laws and regulations;
 - (f) Other circumstances as determined by the CSRC;
 - (g) Other material violations of relevant regulations of the Company as determined by the Board.
- (iii) The average of audited Net Profit for the latest three financial years as announced by the Company not being negative.

(2) Conditions of exercise of Options*(i) Performance indicators*

The performance indicator for the Options to be exercised: Net Profit.

(ii) Exercise conditions of the Options

Considering current business environment of the Company, the impact brought by the novel coronavirus outbreak in 2020, and the continuous investment in research and development by the Company in the future, the Options can only be exercised upon satisfaction of the following conditions:

- (a) No Option can be exercised unless the Company has achieved the following applicable performance targets in the relevant exercise period:

(A) Options under the First Grant

Exercise period	Performance target
First exercise period	Net Profit for 2020 shall be no less than RMB3.0 billion.
Second exercise period	Total Net Profit for 2020 and 2021 shall be no less than RMB6.47 billion.
Third exercise period	Total Net Profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion.

(B) Options under the Reserved Grant

Exercise period	Performance target
First exercise period	Total Net Profit for 2020 and 2021 shall be no less than RMB6.47 billion.
Second exercise period	Total Net Profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion.

- (b) The following conditions shall also be fulfilled by the Participants in order to exercise the Options:
- (A) During the Validity Period, none of the circumstances as stipulated in paragraph 7(1)(ii) has occurred in relation to the Participant as at the end of the relevant exercise period, otherwise the Participant shall abstain from participating in the 2020 Scheme without any compensation.
- (B) The Participant has passed his/her performance appraisal for the preceding year according to the “2020 Share Option Incentive Scheme Performance Appraisal System of ZTE Corporation”, otherwise the Options exercisable by him/her in the relevant exercise period will be withdrawn and cancelled by the Company without any compensation but the Participant will remain entitled to participate in the 2020 Scheme and the exercisable Options granted to him/her in other exercise periods shall remain valid.

If the above conditions are fulfilled, the Participants can exercise all his/her Options exercisable in the relevant exercise period.

8. Methods and procedures for adjustment of the number and the exercise price of the Options under the 2020 Scheme

(1) Method of adjusting the number of Options

From the Date of Grant, in the event of any capitalisation issue, bonus issue, sub-division or rights issue or consolidation of Shares in relation to the A Shares of the Company before the exercise of the Options, an adjustment to the number of Options shall be made accordingly.

The method of adjustment in principle is set out below:

(i) Capitalisation issue, bonus issue and sub-division of Shares

$$Q = Q_0 \times (1 + n)$$

Where: Q_0 represents the number of Options before the adjustment; n represents the ratio of increase per Share resulting from the capitalisation issue, bonus issue and sub-division of Shares (i.e. the number of increased Shares per Share upon capitalisation issue, bonus issue or subdivision of Shares); Q represents the adjusted number of Options.

(ii) Rights Issue

$$Q = Q_0 \times P_1 \times (1 + n) / (P_1 + P_2 \times n)$$

Where: Q0 represents the number of Options before the adjustment; P1 represents the closing price as at the record date; P2 represents the subscription price of the rights issue; n represents the basis of the rights issue (i.e. the number of Shares to be issued under the rights issue in proportion to the total share capital of the Company before the rights issue); Q represents the adjusted amount of Options.

(iii) Consolidation of Shares

$$Q = Q0 \times n$$

Where: Q0 represents the number of Options before the adjustment; n represents the ratio of consolidation of Shares (i.e. one Share shall be consolidated into n Shares); Q represents the adjusted number of Options.

(2) Methods of adjusting the exercise price

From the Date of Grant, in the event of any capitalisation issue, bonus issue, sub-division or rights issue or consolidation of Shares in relation to the A Shares before the exercise of the Options, an adjustment to the exercise price shall be made accordingly.

The method of adjustment in principle is set out below:

(i) Capitalisation issue, bonus issue and sub-division of Shares

$$P = P0 \div (1 + n)$$

Where: P0 represents the exercise price before the adjustment; n represents the ratio of increase per Share resulting from the capitalisation issue, bonus issue and sub-division of Shares; P represents the adjusted exercise price.

(ii) Rights issue

$$P = P0 \times (P1 + P2 \times n) / (P1 \times (1 + n))$$

Where: P0 represents the exercise price before the adjustment; P1 represents the closing price as at the record date; P2 represents the subscription price of the rights issue; n represents the basis of the rights issue (i.e. the number of Shares to be issued under the rights issue in proportion to the total share capital of the Company before the rights issue); P represents the adjusted exercise price.

(iii) Consolidation of Shares

$$P = P0 \div n$$

Where: P0 represents the exercise price before the adjustment; n represents the ratio of consolidation of Shares (i.e. one Share shall be consolidated into n Shares); P represents the adjusted exercise price.

(3) Adjustment procedures

The Board will be authorised by the Shareholders at a general meeting of the Company to adjust the exercise price and the number of Options under the 2020 Scheme upon occurrence of any of the abovementioned circumstances. The Company shall engage a legal adviser to advise the Board whether such adjustment, if any, is in compliance with the Incentive Measures, the Articles of Association and the 2020 Scheme.

Any adjustment to the exercise price, number of Options or other terms due to other reasons, after being reviewed by the Board, shall be submitted to a general meeting of the Company for approval before implementation.

Any adjustments required under the Rule 17.03(13) of the Hong Kong Listing Rules must give the Participants the same proportion of the share capital as that to which that person was previously entitled, but no adjustments may be made to the extent that the Share would be issued at less than its nominal value. In respect of any adjustments required under the Rule 17.03(13) of the Hong Kong Listing Rules, other than any adjustments made on a capitalisation issue, an independent financial adviser or the Company's auditors will confirm to the Directors in writing that the adjustments satisfy the requirements set out in the note of Rule 17.03(13) of the Hong Kong Listing Rules.

(4) Amendments to the 2020 Scheme

If the Company intends to amend the 2020 Scheme prior to its consideration at the general meeting, such amendment shall be considered and approved by the Board. Prior to the convening of a general meeting of the Company for approval of the 2020 Scheme, the Company may amend the draft of the 2020 Scheme upon requests of the PRC and/or Hong Kong regulatory authorities. In case of any discrepancies between the terms of the 2020 Scheme and the requirements of relevant laws, regulations, agreements, the Shenzhen Stock Exchange or the Hong Kong Stock Exchange or any amendment made thereto, the requirements of relevant laws, regulations, agreements, the Shenzhen Stock Exchange or the Hong Kong Stock Exchange shall prevail.

If the Company intends to amend the 2020 Scheme or terms of the Options granted pursuant to the 2020 Scheme after the 2020 Scheme is approved at the general meeting, such amendment shall be considered and determined at general meeting given that such amendment shall not result in the following:

- (i) accelerating the exercise of Options;
- (ii) reducing the exercise price of Options.

9. Handling method on special cases

(1) Change of the largest Shareholder

Where there is a change of the largest Shareholder because of restructuring and merger and acquisition, the existing largest Shareholder shall add a term into the share transfer agreement (or other agreements resulting in the change of the largest Shareholder) that the new largest Shareholder shall guarantee that the 2020 Scheme will remain unchanged, ensure an effective implementation of the 2020 Scheme and complete the 2020 Scheme.

(2) Merger and demerger

Where there is merger or demerger of the Company, the parties shall undertake in the relevant merger/demerger agreements to continue implementing the 2020 Scheme and to adjust the content of the 2020 Scheme based on actual situations. The parties thereto cannot change the Participants, the number of Options granted under the 2020 Scheme, the exercise price and the exercise conditions without reasons.

(3) Termination of the 2020 Scheme

If any of the following occurs in relation to the Company, the 2020 Scheme shall be terminated. Options which are granted but not yet exercised by the Participants shall cease to be exercisable and shall lapse immediately. Such Options shall be withdrawn and cancelled by the Company without any compensation:

- (i) Issue of the Company's financial and accounting report for the most recent financial year in which a certified public accountant gives an adverse opinion or indicates the inability to give an opinion;
- (ii) Issue of an audit report containing an adverse opinion or indication of inability to give an opinion by a certified public accountant in the internal control of financial reporting for the most recent accounting year;

- (iii) Failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the past 36 months after listing;
- (iv) Prohibition from participation in share incentive schemes under laws and regulations;
- (v) Other circumstances as determined by the CSRC.

(4) False statements

Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with arrangements for the grant or exercise of Options, all outstanding Options shall be repurchased and cancelled. In respect of Options already exercised, Participants concerned shall return to the Company all interests obtained from the 2020 Scheme after false statements or misleading statements in or material omissions from the information disclosure documents have been confirmed. Participants who bear no responsibility for the aforesaid matters and who incur losses as a result of the return of interests granted may seek compensation from the Company or responsible parties in accordance with relevant arrangements under the 2020 Scheme.

(5) Change of personal particulars of the Participant

- (i) Should any of the following occur in relation to a Participant, all his/her Options which are exercisable but not yet exercised shall cease to be exercisable and Options which are not yet exercisable shall lapse forthwith at the date of occurrence:
 - (a) becoming a supervisor of the Company or other staff who cannot hold Shares or options of the Company;
 - (b) having been declared an inappropriate candidate by any stock exchange;
 - (c) having been declared an inappropriate candidate by the CSRC or its local bureaus;
 - (d) having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local bureaus owing to material violations of laws and regulations;

- (e) having been imposed with criminal penalties due to violation of laws and regulations, or disciplinary treatment due to violation of internal management regulations of the Company (including demerit record or any other more severe disciplinary actions imposed by the Company);
 - (f) having violated laws or regulations of the State and the provisions of Articles of Associations resulting in major economic loss to the Company;
 - (g) having been dismissed by the Company due to material non-compliance and violation of internal rules and regulations;
 - (h) having other situations as determined by the remuneration and evaluation committee of the Board; or
 - (i) during the Validity Period, where the Participants damage the interests or reputation of the Company as a result of his/her dereliction of duty or malfeasance which leads to a demerit record or a more severe disciplinary action imposed by the Company (excluding dismissal situations as stipulated in paragraph (e), (f) and (g) above), he/she cannot exercise his/her Options which are exercisable in the closest exercise period, and such Options which are exercisable but not yet exercised in the relevant exercise period cannot be exercised in the future, but other Options which are exercisable in the subsequent exercise periods will not be affected.
- (ii) Should any of the following occur in relation to a Participant, all his/her Options which are exercisable but not yet exercised shall be exercised within six months from the date of occurrence and Options which are not yet exercisable shall lapse forthwith at the date of occurrence:
- (a) his/her labor contract or employment contract with the Company having been unilaterally terminated or cancelled by the Participant;
 - (b) either party having decided not to renew the labor contract or employment contract after its expiration; or
 - (c) other situations as determined by the remuneration and evaluation committee of the Board.

- (iii) Should any of the following occur in relation to a Participant, all his/her Options which are exercisable but not yet exercised shall be exercised within six months from the date of occurrence and Options which are not yet exercisable shall lapse forthwith at the date of occurrence:
 - (a) death or incapacity;
 - (b) retirement;
 - (c) termination of the labor contract or employment contract in advance in consensus with the Company; or
 - (d) other situations as determined by the remuneration and evaluation committee of the Board.
- (iv) The Options held by a Participant shall not be affected by any change in his/her job position or his/her transfer to a wholly-owned or controlled subsidiary of the Company, and by any change in his/her job position or his/her transfer from a wholly-owned or controlled subsidiary of the Company to the Company, and he/she shall remain entitled to the grant and exercise of Options.
- (v) Other unspecified situations and its handling method shall be determined by the remuneration and evaluation committee of the Board.

10. Supplementary Provisions

- (1) The 2020 Scheme shall be effective upon approval of the 2020 Scheme at the general meeting of the Company.
- (2) In case of any conflicts between relevant terms of the 2020 Scheme and relevant laws, regulations and administrative rules, regulatory documents of the State or the Hong Kong Listing Rules, the relevant laws, regulations and administrative rules, regulatory documents of the State and the Hong Kong Listing Rules shall prevail. Any issues not specified in the 2020 Scheme shall be implemented in accordance with the relevant laws, regulations, administrative rules, regulatory documents of the State and the Hong Kong Listing Rules.
- (3) The right of interpretation of the 2020 Scheme belongs to the Board.
- (4) The issue of Shares pursuant to the exercise of the Options granted under the 2020 Scheme shall be in accordance with provisions of the Articles of Association as at the date of issue of Shares (the "Issue Date"), and shall rank *pari passu* in all respects with all paid-up A Shares in issue as at the Issue Date, entitling the Participants to qualify for all dividends and other distributions declared, paid or made after the Issue Date (except dividends

and other distributions declared, paid or made before the Issue Date if resolutions for approving each distribution or payment are passed before the Issue Date). Participants are bound by the blackout provisions of the 2020 Scheme (if applicable).

- (5) The Company shall not provide any loans or any other forms of financial assistance (including providing guarantee for the loan extended to the Participants) to the Participants for exercising the Options.
- (6) Options granted to the Participants under the 2020 Scheme are personal and the Participants shall not sell, assign, charge or mortgage or create any encumbrances in respect of any Options.

II. PROPOSED GRANT UNDER THE 2020 SCHEME

The principal terms of the proposal in respect of the Proposed Grant of the Options are set out in details in this section. Relevant requirements of the proposal of the Proposed Grant of the Options shall also comply with the restrictive provisions under the 2020 Scheme. Other requirements not provided for in the proposal in respect of the Proposed Grant of Options shall be determined by reference to the relevant terms under the 2020 Scheme.

1. Number of underlying Shares in relation to the Options under the Proposed Grant

The total number of underlying A Shares in relation to the Options that may be granted under the Proposed Grant shall not exceed 163,492,000 A Shares, representing approximately 3.5438% of the Company's total issued share capital as at the Latest Practicable Date and approximately 4.2378% of the total number of A Shares as at the Latest Practicable Date. Specifically, 158,492,000 Options will be granted initially, representing 96.9417% of the total Options available under the 2020 Scheme, and accounting for approximately 3.4354% of the Company's total issued share capital as at the Latest Practicable Date; and 5,000,000 Options will be reserved, representing 3.0583% of the total Options available under the 2020 Scheme, and accounting for approximately 0.1084% of the Company's total issued share capital as at the Latest Practicable Date. It is proposed that the Proposed Grant will involve Options to subscribe for not more than 163,492,000 A Shares, representing approximately 3.5438% of the Company's total issued share capital as at the Latest Practicable Date (4,613,434,898 Shares) and approximately 4.2378% of the total number of A Shares in issue as at the Latest Practicable Date (3,857,932,364 A Shares).

2. Allocation of the Options under the Proposed Grant

The total number of proposed Participants under the Proposed Grant shall not exceed 6,124, representing approximately 8.84% of the total number of employees of the Company as at the Latest Practicable Date. The proposed Participants of the 2020 Scheme include Directors, senior management and key business personnel who have direct impact on the overall results and continuous development of the Company or who have outstanding contribution to the Company. Details of the allocation of the Proposed Grant under the 2020 Scheme are as follows:

Name of the Participant	Position of the Participant	Number of Options to be granted to the Participant under the 2020 Scheme	Percentage of Options to be granted to the Participant to the total number of Options under the 2020 Scheme	Percentage of underlying A Shares to the total number of share capital of the Company as at the Latest Practicable Date
Li Zixue	Chairman	180,000	0.11%	0.0039%
Xu Ziyang	Director and president	180,000	0.11%	0.0039%
Li Buqing	Director	50,000	0.03%	0.0011%
Gu Junying	Director and executive vice president	180,000	0.11%	0.0039%
Zhu Weimin	Director	50,000	0.03%	0.0011%
Fang Rong	Director	50,000	0.03%	0.0011%
Wang Xiyu	Executive vice president	180,000	0.11%	0.0039%
Li Ying	Executive vice president and chief financial officer	180,000	0.11%	0.0039%
Xie Junshi	Executive vice president	180,000	0.11%	0.0039%
Ding Jianzhong	Board secretary	120,000	0.07%	0.0026%
Other key personnel (up to 6,114 in total)	—	157,142,000	96.12%	3.4062%
Total options under the First Grant	—	158,492,000	96.94%	3.4354%
Options under the Reserved Grant	—	5,000,000	3.06%	0.1084%
Total		163,492,000	100.00%	3.5438%

All of the participants are employees of the Group and save as disclosed above, none of them is a Director, chief executive or substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company or an associate of any of them (as defined

in the Hong Kong Listing Rules). Of the up to 6,114 participants who are the other key personnel of the Company under the Proposed Grant, no single individual would be granted share options the underlying shares of which would represent 1% or more of the total A share capital of the Company.

In addition, the aggregate number of A Shares to be issued to a Participant upon exercise of his/her Options under the 2020 Scheme pursuant to the Proposed Grant and the 2017 Scheme would not exceed 1% of the Company's total A share capital in issue, and the maximum entitlement which may be granted to a Participant (including exercised, cancelled and outstanding Options) within any 12-month period would not exceed 1% of the Company's total A share capital.

In accordance with Rule 17.04(1) of the Hong Kong Listing Rules, the above grant of options to directors and chief executives of the Company have been approved by the independent non-executive Directors. None of the proposed Participant is a substantial shareholder or independent non-executive director of the Company or their respective associates. The above grant of options to directors and chief executives of the Company have also been reviewed and approved by the remuneration and evaluation committee of the Company.

3. Date of Grant

Within 60 days after the approval of the 2020 Scheme at a general meeting of the Company, the Board shall determine the Date of First Grant and complete the relevant registration procedures and publication of an announcement.

The Date of Grant must be a trading day and must not fall within any of the following periods:

- (1) where the Participant is a Director, the period commencing from 60 days immediately preceding the publication date of the annual results and ending on the publication date of the annual results (publication date included); and the period commencing from 30 days immediately preceding the publication date of the quarterly results and half-year results and ending on the publication date of the quarterly results and half-year results (publication date included);
- (2) period commencing on the date on which the Company becomes aware of any inside information and ending on the publication of such information. In particular, no options can be granted in the period commencing one month immediately before the earlier of: (a) the date of the Board meeting for approving the Company's results of any year, half-year, quarterly or any other interim period; and (b) the deadline for the Company to announce its results for any year or half-year under the applicable listing rules, or any quarterly or any other interim period.

The Date of Reserved Grant shall be determined by the Board within 12 months after the 2020 Scheme is approved by the Shareholders at the general meeting.

4. Exercise price and basis of determination

(1) Exercise price and basis of determination of the Options under the First Grant

The exercise price of the Options proposed to be granted under the First Grant of the 2020 Scheme shall be RMB34.47 per A Share. Upon fulfilment of exercise conditions, each Option granted to the Participant entitles the Participant to acquire one A Share at RMB34.47 per A Share.

The above exercise price is the higher of the following:

- (i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of the announcement of the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange (i.e. 12 October 2020), which was RMB34.47 per A Shares; and
- (ii) the average of the trading prices of the A Shares for the last 20 trading days immediately preceding the date of the announcement of the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange, which was RMB34.16 per A Share.

According to the Incentive Measures promulgated by the CSRC, the exercise price of the Options shall be the higher of:

- (i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of announcement of the draft scheme; and
- (ii) one of the average of the trading prices of the A Shares for the last 20 trading days, 60 trading days or 120 trading days immediately preceding the date of the announcement of the draft scheme.

In respect of (ii) above, the Company has selected the average of the trading prices of the A Shares for the last 20 trading days immediately preceding the date of the announcement of the draft and summary of the 2020 Scheme published on the Shenzhen Stock Exchange.

(2) Exercise price and basis of determination of the Options under the Reserved Grant

Before each grant of the Options under the Reserved Grant, the Company shall hold a board meeting to pass the relevant resolution, and shall disclose the information of such grant. The exercise price of the Options under the Reserved Grant shall not be lower than the par value of the A Shares, and shall be the higher of the following:

- (i) the average of the trading prices of the A Shares on the last trading day immediately preceding the date of the announcement on the Board approval of the Reserved Grant published on the Shenzhen Stock Exchange; and
- (ii) one of the average of the trading prices of the A Shares for the last 20 trading days, 60 trading days or 120 trading days immediately preceding the date of the announcement on the Board approval of the Reserved Grant published on the Shenzhen Stock Exchange.

During the Validity Period, in the event of any capitalization issue, bonus issue, sub-division or rights issue or consolidation of Shares in relation to the A Shares before the exercise of the Options, an adjustment to the exercise price shall be made accordingly.

5. Conditions of Proposed Grant and exercise of the Options

The Proposed Grant of Options and the exercise of the Options are also subject to the satisfaction of the conditions stipulated under the 2020 Scheme (the principal terms of which are set out in the section “I. SUMMARY OF THE PRINCIPAL TERMS OF THE 2020 SCHEME — 7. Conditions of grant and exercise of the Options” above).

This Appendix sets out the English translation of the Chinese version of the Performance Appraisal System. Should there be any inconsistencies or conflicts between the English and Chinese versions, the Chinese version shall prevail.

ZTE CORPORATION

THE 2020 SHARE OPTION INCENTIVE SCHEME PERFORMANCE APPRAISAL SYSTEM

The 2020 Share Option Incentive Scheme Performance Appraisal System of ZTE Corporation (“Performance Appraisal System”) is formulated in accordance with the Company Law of the People’s Republic of China (“Company Law”), other pertinent laws and regulations and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Hong Kong Listing Rules”) as well as the prevailing performance appraisal systems with a view to improving the corporate governance structure, strengthening performance management and the incentive and binding mechanism of ZTE Corporation (the “Company” or “ZTE”), and assuring smooth implementation of the Company’s 2020 Share Option Incentive Scheme (the “2020 Scheme”).

I. PURPOSE OF PERFORMANCE APPRAISAL

The scientific and comprehensive performance management system is developed with the aim of fully implementing strategic goals in the Company’s overall development, assuring concerted efforts on the part of the Company staff to conduct business operations and development in the overall interests of the Company, ensuring a high level of consistency between operational targets and the Company’s strategy, strengthening the Company’s incentive and binding mechanism and ensuring smooth implementation of the 2020 Scheme.

II. PARTICIPANTS OF PERFORMANCE APPRAISAL

1. Participants to be evaluated under the Performance Appraisal System shall primarily be participants of the 2020 Scheme.
2. The Company shall determine scheme participants subject to appraisal based on relevant provisions of the Company Law, the Securities Law of the People’s Republic of China, Administrative Measures on Share Incentives of Listed Company (《上市公司股權激勵管理辦法》) and Articles of Association of ZTE Corporation (the “Articles of Association”) and other pertinent laws, regulations and regulatory documents; subject to compliance with laws and regulations, the Articles of Association and the Hong Kong Listing Rules, the Company may adjust the scope of scheme participants to reflect changes in the Company’s business development and according to results of individual performance appraisals.

3. Following consideration and approval of the 2020 Scheme by the board of directors of the Company (the “Board”), the supervisory committee of the Company (the “Supervisory Committee”) shall conduct verification in respect of the list of scheme participants. The statement of verification and publication of the list of participants shall be announced by the Company prior to the consideration of the share option incentive scheme at the Company’s general meeting.

III. BASES AND PRINCIPLES FOR PERFORMANCE APPRAISAL

Different appraisal indicators and corresponding targets shall be set for different job positions and duties under the ZTE performance appraisal criteria, and reviews and necessary adjustments shall be made on an annual basis. Performance appraisals for the 2020 Scheme shall be bound by the Performance Appraisal System, and the Board shall determine the number of exercisable options for scheme participants according to the results of the Company’s overall performance appraisal and the extent of completion of individual performance targets.

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

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

IV. DUTIES OF THE ORGANIZATION RESPONSIBLE FOR THE PERFORMANCE APPRAISAL SYSTEM

The Performance Appraisal System, formulated and subject to interpretation and amendment by the Company’s human resources department (the “HR Department”), shall come into effect on the date of publication. Departments responsible for organizing and implementing performance appraisal shall include the Company’s assessment office, operations management department, financial management department and the HR Department.

1. As the highest management authority in the performance appraisal system, the Board and the remuneration and evaluation committee thereunder shall be responsible for formulating the targets of performance appraisal and the principles for appraisal and shall be vested with the authority to finalize appraisal results.

2. The HR Department shall be responsible for setting up, in association with the Company's assessment office, operations management department and financial management department, a Company appraisal and evaluation team, which shall be in charge of monitoring and coordinating appraisal and evaluation activities of various business units and relevant subsidiaries ("Units") of the Company.
3. Appraisal and evaluation teams at the respective Units shall be responsible for the screened selection, evaluation and examination, appraisal and assessment and determination of option quotas in respect of scheme participants in the respective Units under the teams' jurisdiction.

V. THE PERFORMANCE APPRAISAL SYSTEM

1. Contents of Appraisal

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

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

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

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

(2) Appraisal of Key Personnel

- 1) Appraisal shall be conducted on an annual basis;
- 2) Appraisal and evaluation teams at various levels shall evaluate scheme participants in the respective Units under the teams' jurisdiction in terms of their business performance, competence and values, in order to generate performance appraisal results.

2. Management of Appraisal Results

(1) Revision of Appraisal Indicators and Results

In the event of material force majeure or exceptional reasons occurring during the appraisal period and affecting the work and business performance of persons under appraisal, the Company's remuneration and evaluation committee may adjust appraisal indicators and appraisal results that have been subject to significant deviations.

(2) Notification of Appraisal Results

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

VI. HOW PERFORMANCE APPRAISAL MAY AFFECT SHARE OPTION INCENTIVES

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

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

In addition to achieving the performance appraisal targets, other provisions of the ZTE Corporation 2020 Scheme (Draft) relating to the exercise of options of scheme participants, if any, shall also be complied with.

VII. SUPPLEMENTARY PROVISIONS

The Performance Appraisal System shall be subject to interpretation and amendment by the HR Department of ZTE and shall come into effect and implementation upon consideration and approval by the Board and the general meeting of the Company.

The following is a summary of the principal terms of the Management Stock Ownership Scheme to be approved and adopted at the EGM. It does not form part of nor is it intended to be part of, the terms of the Management Stock Ownership Scheme and it should not be taken as affecting the interpretation of the terms of the Management Stock Ownership Scheme. As the Management Stock Ownership Scheme is prepared in Chinese, should there be any inconsistencies or conflicts between the English and the Chinese versions, the Chinese version shall prevail.

I. OBJECTIVES OF THE MANAGEMENT STOCK OWNERSHIP SCHEME

The Management Stock Ownership Scheme is formulated in accordance with the requirements of the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, the Guidelines for Standardised Operations of Companies Listed on the Shenzhen Stock Exchange, the Guidance for the Pilot Implementation of Employee Stock Ownership Scheme by Listed Companies (the “Guidance”), the Guidelines for Information Disclosure by Companies Listed on the Shenzhen Stock Exchange No.4 — Employee Stock Ownership Scheme (the “Disclosure Guideline No. 4”), the Hong Kong Listing Rules and other laws, regulations, regulatory documents and the Articles of Association. Its main purposes and objectives are:

1. To further improve the internal governance mechanism of the Company, establish and perfect the mechanism for the mutual sharing of benefits and risks among the shareholders, the Company and the employees, advocate the concept of sustainable co-development for the Company and the individual and to keep motivated the Company’s senior management and key talents;
2. To attract and retain high-calibre talents and key business personnel with a view to both the long-term and short-term interests of the Company and attract different types of talents with more flexibility in order to better facilitate the Company’s long-term, sustainable and healthy development.

II. GENERAL PRINCIPLES OF THE MANAGEMENT STOCK OWNERSHIP SCHEME

(I) Principle of legal compliance

The Company shall implement the Management Stock Ownership Scheme in strict accordance with procedures stipulated under the laws and administrative regulations and shall disclose information that is true, accurate and complete in a timely manner. Insider trading, market manipulation or other fraudulent acts in securities trading through the Management Stock Ownership Scheme are prohibited.

(II) Principle of voluntary participation

The Management Stock Ownership Scheme shall be implemented on the basis of the Company's own decision and employees shall participate on a voluntary basis. The Company shall not coerce employees to participate in its Management Stock Ownership Scheme by way of apportionment, mandatory distribution or other means.

(III) Principle of risk undertaking

Participants under the Management Stock Ownership Scheme shall undertake their own risks for gains or losses, and their equity rights shall rank at par with those of other investors.

III. TARGET PARTICIPANTS UNDER THE MANAGEMENT STOCK OWNERSHIP SCHEME, CRITERIA FOR PARTICIPATION AND UNITS**(I) Scope of target participants under the Management Stock Ownership Scheme, criteria for participation**

Target participants in the Management Stock Ownership Scheme shall be ascertained in accordance with the Company Law, the Securities Law, the Guidance, the Disclosure Guideline No. 4 and other pertinent laws, regulations, regulatory documents and the Articles of Association, taking into account the actual conditions of the Company. All target participants in the Management Stock Ownership Scheme are members of the Company's key management team representing the decisive force that ensures the execution of the Company's strategies and drives improvements in business performance. The target participants shall be under the employ of and shall have entered into service contracts with the Company or its subsidiaries, including:

- (1) Directors, Supervisors and senior management of the Company such as the Chairman, President and Executive Vice Presidents;
- (2) Other key management personnel.

(II) Target participants' subscription for the Management Stock Ownership Scheme

There shall be no more than 27 target participants in the Management Stock Ownership Scheme. There shall be no more than 114.766 million units of RMB1.00 each under the Management Stock Ownership Scheme. A total of 8 Directors, Supervisors and senior management of the Company shall subscribe for not more than 62.606 million units, accounting for 54.55% of the total amount under the Management Stock Ownership Scheme. Other target participants shall subscribe for not more than 52.16 million units, accounting for 45.45% of the total amount under the Management Stock Ownership Scheme. The details are set out as follows:

Name	Position	Subscription entitlements (ten thousand units)	Percentage of subscription entitlement
Li Zixue	Chairman	1,200	10.46%
Xu Ziyang	Director and President	1,200	10.46%
Gu Junying	Director and Executive Vice President	900	7.84%
Xie Daxiong	Chairman of Supervisory Committee	302.6	2.64%
Wang Xiyu	Executive Vice President	1,000	8.71%
Li Ying	Executive Vice President and Chief Financial Officer	800	6.97%
Xie Junshi	Executive Vice President	700	6.10%
Ding Jianzhong	Board Secretary	158	1.38%
Total of Directors, Supervisors and senior management (8 persons)		6,260.6	54.55%
Total of other key management personnel (not more than 19 persons)		5,216.0	45.45%
Total		11,476.6	100.00%

Note: Save for the proposed participation in the Management Stock Ownership Scheme by the aforesaid Directors, Supervisors and senior management, the Management Stock Ownership Scheme is not related to or acting in concert with the controlling shareholder or single largest shareholder, de facto controller, Director, Supervisor or senior management of the Company.

The final number and identity of management participating in the Management Stock Ownership Scheme and their subscription entitlements shall be determined by the Board according to the actual conditions.

IV. SOURCE OF FUND AND SHARES FOR AND SIZE OF THE MANAGEMENT STOCK OWNERSHIP SCHEME

The Management Stock Ownership Scheme represents a medium/long-term incentive policy of ZTE. The source of stocks shall be the ZTE A shares in the Company's designated securities repurchase account, which shall, upon approval of the Management Stock Ownership Scheme at the Company's general meeting, be transferred to the Management Stock Ownership Scheme through non-trading transfer or other permissible means under the laws and regulations at the average traded price for the repurchased A shares. The source of fund for the Management Stock Ownership Scheme shall be the designated stock ownership scheme fund set aside by the Company.

(I) Source of fund for the Management Stock Ownership Scheme

1. The Company has plans to set aside a designated stock ownership scheme fund of RMB114,765,557, accounting for approximately 2.23% of the Company's audited Net Profit for 2019, to be utilised as incentive for the key management team under the Management Stock Ownership Scheme.
2. Under the Management Stock Ownership Scheme, the Company will not provide any financial assistance to or loan guarantee for the target participants, nor has it applied any leveraged funds.
3. Under the Management Stock Ownership Scheme, no third parties will make any arrangements for rewards, subsidies or making up shortfalls in respect of management' participation in the stock ownership scheme.

(II) Source of shares for the Management Stock Ownership Scheme

The source of shares for the Management Stock Ownership Scheme shall be ZTE A shares in the Company's designated securities repurchase account. The Company had repurchased a total of 2,973,900 A shares, accounting for 0.06% of the Company's total share capital. Upon approval of the Management Stock Ownership Scheme at the general meeting, the Management Stock Ownership Scheme shall acquire repurchased A shares in the Company through non-trading transfer or other permissible means under the laws and regulations.

(III) Prices at which shares are purchased for the Management Stock Ownership Scheme

The price at which repurchased A shares are acquired for the Management Stock Ownership Scheme is RMB38.59/share, being the average traded price for the Company's repurchased A shares.

(IV) Size of the Management Stock Ownership Scheme

The total number of shares held under the Management Stock Ownership Scheme shall not exceed, on a cumulative basis, 10% of the total share capital of the Company. The total number of the Company's shares corresponding the entitlements in the stock ownership scheme (including all tranches) held by an individual management shall not exceed, on a cumulative basis, 1% of the total share capital of the Company. The total number of shares held under the Management Stock Ownership Scheme shall not include shares acquired by the management prior to the initial public offering of the Company, shares voluntarily purchased by them in the secondary market, and shares received through share option incentives.

(V) Accounting treatment of the Management Stock Ownership Scheme

In accordance with the provisions of "ASBE No. 11 — Share-based payment", equity-settled share-based payments in consideration of services rendered by staff that can only be exercised upon the completion of services or attainment of stipulated results in business performance within the vesting period are recognised in relevant cost or expenses and the capital reserve in respect of service obtained for the period at the fair value on the date of grant of the equity instrument based on the best estimate of the volume of exercisable equity instrument at each balance sheet date during the vesting period.

The cost of the Management Stock Ownership Scheme is amortised during the lock-up period and charged to relevant costs with a corresponding crediting to the capital reserve in accordance with the provisions of relevant accounting standards and regulations. Costs requiring actual amortisation are recognised based on the conditions after the completion of the transfer of the Shares under the Management Stock Ownership Scheme.

(VI) Impact of the Management Stock Ownership Scheme on the Company's operating results

The designated fund set aside for the Management Stock Ownership Scheme amounts to RMB114,765,557.00, accounting for approximately 2.23%, 0.40% and 0.34%, respectively, of the Company's audited Net Profit, shareholders' equity attributable to the ordinary shares of the listed company and cash for 2019, which are minimal in terms of percentage share. Based on the Company's operations, finance, R&D and solvency and future development, the Management Stock Ownership Scheme will not have any material adverse impact on the Company's operations, finance, R&D and solvency and future development.

V. TERM, LOCK-UP PERIOD, MODIFICATION AND TERMINATION OF THE MANAGEMENT STOCK OWNERSHIP SCHEME**(I) Term of the Management Stock Ownership Scheme**

The term of the Management Stock Ownership Scheme shall be 3 years from the date on which the Management Stock Ownership Scheme is considered and approved at the general meeting and shall automatically lapse upon its conclusion, or extended after consideration and approval by the Board upon the request of the management committee.

(II) Lock-up period of the Management Stock Ownership Scheme

The lock-up period for Shares acquired under the Management Stock Ownership Scheme shall be 12 months from the date on which the completion of acquisition of shares from the Company's designated securities repurchase account is announced by the Company; shares derived from the distribution of share dividend and the conversion of capital reserve into share capital, among others, shall also be subject to the aforesaid lock-up arrangements for shares.

(III) Unlocking of the Management Stock Ownership Scheme

The performance indicator for the Management Stock Ownership Scheme shall be the Company's Net Profit for 2020 no less than RMB3.0 billion. The respective portion of shares entitled by the management shall be determined according to the operating results of businesses under the charge of the management and outcomes of personal appraisal, and the ascertained portion of shares shall be vested in the Holder in two tranches being an interval of 12 months, with 50% of the ascertained portion of shares being vested for each tranche.

If the Company fails to attain its business appraisal indicator for the vesting appraisal period, the Shares interests under the Management Stock Ownership Scheme shall be reverted to the Company in full and none of the Holders shall continue to be entitled to the Shares interests under the Management Stock Ownership Scheme.

(IV) Trading restrictions for the Management Stock Ownership Scheme

The Management Stock Ownership Scheme shall not trade in the Company's shares during the following periods:

1. the 60-day period from the date on which the Company's Board meeting for the review of the annual report is convened to the date of publication of such annual report;
2. the 30-day period from the date on which the Company's Board meeting for the review of the quarterly or interim report is convened to the date of publication of such quarterly or interim report;

3. the 10-day period prior to the publication of the Company's preliminary results announcement and quick summary of results;

The periods during which trading in the shares of the Company is prohibited set out in paragraphs 1–3 above shall include the periods during which the Company's announcements of results are postponed;

4. the period from the date on which a material event which may have a substantial impact on the trading prices of the Company's shares occurs or becomes the subject of decision to the second trading day following the publication of a relevant announcement in accordance with laws;
5. Other periods stipulated under other laws, regulations and provisions of CSRC, HKSFC and the stock exchanges of places where the Company's securities are listed.

(V) Modification to the Management Stock Ownership Scheme

During the term of the Management Stock Ownership Scheme, any modification to the specific proposal within the scope of the framework stipulated by the Management Stock Ownership Scheme shall be passed by more than two-thirds of the number of units held by the Holders attending the Holders' Meeting and be submitted to the Board for consideration and approval. Any modification or adjustment to the overall proposal of the Management Stock Ownership Scheme shall also be submitted to the general meeting for consideration.

(VI) Termination of the Management Stock Ownership Scheme

1. The Management Stock Ownership Scheme shall be terminated once the term expires, which should be liquidated by the management committee and distribution should be made based on the units held by the Holders;
2. After the lock-up period of the Management Stock Ownership Scheme expires, if the assets of the Management Stock Ownership Scheme are all monetary assets, the Management Stock Ownership Scheme may be terminated prematurely;
3. Early termination of the Management Stock Ownership Scheme is subject to the consideration and approval by the Board;
4. The term of the Management Stock Ownership Scheme may be terminated prematurely or extended as agreed by more than half of the number of units held by the Holders attending the Holders' Meeting and considered and approved by the Board within 2 months before its expiry.

VI. MANAGEMENT OF THE MANAGEMENT STOCK OWNERSHIP SCHEME

The Holders' Meeting shall be the internal supreme authority of the Management Stock Ownership Scheme. A management committee shall be formed under the Management Stock Ownership Scheme.

(I) Management

Repurchased Shares shall be acquired by the Management Stock Ownership Scheme from the Company's designated repurchase account and the Asset Management Agency shall be responsible for the subsequent management of the Shares through the designated Asset Management Plan.

(II) Holders' Meeting

1. The management of the Company shall become Holders of the Management Stock Ownership Scheme upon subscription of units in the Management Stock Ownership Scheme. The Holders' Meeting shall be the internal supreme authority of the Management Stock Ownership Scheme. All Holders are entitled to attend the Holders' Meeting. Holders can attend and vote at the Holders' Meeting in person or by proxy.
2. The Holders' Meeting shall exercise the following duties and powers:
 - (1) Election or removal of any members of the management committee;
 - (2) Delegation of the management of the Management Stock Ownership Scheme to management committee;
 - (3) Delegation of the exercise of shareholders' rights to the management committee or an Asset Management Agency;
 - (4) Amendment, termination and extension of the term of the Management Stock Ownership Scheme;
 - (5) Consideration of plans proposed by the management committee in relation to participation in financing exercises that the Company might launch during the term of the Management Stock Ownership Scheme, such as non-public issuance of shares, placing of shares, public issuance of new shares and convertible bonds, and the funding solutions for such participation;
 - (6) Authorising the management committee to open and management securities accounts, funding accounts and other relevant accounts for the Management Stock Ownership Scheme;
 - (7) Authorising the management committee to liaise with the Asset Management Agency;

- (8) Other matters that are considered as necessary by regulatory authorities or the management committee for consideration at the Holders' Meeting.
3. Procedures for convening the Holders' Meeting
- (1) The Holders' Meeting shall be convened and presided over by the officer of the management committee. When the officer of the management committee is unable to perform his/her duties, he/she shall appoint a member of the management committee to preside over the meeting.
- (2) To convene a Holders' Meeting, the management committee shall send out a notice of meeting in writing 3 days prior to the meeting to all Holders by direct delivery, post, facsimile, electronic mail or other means.
- (3) The written notice of meeting shall at least include the following details:
- ① Time and venue of the meeting;
 - ② Method of convening the meeting;
 - ③ Proposed matters to be considered at the meeting (motions);
 - ④ Convener and presider of the meeting, proposer of an interim meeting and his/her proposal in writing;
 - ⑤ Materials required for voting at the meeting;
 - ⑥ Requirement for the Holder to attend in person or by proxy;
 - ⑦ Contact person and contact information;
 - ⑧ Date of dispatch of the notice.
4. Voting procedures of the Holders' Meeting
- (1) The presider shall propose voting by the attending Holders as and when appropriate after sufficient review of a motion. The presider may also determine to conduct the voting after discussions of all motions are completed. The voting shall be conducted by way of poll in writing.
- (2) Each scheme unit shall entitle its Holder to one vote.
- (3) The Holders may choose to vote for, against or abstain in respect of any resolution. The Holders attending the meeting shall select one of the aforesaid voting options, and any vote with no option or more than one

option indicated shall be deemed as abstention. Any Holder who leaves in the course of the meeting without indicating any voting options shall be deemed as abstained from voting.

- (4) A proposed resolution shall become a valid resolution of the Holders' Meeting after being passed by half or more of the units held by the Holders or their proxies casting valid votes (except that two-third of the number of units are required under the terms of the Management Stock Ownership Scheme).

(III) Management committee

1. A management committee shall be established for the Management Stock Ownership Scheme to take charge of the Management Stock Ownership Scheme as a daily supervision and management body of the Management Stock Ownership Scheme.
2. The management committee comprises 3 members with 1 officer of the management committee. All members of the management committee shall be elected by the Holders' Meeting. The officer of the management committee shall be elected by more than half of all members of the management committee. The term of office of members of the management committee shall be the term of the Management Stock Ownership Scheme.
3. The management committee shall exercise the following duties:
 - (1) To convene Holders' Meetings and implement resolutions of Holders' Meetings;
 - (2) To manage the Management Stock Ownership Scheme on behalf of all Holders, including but not limited to: handling the initial registration of and subsequent registration of changes in the number of share held under the Management Stock Ownership Scheme; disposal of such shares for cash after the expiry of the lock-up period; handling the distribution of income and cash assets of the Management Stock Ownership Scheme pursuant to the resolution of the Holders' Meeting; processing the registration of changes in connection with the transfer of shareholdings by Holders;
 - (3) Exercise of shareholders' rights on behalf of all Holders and authorisation of specific personnel to attend and vote at the general meeting of the Company;
 - (4) To sign agreements and contracts with third parties on behalf of the Management Stock Ownership Scheme;

- (5) To deliberate whether the Management Stock Ownership Scheme shall participate in the financing and fundraising plans and submit the matter to the Holders' Meeting for consideration when the Company is engaged in financing through non-public issuance of shares, placing of shares, public issuance of new shares and issuance of convertible bonds, among others, during the term of the Management Stock Ownership Scheme;
 - (6) Other responsibilities as delegated by the Holders' Meeting.
4. The officer of the management committee shall discharge the following functions and authority:
 - (1) To preside over Holders' Meetings and to convene and preside over meetings of the management committee;
 - (2) To supervise and inspect the implementation of resolutions of the Holders' Meeting and the management committee;
 - (3) Other responsibilities as delegated by the Holders' Meeting.
5. The management committee meeting shall be convened from time to time by the officer of the management committee. Notice of meeting shall be sent out to all members of the management committee 3 days prior to the convention of the meeting.
6. A management committee meeting shall only be held when more than half of the members are present. Meeting resolutions shall be valid only upon obtaining approval from more than half of all members of the management committee. Management committee meetings shall implement a one-person one-vote system.
7. Voting for resolutions of the management committee meetings shall be conducted by way of open ballot. Provided that members of the management committee can fully express their views, the management committee meetings may be convened and resolutions may be resolved by means of telecommunication and shall be signed by members of the management committee attending the meeting.
8. Members of the management committee shall attend the management committee meetings in person; for any member who cannot attend the meetings in person, he may appoint other member(s) of the management committee as his proxy(ies) in writing to attend the meetings. A form of proxy shall be signed by the appointor with the name(s) of the proxy (ies), and the matters, scope and validity period of the authorisation being specified. The authorised member of the management committee shall exercise his rights properly within the scope of authorisation. For any

management committee member who neither attends the meetings nor authorises another member as his proxy, he shall be deemed to abstain from voting.

VII. RIGHTS AND OBLIGATIONS OF THE HOLDERS

(I) Rights

1. Attending Holders' Meeting and exercising their voting right;
2. Being entitled to the interests of the Management Stock Ownership Scheme in proportion of the Holders' entitlement under the Management Stock Ownership Scheme.

(II) Obligations

1. Assuming relevant risks associated with the Management Stock Ownership Scheme and bearing sole responsibility for profit and loss in proportion to their entitlement within an agreed period;
2. Holders shall not request individual distribution of the assets under the Management Stock Ownership Scheme during the term of the Management Stock Ownership Scheme;
3. Abiding by the relevant provisions of the Management Stock Ownership Scheme.

VIII. THE MANAGER FOR THE MANAGEMENT STOCK OWNERSHIP SCHEME

- (I) The Asset Management Agency for the Management Stock Ownership Scheme shall be confirmed by the Board or the Company's management delegated by the Board. An Asset Management Agency shall be appointed to manage the Management Stock Ownership Scheme. The Company shall enter into an Asset Management Plan contract and related agreements and documents with such Asset Management Agency on behalf of the Management Stock Ownership Scheme.
- (II) As at the date of the announcement of the Management Stock Ownership Scheme, no Asset Management Plan contract or agreement and document has been drafted or entered into. After the execution of such contract and related agreements and documents, the Company shall disclose the principal terms of Asset Management Plan contract in a separate announcement.
- (III) The management fees, custodian fees, legal fees and other related expenses and the method of payment shall be subject to the contract of Asset Management Plan as executed.

- (IV) Shares and funds held under the Management Stock Ownership Scheme shall be entrusted assets and the Manager of the Management Stock Ownership Scheme shall not incorporate such funds into its own existing assets. In the event of the liquidation of the Manager as a result of its dissolution, revocation or bankruptcy declared in accordance with the law, the entrusted assets shall not be deemed as its assets under liquidation.

**IX. PARTICIPATION IN FINANCING ARRANGEMENTS OF THE COMPANY BY
THE MANAGEMENT STOCK OWNERSHIP SCHEME WITHIN THE TERM OF
THE MANAGEMENT STOCK OWNERSHIP SCHEME**

When the Company raises funds through non-public issuance of shares, placing of shares, public issuance of new shares, issuance of convertible corporate bonds or other financing methods within the term of the Management Stock Ownership Scheme, the management committee shall deliberate whether to participate in such financing arrangements and the specific participation proposal, and shall submit the same to the Holders' Meeting for consideration and approval.

X. SPECIAL DISPOSAL OF RIGHTS AND INTERESTS OF THE HOLDERS

- (I) During the term of the Management Stock Ownership Scheme, the units of the Holders held under the Management Stock Ownership Scheme shall neither be withdrawn or transferred, nor be mortgaged, pledged, guaranteed or used for debts repayment.
- (II) In the event of any situation listed below, the Company shall have the right to disqualify the relevant target participant(s) from participating in the Management Stock Ownership Scheme and subject his/her/their interests under the Management Stock Ownership Scheme to the disposal of the management committee.
1. a Holder resigns or leaves office without permission, causing a negative impact on the Company or its subsidiaries;
 2. the employment contract of a Holder is terminated by the Company due to acts that damages the Company's interests or reputation committed by the Holder, such as breach of laws and regulations, violation of professional ethics, breach of employment contract or the Company's rules and regulations, leak of the Company's confidential information and negligence or gross misconduct in performance of duties;
 3. a Holder is demoted due to a material fault or failing a performance appraisal, rendering him/her ineligible for the Management Stock Ownership Scheme;
 4. other circumstances under which the management committee determines to be ineligible for the Management Stock Ownership Scheme.

(III) During the term of the Management Stock Ownership Scheme, in the event of any situation listed below, the management committee shall redeem at no consideration interests which are not yet vested of all Shares owned by the relevant Holder, and shall make a decision to vest them to the Company or to incentivise other key management personnel eligible for the criteria for participation under the Management Stock Ownership Scheme while vested interests of all Shares shall continue to be owned by the Holder.

1. a Holder resigns or leaves office without permission without causing a negative impact on the Company or its subsidiaries;
2. a Holder declines a renewal of his/her employment contract upon its expiry, which results in the employment relationship being terminated or rescinded;
3. a Holder and the Company agree to rescind the employment relation upon amicable negotiation;
4. a Holder who has material contributions to the Company and/or its subsidiaries operation units attains internal retirement upon fulfilling such conditions, and complies with restrictions on business competition in relation to internal retirement.

(IV) In the event of any situation listed below, a Holder's interests held under the Management Stock Ownership Scheme shall remain unchanged:

1. a change in his/her position within the term of the Management Stock Exchange Scheme provided such change does not affect his/her eligibility for the Management Stock Ownership Scheme;
2. loss of a Holder's working capacity;
3. retirement of a Holder upon reaching the national statutory retirement age;
4. death of a Holder within the term of the Management Stock Ownership Scheme, upon which his/her entitlements under the Management Stock Ownership Scheme shall be inherited by his/her lawful inheritor without any change in his/her interests held under the Management Stock Ownership Scheme. Such inheritor shall not be subject to the constraints of eligibility for participation in the Management Stock Ownership Scheme.

(V) Other situations

In any other circumstances that are not covered, the handling of the units in the Management Stock Ownership Scheme held by the Holders shall be determined by the management committee.

**XI. MEASURES FOR DISPOSAL UPON EXPIRY OF THE TERM OF THE
MANAGEMENT STOCK OWNERSHIP SCHEME**

- (I) Within the term of the Management Stock Ownership Scheme, the Holders shall not demand the distribution of the assets of the Management Stock Ownership Scheme.
- (II) For the period from the date of establishment of the Management Stock Ownership Scheme to the expiry date of the Management Stock Ownership Scheme, the management committee may conduct management of the Management Stock Ownership Scheme, including but not limited to pledge financing, buying and selling Shares and distribution of cash assets to the Holders which shall be in compliance with the requirements of relevant laws and regulations.
- (III) Unless otherwise required under the Management Stock Ownership Scheme, the Management Stock Ownership Scheme shall terminate upon the expiry of its term.
- (IV) The management committee shall convene a meeting 6 months prior to the expiry of the Management Stock Ownership Scheme to decide the way of liquidation and distribution upon the expiry of the Management Stock Ownership Scheme with options of cash liquidation or transfer of shares to stock accounts under the name of individuals of the Holders for shareholding upon the expiry.
- (V) Upon the expiry of the term of the Management Stock Ownership Scheme, if the assets held still contain Shares, the management committee shall determine their disposal.

**XII. PROCEDURES FOR IMPLEMENTATION OF THE MANAGEMENT STOCK
OWNERSHIP SCHEME**

- (I) The Board shall consider and approve the Management Stock Ownership Scheme (Draft), and the Independent Non-executive Directors and the Supervisory Committee shall furnish opinions on whether the Management Stock Ownership Scheme is conducive to the sustainable development of the Company, whether it will compromise the interest of the Company and its shareholders as a whole, and whether the Company has coerced the employees to participate in the Management Stock Ownership Scheme by means of apportionment, mandatory distribution or other ways. The Board shall publish announcements in relation to, among others, the resolutions of the Board, a summary of the Management Stock Ownership Scheme (Draft), opinions from the Independent Non-executive Directors and opinions from the Supervisory Committee in a timely manner after approving the Management Stock Ownership Scheme (Draft).
- (II) The Company shall engage a law firm to issue legal opinion on the Management Stock Ownership Scheme, and announce the legal opinion before convening the general meeting for consideration of the Management Stock Ownership Scheme.

- (III) The Company shall convene a general meeting to consider the Management Stock Ownership Scheme. The voting of the general meeting shall be taken by combination of on-site voting and online voting. The directors and shareholders who participate in the Management Stock Ownership Scheme shall not participate in the voting. The Management Stock Ownership Scheme shall be implemented after approval by more than half of the valid voting rights at the general meeting. The documents relating to the Management Stock Ownership Scheme considered and approved at the general meeting by way of resolution shall be published in a timely manner after the resolution relating to the Management Stock Ownership Scheme (Draft) and is considered and approved at the general meeting.
- (IV) Other procedures stipulated under other laws, regulations and provisions of CSRC, HKSF and the stock exchanges of places where the Company's securities are listed.

XIII. RISK PREVENTION AND SEGREGATION MEASURES

- (I) The assets under the Management Stock Ownership Scheme is managed separately from the existing assets of the Company. No misappropriation and embezzlement of the assets under the Management Stock Ownership Scheme is allowed, and the assets under the Management Stock Ownership Scheme shall not be incorporated into the existing assets of the Company by any means.
- (II) Express stipulation of the responsibility of the management committee is set out in the Management Stock Ownership Scheme and the corresponding Measures for the Administration of the Management Stock Ownership Scheme, risk prevention and segregation measures are adequate.

The management committee shall manage the assets under the Management Stock Ownership Scheme in accordance with laws, administrative regulations, departmental rules, regulatory documents and securities commissions and the rules of the Management Stock Ownership Scheme, safeguard the legitimate rights of the Holders of the Management Stock Ownership Scheme and ensure safety of the assets under the Management Stock Ownership Scheme, avoiding potential conflict of interest between other shareholders of the Company and the Holders of the Management Stock Ownership Scheme.

XIV. OTHER IMPORTANT MATTERS

- (I) The approvals of the Management Stock Ownership Scheme by the Board and the shareholders of the Company at a general meeting do not imply that the Holders have the rights to continue their services in the Company or its subsidiaries, and such approvals do not constitute any commitment of the Company or its subsidiaries to any continued employment of the management in their employment period. The employment relationships between the Holders and the Company or its subsidiaries shall remain the same as stipulated in the original employment contract entered into between the Holders and the Company or its subsidiaries.

- (II) Matters of finance, accounting treatment and tax expenses in relation to the implementation of the Management Stock Ownership Scheme by the Company shall be dealt with in accordance with pertinent financial regulations, accounting standards and tax regulations. Tax liabilities of the Holders arising from their participation in the Management Stock Ownership Scheme shall be borne by the Holders in accordance with pertinent tax regulations.
- (III) The Management Stock Ownership Scheme shall be drawn up by the Board and shall come into effect upon approval at the general meeting of the Company.
- (IV) The Board reserves the right of interpretation over the Management Stock Ownership Scheme.

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2020

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ZTE

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)

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2020

The Company and all the members of the Board of Directors confirm that all the information contained in this information disclosure is true, accurate and complete without any false or misleading statement or material omission.

NOTICE IS HEREBY GIVEN that the second extraordinary general meeting of 2020 (the “EGM”) of ZTE Corporation (the “Company”) will be held at the 4/F Floor, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China at 3:30 p.m., on Friday, 6 November 2020 to consider and, if thought fit, approved the following resolutions. Unless the context otherwise defined, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 21 October 2020:

Special Resolutions

- 1. Resolution on the “2020 Share Option Incentive Scheme (Draft) of ZTE Corporation” (the “2020 Scheme”) and its summary**
- 2. Resolution on the “2020 Share Option Incentive Scheme Performance Appraisal System of ZTE Corporation”**

3. Resolution on a mandate granted to the Board by the General Meeting to deal with matters pertaining to the 2020 Share Option Incentive Scheme

A mandate be granted to the Board giving it full discretion in dealing with matters relating to the 2020 Scheme. The terms and scope of the mandate shall include but shall not be limited to:

- (1) To confirm the qualifications and conditions of Participants for participation in the 2020 Scheme, to confirm the list of Participants and the number of share options to be granted and to confirm the grant price of the subject shares;
- (2) To examine and confirm whether the Company and the Participants are qualified to exercise their options and are in compliance with the conditions for exercise and to examine and confirm the number and amount of options to be exercised;
- (3) To determine the date of grant and method of exercise for the 2020 Scheme, decide whether the Participants may exercise their options, grant share options to Participants upon their fulfillment of relevant conditions and handle all matters required for the grant and exercise of share options;
- (4) To adjust the number of Options or the exercise price of the Options in accordance with the principles and in the manner stipulated under the 2020 Scheme in the event of any capitalisation issue, bonus issue, sub-division or rights issue or consolidation of Shares in relation to the A Shares of the Company;
- (5) To decide upon changes in the process of implementation of the 2020 Scheme based on actual conditions, including but not limited to annulling the qualifications of the Participants for exercising their options, cancelling outstanding share options of the Participants and withdrawal and cancellation of unexercised share options of the Participants;
- (6) To manage and adjust the 2020 Scheme based on actual conditions and, subject to the terms and principles of the 2020 Scheme, to formulate or modify provisions for the administration and implementation of the 2020 Scheme from time to time, provided that if such modifications are required by the laws, regulations or relevant regulatory authorities to be subject to the approval of the general meeting of the Company and/or relevant regulatory authorities, the corresponding approvals for such modifications by the Board must be obtained;
- (7) To sign, execute, modify and terminate any agreements relating to the 2020 Scheme and other relevant agreements;
- (8) To authorise the Board to adjust the relevant terms of the 2020 Scheme in accordance with any amendments to relevant laws, regulations, rules and regulatory documents in the event of such amendments;

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2020

- (9) To appoint receiving banks, accountants, legal advisers and other intermediaries for the implementation of the 2020 Scheme;
- (10) To conduct other necessary matters required for the implementation of the 2020 Scheme, save for rights expressly stipulated in relevant documents to be exercised by the general meeting of the Company;
- (11) To process examination, registration, filing, ratification, approval and other procedures with relevant governments and authorities in connection with the 2020 Scheme; to sign, execute, modify and complete documents submitted to relevant governments, authorities, organisations and individuals; and to do all acts, deeds and matters it deems necessary, proper or appropriate in connection with the 2020 Scheme;
- (12) The mandate granted to the Board shall be coterminous with the 2020 Scheme.

Save for matters expressly stipulated by the law, administrative regulations, rules of the CSRC, regulatory documents, the 2020 Scheme or the Articles of Association to be approved by the Board of Directors by way of resolution, other authorisations described above may be exercised by the chairman of the Board or other suitable persons on behalf of the Board upon its delegation.

Ordinary Resolutions

- 4. Resolution on “Management Stock Ownership Scheme (Draft) of ZTE Corporation” and its summary**
- 5. Resolution on “Measures for the Administration of the Management Stock Ownership Scheme of ZTE Corporation”**
- 6. Resolution on a mandate granted to the Board by the General Meeting to deal with matters pertaining to the Management Stock Ownership Scheme**

A mandate be granted to the Board giving it full discretion in dealing with matters relating to the Management Stock Ownership Scheme. The terms and scope of the mandate shall include but shall not be limited to:

- (1) To formulate the specific plan for the Management Stock Ownership Scheme, including but not limited to the determination of the number of target participants, eligibility of target participants, finalised list of target participants, source of fund, size of scheme, volume and price of subject shares, term, lock-up period and management, among others, within the framework of the “Management Stock Ownership Scheme (Draft) of ZTE Corporation” considered and approved at the general meeting based on the actual conditions of the Company in accordance with pertinent provisions of applicable laws, regulations and regulatory authorities and resolutions of the general meeting;

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2020

- (2) To make adjustments to matters pertaining to the Management Stock Ownership Scheme according to the opinions of regulatory authorities, policy changes or changes in market conditions, other than matters required to be put to vote again at the general meeting under pertinent laws, regulations and the Articles of Association and handling matters pertaining to the Management Stock Ownership Scheme, including consideration of any modifications, extension (including extension of the term) and termination (including early termination), among others;
- (3) To process with full discretion various approvals required by the Management Stock Ownership Scheme in accordance with pertinent provisions, including but not limited to the processing of ratifications, filings, registrations and declarations, among others, as well as the preparation, revision, submission and endorsement of relevant materials, and the disclosure of information in accordance with pertinent provisions of relevant laws, regulations and listing rules of the stock exchange of the place where the Company's securities are listed;
- (4) To confirm the asset management agency and custodian of the Management Stock Ownership Scheme in accordance with pertinent provisions of applicable laws, regulations and regulatory authorities and resolutions of the general meeting to assist the Company in the implementation of the Management Stock Ownership Scheme;
- (5) To handle formalities relating to the securities accounts, fund accounts and other relevant accounts involved in the Management Stock Ownership Scheme, as well as all matters pertaining to the registration, settlement, lock-up and unlocking of share purchased;
- (6) To deal with other matters as are required under the Management Stock Ownership Scheme, other than rights specifically required to be exercised by the general meeting under pertinent provisions;
- (7) Authorisation for the Board to delegate authorisations set out in (3) to (5) above to the Company's management for handling in accordance with pertinent regulations and processes, unless otherwise required under pertinent laws, regulations, regulatory documents and the Articles of Association, subject to the obtaining of the aforesaid authorisations.

If any of the aforesaid matters delegated to the Board by the general meeting require consideration at a meeting of the Holders of the Management Stock Ownership Scheme, such matters shall be submitted to the Holders' meeting or the management committee authorised by the Holders' meeting. The aforesaid authorisation shall come into effect on the date on which the Management Stock Ownership Scheme is being considered and approved at the general meeting of the Company and remain effective until the completion of the implementation of the Management Stock Ownership Scheme.

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2020

Resolution No. 1, 2 and 3 are special resolutions which shall require the approval of two-thirds of the voting rights held by shareholders attending the EGM in order to be passed. Resolution No. 4, 5 and 6 are ordinary resolutions which shall require the approval of one-second of the voting rights held by shareholders attending the EGM in order to be passed. The resolutions have been considered and approved at the Twenty-fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 12 October 2020. For the details of the aforesaid resolutions, please refer to the relevant announcements published by the Company on 12 October 2020.

Proxy Form for the Solicitation of Voting Rights by Independent Non-executive Directors (“Independent Director’s Proxy Form”)

Pursuant to the Administrative Measures on Share Incentives of Listed Company (《上市公司股權激勵管理辦法》) (“Incentive Measures”), the independent non-executive directors of a listed company shall solicit voting rights from all shareholders of the company in the event of the proposed adoption of a share option scheme by such company. The solicitation is intended to provide shareholders of such listed company with an alternative approach to participation in general meetings, so as to encourage them to vote on the resolution in respect of the adoption of a share option scheme. Pursuant to the Incentive Measures and the authorisation of other independent non-executive Directors, Ms. Cai Manli, an independent non-executive Director, has sent out an Independent Director’s Proxy Form to solicit voting rights from the Shareholders. For further details of the Independent Director’s Proxy Form, please refer to the Report on the Solicitation of Voting Rights by the Independent Non-executive Directors included in the announcement of the Company dated 12 October 2020.

Should you wish to appoint Ms. Cai Manli as your proxy to vote for you and on your behalf at the EGM on the resolutions relating to the 2020 Scheme, the Management Stock Ownership Scheme and the related matters, please complete and return the Independent Director’s Proxy Form to Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, by hand or by post, no later than 24 hours before the time appointed for holding the EGM or any adjournment thereof.

You may appoint Ms. Cai Manli as your proxy to vote for you and on your behalf solely on resolutions relating to the 2020 Scheme, the Management Stock Ownership Scheme and the related matters. If you wish to appoint persons other than Ms. Cai Manli as your proxy to vote for you and on your behalf on all resolutions at the EGM, you may complete and return the proxy form only and disregard the Independent Director’s Proxy Form.

Please note that if you have completed and returned both the proxy form and the Independent Director’s Proxy Form, but have given inconsistent voting instructions on the resolutions concerned between the proxy form and the Independent Director’s Proxy Form, your voting instructions given in the Independent Director’s Proxy Form will be counted as your vote for or against the resolutions or abstain from voting on the resolutions in relation to the 2020 Scheme, the Management Stock Ownership Scheme and the related matters.

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2020

Notes:

1. **The Company will close its H share register from Tuesday, 3 November 2020 to Friday, 6 November 2020 (both days inclusive)** to determine qualifications of shareholders to attend and vote at the EGM. Any H Shareholder who wishes to attend and vote at the EGM shall lodge an instrument of transfer, together with the corresponding share certificate(s) with **Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by 4:30 p.m., Monday, 2 November 2020.**
2. In order to be valid, the instruments appointing a proxy (including the proxy form and the Independent Director’s Proxy Form) and the power of attorney or other authorization documents (if any) of the signatory or notarized copies of such power of attorney or authorization documents must be completed and deposited, no later than 24 hours before the time appointed for holding the EGM or any adjournment thereof at Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for H shareholders). The completion and return of the proxy form and/or Independent Director’s Proxy Form shall not preclude a shareholder from attending and voting in person at the EGM or any adjournment thereof if he so wishes.
3. A Shareholder entitled to attend and vote at the EGM shall be entitled to appoint another one or more proxies to attend and vote for him. A proxy need not be a shareholder of the Company.
4. In case of joint holders of a share, any one of such holders is entitled to vote at the EGM, by himself or by proxy, as if he is the only one entitled to do so among the joint holders. However, only the vote of the person whose name stands first on the register of members in respect of such share shall be accepted if more than one joint holder attend the EGM personally or by proxy.
5. The EGM is expected to last for half a day. All transportation and accommodation expenses incurred by shareholders or their proxies in attending the EGM shall be borne by themselves. Shareholders or their proxies attending the EGM shall be required to produce identifications.

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
21 October 2020

As at the date hereof, the Board of Directors of the Company comprises three executive directors, Li Zixue, Xu Ziyang, Gu Junying; three non-executive directors, Li Buqing, Zhu Weimin, Fang Rong; and three independent non-executive directors, Cai Manli, Gordon Ng, Zhuang Jiansheng.