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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)**

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

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A letter from the Board is set out on pages 4 to 10 of this circular.

A notice convening the AGM to be held at the 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, 27 May 2008 is enclosed with this circular.

A form 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 meeting or any adjournment thereof should you so wish.

A reply slip for use at the AGM is enclosed with this circular. Any H Shareholder intending to attend the AGM shall deliver the reply slip to the Company by courier, registered mail or fax on or before Tuesday, 6 May 2008.

**H Shareholders should note existing H Shares are expected to be dealt in on an ex-entitlements basis from Thursday, 24 April 2008. The Bonus Shares Issue is conditional upon the fulfillment of the conditions set out under the paragraph headed "Conditions of the Proposed Bonus Shares Issue" in this circular. If the conditions of the Bonus Shares Issue are not fulfilled, the Bonus Shares Issue will not proceed. If in any doubt, investors are recommended to consult their professional advisers.**

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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 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 the 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, 27 May 2008
“Articles of Association”	the Articles of Association of ZTE Corporation
“Board”	the Board of Directors
“Bonus Shares Issue”	proposed issue of a total of 383,808,660 Bonus Shares (through capitalisation of the Company’s capital reserve) on the basis of 959,521,650 Shares in issue as at the Latest Practicable Date, 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 four Bonus Shares for every 10 existing Shares held by them on such record date
“Bonus Share(s)”	new Share(s) to be issued pursuant to the Bonus Shares Issue
“Bonus H Share(s)”	new H Share(s) to be issued pursuant to the Bonus Shares Issue
“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
“Dividends”	proposed final dividend of RMB0.25 per Share (including tax) for 2007 on the basis of a total of 959,521,650 Shares in issue as at the Latest Practicable Date
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“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., 25 April 2008, the time determined by the Board for determining the H Shareholders’ entitlements to the Bonus Shares Issue and the Dividends
“H Shareholder(s)”	holder(s) of the H Shares
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Latest Practicable Date”	3 April 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion herein
“PRC”	The People’s Republic of China
“PRC GAAP”	generally accepted accounting principles in China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange
“%”	per cent

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## EXPECTED TIMETABLE

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2008

Last day of dealings in the H Shares cum-entitlements to the Bonus H Shares and the Dividends . . . . .	Wednesday, 23 April
First day of dealings in the H Shares ex-entitlements to the Bonus H Shares and the Dividends . . . . .	Thursday, 24 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, 25 April
H Share Record Date . . . . .	4:30 p.m., Friday, 25 April
H Shareholders' register closed . . . . .	From Saturday, 26 April to Monday, 26 May (both days inclusive)
Latest date for lodging reply slips for the AGM . . . . .	Tuesday, 6 May
Latest time for lodging forms of proxy for the AGM . . . .	9:00 a.m., Monday, 26 May
AGM . . . . .	9:00 a.m., Tuesday, 27 May
H Shareholders' register re-opens . . . . .	Tuesday, 27 May

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*Executive Directors:*

Yin Yimin  
Shi Lirong  
He Shiyong

*Non-executive Directors:*

Hou Weigui  
Wang Zongyin  
Xie Weiliang  
Zhang Junchao  
Li Juping  
Dong Lianbo

*Independent Non-executive Directors:*

Zhu Wuxiang  
Chen Shaohua  
Qiao Wenjun  
Mi Zhengkun  
Li Jin

*Legal address:*

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

*Place of business in Hong Kong:*

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

10 April 2008

*To the Shareholders*

Dear Sirs or Madam,

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

**BACKGROUND**

It was announced on 19 March 2008 in conjunction with the announcement of the Company's results for the year ended 31 December 2007 that, in addition to the recommendation of the Dividends (i.e., a final dividend of RMB0.25 per Share (including tax)), a Bonus Shares Issue would be proposed to the Shareholders of the company, whose names appears on the register of holders of H Shares and register of holders of A Shares of

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## LETTER FROM THE BOARD

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the Company respectively on the Record Date. The Board further proposed to amend the Articles of Association to reflect the changes in (i) the business scope of the Company; and (ii) the total issued shares and the registered capital of the Company as the result of the Bonus Shares Issue. The afore-said proposals are subject to the conditions set out in this circular.

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

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

As at 31 December 2007, the Company's capital reserve under the PRC GAAP was RMB5,772,061,760. A special resolution will be proposed at the AGM to consider and, if thought fit, approve (i) the declaration and payment of the Dividends, and (ii) subject to fulfillment of conditions set out in the section headed "Conditions of the Proposed Bonus Shares Issue" below, the Bonus Shares Issue will be made on the basis of four 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 register of members of the Company at the close of business on the respective record date for the A Shareholders and H Shareholders.

Based on a total of 959,521,650 Shares (comprising a total of 160,151,040 H Shares and a total of 799,370,610 A Shares) in issue as at Latest Practicable Date and on the assumption that no new Shares will be allotted or issued prior to the H Share Record Date, (i) the Dividends in the total amount of RMB40,037,760 will be paid to, and (ii) subject to the fulfillment of the conditions set out in the section headed "Conditions of the Proposed Bonus Shares Issue" below, a total of 64,060,416 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.

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

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

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

#### **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, 24 April 2008. If the conditions of the Bonus Shares Issue (as set out above under the paragraph headed "Conditions of the Proposed Bonus Shares Issue") are not fulfilled, the Bonus Shares Issue will not proceed. If in any doubt, investors are recommended to consult their professional advisers.**

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## LETTER FROM THE BOARD

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

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

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

The Bonus Shares shall rank *pari passu* in all respects with the existing Shares, save and except for that holders of the Bonus Shares will not be entitled to the Bonus Shares Issue. No fractional Shares will be issued and distributed pursuant to the Bonus Shares Issue.

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

Subject to the proposed Bonus shares issue becoming unconditional, the certificates for the Bonus H Shares and the cheque for the Dividends will be dispatched by ordinary post to the H Shareholders who are entitled thereto at their own risk. In case of joint shareholding, the certificates 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 dispatch of the certificates for the Bonus H Shares and the date of the commencement of dealings in the Bonus H Shares.

## **B. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

### **Proposed Amendments to Article 14(2) under Chapter 2 of the Articles of Association**

Article 14(2) under Chapter 2 of the Articles of Association is required to be amended to reflect the changes in the business scope of the Company in line with its business development.



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## LETTER FROM THE BOARD

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It is proposed that Article 14(2) which reads as follows:

“The scope of business of the Company shall cover: production of program-controlled exchange systems, multi-media communication systems and communication transmission systems; research and production of mobile communication system equipment, satellite communications, microwave communication equipment, pagers, computer software/hardware, closed-circuit TV, microwave communications, automatic signal controls, computer data processing and process control systems; design, development, consultancy and services for disaster warning system projects; technical design, development, consultancy and services for wireline/wireless communication projects of railways, underground railways, urban rail transport, highways, mining plants, port terminals and airports (excluding restricted projects); purchase and sales of electronic equipment and micro-electronic parts and components (excluding items subject to exclusive licenses, controls and distributorships); undertaking as contractor overseas and relevant projects as well as domestic projects subject to international tendering, import and export of equipment and materials required for the aforesaid overseas projects and deployment of staff responsible for implementing such overseas projects; technical development and purchase and sales of electronic system equipment (excluding restricted projects and items subject to exclusive licenses, controls and distributorships); undertaking of import and export businesses (under the certificate of qualifications issued by the Trade Development Council); undertaking of telecommunication projects as professional contractors (subject to the obtaining of a certificate of qualifications). With the approval of the general meeting and relevant government authorities, the Company may lawfully modify and adjust its scope of business and mode of operation in response to changes in the domestic and international markets and its business development and capabilities.”

be deleted in its entirety and replaced by the following:

The scope of business of the Company shall include: production of program-controlled exchange systems, multi-media communication systems and communication transmission systems; research and production of mobile communication system equipment, satellite communications, microwave communication equipment, pagers, computer software/hardware, closed-circuit TV, microwave communications, automatic signal controls, computer data processing and process control systems; design, development, consultancy and services for disaster warning system projects; technical design, development, consultancy and services for wireline/wireless communication projects of railways, underground railways, urban rail transport, highways, mining plants, port terminals and airports (excluding restricted projects); purchase and sales of electronic equipment and micro-electronic parts and components (excluding items subject to exclusive licenses, controls and distributorships); undertaking as contractor overseas and relevant projects as well as domestic projects subject to international tendering, import and export of equipment and materials required for the aforesaid overseas projects and deployment of staff responsible for

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## LETTER FROM THE BOARD

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implementing such overseas projects; technical development and purchase and sales of electronic system equipment (excluding restricted projects and items subject to exclusive licenses, controls and distributorships); undertaking of import and export businesses (under the certificate of qualifications issued by the Trade Development Council); undertaking of telecommunication projects as professional contractors (subject to the obtaining of a certificate of qualifications); training; property leasing. With the approval of the general meeting and relevant government authorities, the Company may lawfully modify and adjust its scope of business and mode of operation in response to changes in the domestic and international markets and its business development and capabilities.”

Such amendment is subject to the approvals of relevant authorities and the endorsement of the relevant administration for industry and commerce. It is proposed to the AGM to authorise the Board to amend the wording of this article pursuant to the requirements of the relevant authorities.

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

Articles 24 and 27 under Chapter 3 of the Articles Association are required to be amended to reflect the changes in the issued share capital and the registered capital as a result of Bonus Shares Issue,

- (1) It is proposed that Article 24 which reads as follows:

“959,521,650 ordinary shares have been issued upon the incorporation of the Company, comprising 160,151,040 H shares and 799,370,610 domestic shares, which account for 16.7% and 83.3%, respectively, of the total number of ordinary shares issuable by the Company.”

be deleted in its entirety and replaced by the following:

“1,343,330,310 ordinary shares have been issued upon the incorporation of the Company, comprising 224,211,456 H shares and 1,119,118,854 domestic shares, which account for 16.7% and 83.3%, respectively, of the total number of ordinary shares issuable by the Company.”

- (2) It is proposed that Article 27 which reads as follows:

“The registered capital of the Company shall be RMB959,521,650.”

be deleted in its entirety and replaced by the following:

“The registered capital of the Company shall be RMB1,343,330,310.”

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## LETTER FROM THE BOARD

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Such amendments are subject to the results of the Bonus Shares Issue. It is proposed to the AGM to authorise the Board to amend such articles pursuant to the results of the Bonus Shares Issue.

### C. AGM

#### **Notice, Proxy Form and Reply Slip**

The AGM will be held at the 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, 27 May 2008, at which resolutions will be proposed to the Shareholders to consider and, if thought fit, approve, among the other things, the Bonus shares issue, the Dividends and the proposed amendments to the Articles of Association. A notice convening the AGM is enclosed with this circular.

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

A reply slip for use at the AGM is also enclosed with this circular. Any Shareholder intending to attend the AGM shall deliver the reply slip to the Company by courier, registered mail or fax on or before Tuesday, 6 May 2008.

#### **Right to Demand Voting by Poll**

Pursuant to the Articles of Association, a resolution put to vote at the AGM shall be decided by show of hands unless the following persons requested for voting by poll before or after the voting by show of hands or the listing rules of the stock exchanges on which the shares of the Company are listed require otherwise:

- (a) by the chairman of the meeting; or
- (b) by at least two Shareholders present in person or by proxy and entitled to vote; or
- (c) any Shareholder or Shareholders present in person or by proxy and representing in the aggregate not less than one-tenth (inclusive) of the total voting rights of all Shareholders having the right to vote at the meeting.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

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## LETTER FROM THE BOARD

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### **Closure of Share Registers**

According to the Articles of the Association, the Company will close its share register from Saturday, 26 April 2008 to Monday, 26 May 2008 (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, 25 April 2008 will be entitled to (i) attend the AGM; (ii) be allotted and issued the Bonus H Shares and (iii) receive the Dividends. H Shareholders who wish to attend the AGM and be entitled to the Bonus Shares Issue and the Dividends must lodge the transfers of the H Shares no later than 4:30 p.m. on Friday, 25 April 2008.

### **D. RECOMMENDATION**

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

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