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

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**ZTE中兴**  
**ZTE CORPORATION**  
**中兴通讯股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 763)**

**PROPOSED BONUS SHARE ISSUE**  
**BY CONVERSION OF CAPITAL RESERVE AND DIVIDENDS AND**  
**PROPOSED AMENDMENT TO ARTICLES OF ASSOCIATION**

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

A notice convening the AGM to be held at 4/F, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China at 9:00 a.m. on Tuesday, 17 May 2011 is enclosed with this circular.

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

Reply slip for use at the AGM is enclosed with this circular. Any H Shareholders intending to attend the AGM shall deliver the respective reply slip to the Company by courier, registered mail or fax on or before Wednesday, 27 April 2011.

**H Shareholders should note that existing H Shares are expected to be dealt in on an ex-entitlements basis from Thursday, 14 April 2011. The Bonus Share Issue is conditional upon the fulfillment of the conditions set out under the paragraph headed "Conditions of the Proposed Bonus Share Issue" in this circular. If the conditions of the Bonus Share Issue are not fulfilled, the Bonus Share Issue will not proceed. If in any doubt, investors are recommended to consult their professional advisers.**

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## DEFINITIONS

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

“A Share(s)”	ordinary share(s) of par value of RMB1.00 each in the registered capital of the Company, which are listed and traded on the Shenzhen Stock Exchange
“A Shareholder(s)”	holder(s) of the A Share(s)
“AGM”	the annual general meeting of the Company to be held at 4/F, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China at 9:00 a.m. on Tuesday, 17 May 2011
“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors
“Bonus Share(s)”	new Share(s) to be issued pursuant to the Bonus Share Issue
“Bonus Share Issue”	proposed issue of a total of 573,346,336 Bonus Shares (through capitalisation of the Company’s capital reserve) on the basis of 2,866,731,684 Shares in issue as at 17 March 2011, to the Shareholders whose names appear on the register of members of the Company at the close of business on the respective record date for the A Shareholders and the H Shareholders on the basis of 2 Bonus Shares for every 10 existing Shares held by them on such record date
“Bonus H Share(s)”	new H Share(s) to be issued pursuant to the Bonus Share Issue
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	ZTE Corporation, a joint stock limited company incorporated on 11 November 1997 under the PRC Company Law in the PRC whose shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“Dividends”	proposed final dividend of RMB3 (before tax) payable in cash for every 10 Shares on the basis of the total share capital of the Company as at 17 March 2011 less the number of subject shares which remain to be lock-up under the Share Incentive Scheme. As at 17 March 2011, 62,407,186 registered subject shares under the Share Incentive Scheme remained locked-up. In accordance with the relevant provisions under the Share Incentive Scheme, remaining restricted shares, which are lock-up shall not be entitled to cash dividend. If the Third Unlocking is not completed by the A Share record date, the number of Shares entitled to cash dividend under the proposed 2010 profit distribution will be 2,804,324,498 Shares. If the Third Unlocking is completed by the A Share record date, the maximum number of Shares to be unlocked in accordance with the Share Incentive Scheme will be 45% of the subject shares under the first award, namely an additional 51,680,416 Shares will be entitled to cash dividend
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) of par value of RMB1.00 each in the registered capital of the Company, which are listed and traded on the Hong Kong Stock Exchange
“H Share Record Date”	4:30 p.m., 15 April 2011, the time determined by the Board for determining the H Shareholders’ entitlements to the Bonus Share Issue and the Dividends
“H Shareholder(s)”	holder(s) of the H Shares
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Latest Practicable Date”	23 March 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion herein
“Macau”	Macau Special Administrative Region of the PRC

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## DEFINITIONS

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“Memorandum No. 26”	Memorandum No. 26 on Information Disclosure Regarding Investments on Derivatives (《信息披露業務備忘錄第26號 — 衍生品投資》) issued by the Shenzhen Stock Exchange on 31 August 2010
“PRC”	The People’s Republic of China
“PRC GAAP”	generally accepted accounting principles in China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	A Share(s) and H Share(s)
“Share Incentive Scheme”	phase I share incentive scheme (revised version dated 7 February 2007) approved by the Company at its extraordinary general meeting on 13 March 2007, the subject shares under the Share Incentive Scheme are in relation to A Shares only
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange
“Third Unlocking”	the third unlocking of registered subject shares granted under the third award of the Share Incentive Scheme to be completed. In case the Third Unlocking is completed by the A Share record date, the maximum number of A Shares to be unlocked in accordance with the Share Incentive Scheme will be 45% of the subject shares under the first award, which is 51,680,416 A Shares, which will be entitled to the cash dividend
“%”	per cent

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**EXPECTED TIMETABLE**

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*2011*

Last day of dealings in the H Shares cum-entitlements to the Bonus H Shares and the Dividends . . . . .	Wednesday, 13 April
First day of dealings in the H Shares ex-entitlements to the Bonus H Shares and the Dividends . . . . .	Thursday, 14 April
Latest time for lodging transfers of the H Shares to qualify for entitlements to the Bonus H Shares and the Dividends . . . . .	4:30 p.m., Friday, 15 April
H Share Record Date . . . . .	4:30 p.m., Friday, 15 April
H Shareholders' register closed . . . . .	From Monday, 18 April to Monday, 16 May (both days inclusive)
Latest date for lodging reply slips for the AGM . . . . .	Wednesday, 27 April
Latest time for lodging forms of proxy for the AGM . . . . .	9:00 a.m., Monday, 16 May
AGM . . . . .	9:00 a.m., Tuesday, 17 May
H Shareholders' register re-opens . . . . .	Tuesday, 17 May

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

*Executive Directors:*

Shi Lirong  
Yin Yimin  
He Shiyou

*Non-executive Directors:*

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

*Independent Non-executive Directors:*

Qu Xiaohui  
Wei Wei  
Chen Naiwei  
Tan Zhenhui  
Timothy Alexander Steinert

*Legal address*

ZTE Plaza  
Keji Road South  
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Shenzhen, 518057  
The Peoples' Republic of China

*Place of business in Hong Kong*

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

29 March 2011

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED BONUS SHARE ISSUE  
BY CONVERSION OF CAPITAL RESERVE AND DIVIDENDS AND  
PROPOSED AMENDMENT TO ARTICLES OF ASSOCIATION**

**BACKGROUND**

It was announced on 17 March 2011 in conjunction with the announcement of the Company's results for the year ended 31 December 2010 that, in addition to the recommendation of the Dividends (i.e., a final dividend of RMB3 per every 10 existing Shares (before tax)), a Bonus Share Issue would be proposed to the Shareholders whose

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## LETTER FROM THE BOARD

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names appear on the register of H Shareholders or the register of A Shareholders on the respective record dates for the A Shareholders and the H Shareholders. The Board further proposed to amend the Articles of Association in compliance with the requirement under Memorandum No. 26. The aforesaid proposals are subject to the conditions set out in this circular.

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

### **A. PROPOSED BONUS SHARE ISSUE AND DIVIDENDS**

As at 31 December 2010, the Company's capital reserve under the PRC GAAP was RMB9,066,202,000. A special resolution will be proposed at the AGM to consider and, if thought fit, to approve (i) the declaration and payment of the Dividends; and (ii) subject to fulfillment of conditions set out in the section headed "Conditions of the Proposed Bonus Share Issue" below, the Bonus Share Issue will be made on the basis of 2 Bonus Shares (through capitalization of the capital reserve of the Company), credited as fully paid, for every 10 existing Shares held by the Shareholders whose names appear on the Shareholders' registers of the Company at the close of business on the respective record dates for the A Shareholders and the H Shareholders.

Based on a total of 2,866,731,684 Shares in issue as at 17 March 2011 (comprising a total of 524,654,538 H Shares and a total of 2,342,077,146 A Shares) and assuming no change in the total number of the H Shares and the A Shares, respectively, during the period from 17 March 2011 to the respective record date for the A Shareholders and the H Shareholders and that the Third Unlocking has not been completed:

- (a) the Dividends in the total amount of RMB841,297,349.4, namely, RMB3 (before tax) for every 10 existing Shares will be paid to the Shareholders whose names appear on the Shareholders' registers at the close of business on the respective record dates for the A Shareholders and the H Shareholders; and
- (b) subject to the fulfillment of the conditions set out in the section headed "Conditions of the Proposed Bonus Share Issue" below, (i) a total of 104,930,907 Bonus H Shares will be issued to the H Shareholders whose names appear on the H Shareholders' register at the close of business on the H Share Record Date; and (ii) a total of 468,415,429 Bonus A Shares to the A Shareholders whose names appear on the A Shareholders' register at the close of business on the A Share record date, of which a total of 12,481,437 Bonus A Shares will be subject to lock-up conditions under the Share Incentive Scheme.

According to the Enterprise Income Law of the People's Republic of China and the Implementation Regulations for Enterprise Income Tax of the People's Republic of China which took effect on 1 January 2008, enterprise income tax is payable by non-resident enterprises in respect of income derived from the PRC at an applicable tax rate of 10%,



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## LETTER FROM THE BOARD

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which shall be withheld and paid by the listed issuers on behalf of the non-resident enterprises. Cash dividend payable to H Share non-resident enterprises after the deduction of the said enterprise income tax is RMB2.7 per 10 Shares.

### **Conditions of the Proposed Bonus Share Issue**

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

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

### **Rights of Overseas H Shareholders**

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

Based on the register of members of the Company as at the Latest Practicable Date, there was one H Shareholder whose address is located in Macau. The Company has been advised by its legal advisor on the law of Macau that there is no legal restriction under the Macanese Laws or requirements of any relevant Macau regulatory body with respect to extending the Bonus Share Issue to the abovementioned H Shareholder. Accordingly, the Bonus Share Issue will be extended to such H Shareholder.

### **Warning of Risks of Dealing in the H Shares**

**H Shareholders should note that the existing H Shares are expected to be dealt in on an ex-entitlements basis from Thursday, 14 April 2011. If the conditions of the Bonus Share Issue (as set out above under the paragraph headed “Conditions of the Proposed Bonus Share Issue”) are not fulfilled, the Bonus Share Issue will not proceed. If in any doubt, investors are recommended to consult their professional advisers.**

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## LETTER FROM THE BOARD

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### **Reasons for the Proposed Bonus Share Issue**

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

### **Ranking of the Bonus Shares and Fractional Entitlements**

The Bonus Shares shall rank pari passu in all respects with the existing Shares, save that holders of the Bonus Shares will not be entitled to the Bonus Share Issue. Holders of the Bonus Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date on which the Bonus Shares are allotted and issued, but will not be entitled to the dividends declared by the Company before the date of allotment and issue of the Bonus Shares. Fractional entitlements will not be allotted to Shareholders but will be aggregated and sold for the benefit of the Company.

### **Listing and Dealings**

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

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

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## LETTER FROM THE BOARD

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### B. PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION

According to section 3(1) of Memorandum No. 26, companies listed on the Shenzhen Stock Exchange should specify in its articles of association the types and amounts of the company's investment in derivatives that the Board may determine with its own discretion. Article 160 of the Articles of Association sets out the powers of the board of directors with respect to the Company's outbound investments, which reads as follows:

“160. The board of director reports to the shareholders' meeting and have the following powers:

.....

(19) to approve outbound investment which is relevant to the Company's principal business and is less than 10% of the latest audited net assets of the Company and outbound investment which is outside of the scope of the Company's principal business and less than 5% of the latest audited net assets of the Company.

.....”

As the provision of current article 160 does not specify the types of investments in derivatives, it is proposed that the following paragraph be added at the end of the existing article 160 to comply with the section 3(1) of Memorandum No. 26.:

“The outbound investments that the Company may conduct under section 19 include securities investments and derivatives investments, and the board of directors may exercise its discretion in determining the types of derivatives investment, including investments whose underlying assets are interest rate, exchange rate, currency or a combination of such underlying assets, and which are in nature futures, forward, swap or a combination of such products. The Company should comply with laws and regulations and relevant requirement of the stock exchanges in its investments in securities and derivatives.”

### C. AGM

#### Notice, Proxy Form and Reply Slip

The AGM will be held at 4/F, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China at 9:00 a.m. on Tuesday, 17 May 2011, at which resolutions will be proposed to the Shareholders to consider and, if thought fit, approve, among the other things, the Bonus Share Issue, the Dividends and the proposed amendment to the Articles of Association. A notice convening the AGM is enclosed with this circular.

A proxy form for use at the AGM is also enclosed with this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in

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## LETTER FROM THE BOARD

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any event not less than 24 hours before the time appointed for holding the AGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

A reply slip for use at the AGM is also enclosed with this circular. Any Shareholder intending to attend the AGM shall deliver the reply slip to the Company by courier, registered mail or fax on or before Wednesday, 27 April 2011.

### **Closure of Share Registers**

According to the Articles of the Association, the Company will close its share register from Monday, 18 April 2011 to Monday, 16 May 2011 (both days inclusive). H Shareholders should note that during such period no share transfer will be registered.

All the H Shareholders registered on the Company's share register maintained by Computershare Hong Kong Investor Services Limited at 4:30 p.m. on Friday, 15 April 2011 will be entitled to (i) attend the AGM; (ii) be allotted and issued the Bonus H Shares; and (iii) receive the Dividends. H Shareholders who wish to attend the AGM and be entitled to the Bonus Share Issue and the Dividends must lodge the transfer documents together with the relevant share certificates with Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 15 April 2011.

### **D. WAIVER FROM STRICT COMPLIANCE WITH CERTAIN RULES OF THE HONG KONG LISTING RULES**

The Hong Kong Stock Exchange has granted to the Company a waiver with respect to the requirement to convene separate class meetings pursuant to Rule 19A.38 of the Hong Kong Listing Rules.

### **E. RECOMMENDATION**

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

### **F. GENERAL INFORMATION**

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

Yours faithfully  
**Hou Weigui**  
**ZTE CORPORATION**  
*Chairman*

**STATEMENTS TO BE MADE ON ACQUISITION OF SHARES**

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

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

**DOCUMENTS AVAILABLE FOR INSPECTION**

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

- (i) the Articles of Association;
- (ii) any service contracts of any existing directors or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (iii) any material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the date of this circular;

- (iv) the annual reports of the Company for the two years ended 31 December 2009 and 2010; and
- (v) this circular.