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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 NON-PUBLIC ISSUANCE OF
A SHARES UNDER THE GENERAL MANDATE
AND**

(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

A letter from the Board is set out in pages 4 to 17 of this circular.

A notice of the EGM to be held at 4th Floor, 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 Wednesday, 28 March 2018, together with a proxy form and a reply slip were despatched to Shareholders on 5 February 2018. A supplementary notice of the EGM together with the revised proxy form were despatched to Shareholders on 13 February 2018.

Whether or not you are able to attend the EGM, please complete and return the proxy form 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 EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting thereof should you so wish. Any H Shareholders intending to attend the EGM shall deliver the reply slip to the Company by hand, post or facsimile on or before Wednesday, 7 March 2018.

2 March 2018

CONTENTS

	<i>Page</i>
DEFINITIONS	1
EXPECTED TIMETABLE	3
LETTER FROM THE BOARD	4
APPENDIX I — PROPOSAL FOR THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES	I-1
APPENDIX II — FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES	II-1
APPENDIX III — STATEMENT ON THE EXEMPTION FROM THE PREPARATION OF A REPORT ON THE USE OF PROCEEDS FROM THE PREVIOUS FUND RAISING	III-1
APPENDIX IV — REMEDIAL MEASURES REGARDING DILUTION ON RETURNS FOR THE CURRENT PERIOD DUE TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND THE UNDERTAKINGS BY THE RELEVANT ENTITIES	IV-1
APPENDIX V — SHAREHOLDERS' DIVIDEND AND RETURN PLAN (2018–2020)	V-1

DEFINITIONS

In this circular, the following terms shall have the following meaning unless otherwise required by the context:

“A Share(s)” or “Domestic Shares”	ordinary share(s) of par value of RMB1.00 each in the registered capital of the Company, which are listed and traded on the SZSE
“A Shareholders”	holders of A Shares
“Announcement”	the announcement of the Company dated 31 January 2018 in relation to, among other things, the Proposed Non-public Issuance of A Shares
“Articles of Association”	the articles of association of the Company
“Board”	the board of directors of the Company
“China or the PRC”	the People’s Republic of China
“Company”	ZTE Corporation, a joint stock limited company incorporated on 11 November 1997 under the Company Law in the PRC, whose shares are listed on the SEHK and the SZSE
“Company Law”	The Company Law of the People’s Republic of China
“Completion”	completion of the Proposed Non-public Issuance of A Shares
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	member(s) of the board of directors of the Company
“EGM”	the First Extraordinary General Meeting of 2018 of the Company to be held at 4th Floor, 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 Wednesday, 28 March 2018
“EGM Notice”	notice of the First Extraordinary General Meeting of 2018, which was despatched to the Shareholders on 5 February 2018
“General Mandate”	the general mandate granted by the Shareholders to the Board at the annual general meeting of the Company held on 20 June 2017 to allot, issue or otherwise deal with Shares not exceeding 20% of the total number of Shares in issue on the date thereof, which is proposed to be renewed at the annual general meeting for the year ended 31 December 2017 to be convened by the Company

DEFINITIONS

“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 SEHK
“H Shareholders”	holders of H Shares
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Implementation Rules of Non-public Issuance of Shares by Listed Companies”	the “Implementation Rules of Non-public Issuance of Shares by Listed Companies” (as revised in 2017) (《上市公司非公开发行股票实施细则》) (2017年修订)
“Latest Practicable Date”	26 February 2018, being the latest practicable date prior to the printing of this circular for determining certain information set out in this circular
“Price Determination Date”	the price determination date for the Proposed Non-public Issuance of A Shares, being the first day of the issue period, in accordance with the Implementation Rules of Non-public Issuance of Shares by Listed Companies
“Proposed Non-public Issuance of A Shares”	the proposed non-public issuance of A shares by the Company to specific target subscribers for the purpose of raising funds
“RMB”	Renminbi, the statutory currency of the PRC
“Securities Law”	The Securities Law of the People’s Republic of China
“SEHK”	The Stock Exchange of Hong Kong Limited
“Shareholders”	A Shareholders and H Shareholders
“Shares”	A Share(s) and H Share(s)
“SZSE”	The Shenzhen Stock Exchange
“Zhongxingxin”	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited

EXPECTED TIMETABLE

2018

Latest time for lodging transfers of the H Shares to
qualify for attendance and voting at the EGM 4:30 p.m., Friday, 23 February

H Share register closed Monday, 26 February to Tuesday, 27 March
(both dates inclusive)

Latest date for lodging reply slips for the EGM Wednesday, 7 March

Latest time for lodging proxy forms for the EGM 9:00 a.m., Tuesday, 27 March

EGM 9:00 a.m., Wednesday, 28 March

H Share register re-opens Wednesday, 28 March



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:

Yin Yimin
Zhao Xianming

Non-executive Directors:

Zhang Jianheng
Luan Jubao
Wang Yawen
Tian Dongfang
Zhan Yichao
Wei Zaisheng
Zhai Weidong

Independent Non-executive Directors:

Richard Xike Zhang
Chen Shaohua
Lü Hongbing
Bingsheng Teng
Zhu Wuxiang

Registered Address:

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

Principle place of business in Hong Kong:

36/F, Tower Two
Times Square
1 Matheson Street, Causeway Bay
Hong Kong

2 March 2018

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED NON-PUBLIC ISSUANCE OF
A SHARES UNDER THE GENERAL MANDATE
AND**

(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

I. INTRODUCTION

Reference is made to the Announcement and the EGM Notice.

LETTER FROM THE BOARD

As disclosed in the Announcement, the Board has approved the Proposed Non-public Issuance of A Shares, pursuant to which the Company will issue not more than 686,836,019 A Shares to not more than 10 specific subscribers, which would raise the gross proceeds of up to RMB13 billion.

The purpose of this circular is to provide relevant information for your informed decision when voting for the ordinary resolution and special resolutions to be proposed at the EGM in respect of, among other things, the Proposed Non-public Issuance of A Shares under the General Mandate and the proposed amendments to the Articles of Association.

II. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE

1. Proposal in relation to the Company's fulfillment of criteria for the Proposed Non-public Issuance of A Shares

According to the relevant provisions of the Company Law, the Securities Law, the Administrative Measures for the Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules of Non-public Issuance of Shares by Listed Companies and other laws and regulations, after carrying out serious self-examination on the Company's actual situation and related matters, the Board are of the view that the Company has fulfilled the criteria for the Proposed Non-public Issuance of A Shares.

The proposal will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

2. Proposal in relation to the Company's plan for the Proposed Non-public Issuance of A Shares

(a) Class and par value of Shares to be issued

The Shares to be issued are A Shares with a par value of RMB1.00 per share.

(b) Method and time of issuance

The Proposed Non-public Issuance of A Shares will be carried out by way of non-public issuance to specific subscribers. The A Shares will be issued at any appropriate time within the valid period as approved by the CSRC.

(c) Target subscribers and method of subscription

The target subscribers of the Proposed Non-public Issuance of A Shares will be not more than 10 specific subscribers which satisfy the relevant requirements of the CSRC, including securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies, finance companies, qualified foreign institutional investors and other legally qualified investors. A securities investment fund management company subscribing

LETTER FROM THE BOARD

through 2 or more funds under its management shall be deemed as one single subscriber. A trust investment company, as a subscriber, can only subscribe for the A Shares with its internal funds.

Subject to the above requirements, the Company will determine the specific target subscribers through bidding in accordance with the Implementation Rules of Non-public Issuance of Shares by Listed Companies after obtaining the approval of the CSRC for the Proposed Non-public Issuance of A Shares.

All A Shares to be issued under the Proposed Non-public Issuance of A Shares will be subscribed for in cash.

As at the Latest Practicable Date, (i) the Company had not entered into any agreement with any potential subscribers in respect of the Proposed Non-public Issuance of A Shares, and (ii) the Company expected that the A shares to be issued under the Proposed Non-public Issuance of A Shares will be issued to subscribers who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons.

(d) Issue price and pricing principles

Pursuant to the Implementation Rules of Non-public Issuance of Shares by Listed Companies, the Price Determination Date shall be the first day of the issue period of the Proposed Non-public Issuance of A Shares. The issue price of the Proposed Non-public Issuance of A Shares shall not be lower than 90% of the average trading price of the Company's A Shares for the 20 trading days immediately preceding the Price Determination Date. The final issue price shall be determined through negotiations between the Board (or its authorized representative(s)) and the sponsor (the lead underwriter) based on the bidding results and in accordance with the Implementation Rules of Non-public Issuance of Shares by Listed Companies, after the Company has obtained the approval for the Proposed Non-public Issuance of A Shares from the CSRC.

The average trading price of the Company's A Shares for the 20 trading days immediately preceding the Price Determination Date shall be the calculated by the following formula:

$$\frac{\text{Total turnover of the Company's A Shares for the 20 trading days immediately preceding the Price Determination Date}}{\text{Total trading volume of the Company's A Shares for the 20 trading days immediately preceding the Price Determination Date}}$$

As disclosed in the announcement of the Company dated 1 February 2018, the issue price of the Proposed Non-public Issuance of A Shares will not be lower than RMB30.00 per A Share (the "**Floor Price**"). If the Company is unable to enter into the Proposed Non-public Issuance of A Shares with the subscribers at

LETTER FROM THE BOARD

an issue price higher than or equal to the Floor Price during the effective period specified in the approval from the CSRC after obtaining such approval, the Company will terminate the Proposed Non-public Issuance of A Shares.

In addition, pursuant to the Hong Kong Listing Rules, the issue price of the Proposed Non-public Issuance of A Shares shall not represent a discount of 20% or more to the benchmarked price of the H Shares as described under Rule 13.36(5) of the Hong Kong Listing Rules, such benchmarked price being the higher of:

- (a) the closing price of the H Shares on the date of the relevant agreement involving the Proposed Non-public Issuance of A Shares; and
- (b) the average closing price of the H Shares in the 5 trading days immediately prior to the earlier of:
 - (i) the date of the Announcement;
 - (ii) the date of the relevant agreement involving the Proposed Non-public Issuance of A Shares; and
 - (iii) the date on which the issue price of the Proposed Non-public Issuance of A Shares is fixed.

(e) Number of A Shares to be issued

The number of A Shares to be issued under the Proposed Non-public Issuance of A Shares shall not exceed 686,836,019 A Shares, which is determined based on 20% of the A share capital of the Company as at the date of the general meeting of the Company, being 20 June 2017, in which the “Resolution of the Company on the Application for General Mandate for 2017” was considered and approved by the Shareholders, and represents:

- (1) approximately 19.98% of the existing issued A Shares and approximately 16.38% of the existing total issued share capital of the Company as at the Latest Practicable Date; and
- (2) approximately 16.65% of the enlarged issued A Shares and approximately 14.08% of the enlarged total issued share capital of the Company upon Completion.

After obtaining the written approval for the Proposed Non-public Issuance of A Shares from the CSRC, the Board or its authorized representative(s) shall, pursuant to the authorization of the Shareholders in the EGM, negotiate with the sponsor (the lead underwriter) to determine the final number of A Shares to be issued according to the relevant regulations of the CSRC and the price bids submitted by the target subscribers.

LETTER FROM THE BOARD

(f) Lock-up period

The A Shares to be subscribed for by the target subscribers under the Proposed Non-public Issuance of A Shares shall be subject to a lock-up period of 12 months from the date of Completion. After the expiration of the lock-up period, any transfer of the A Shares under the Proposed Non-public Issuance of A Shares shall be carried out in accordance with the relevant regulations of the CSRC and the SZSE.

(g) Amount and use of proceeds

The gross proceeds from the Proposed Non-public Issuance of A Shares will not exceed RMB13 billion. The net proceeds from the Proposed Non-public Issuance of A Shares (after deducting all expenses related to the issuance) will be applied as follows:

Use of proceeds	Total amount required (RMB billion) (approximately)	Amount to be applied from the proceeds from the Proposed Non-public Issuance of A Shares (RMB billion) (approximately)
Technology research and product development relating to 5G network evolution	42.878	9.1
Replenishment of working capital	<u>3.9</u>	<u>3.9</u>
Total	<u>46.778</u>	<u>13.0</u>

If there is any shortfall between the net proceeds from the Proposed Non-public Issuance of A Shares (after deducting all expenses related to the issuance) and the proposed amount of proceeds to be applied in each of the above item, the shortfall will be met by the internal funds of the Company. Prior to the receipt of the proceeds from the Proposed Non-public Issuance of A Shares, the Company will finance such project(s) with its internal funds based on the actual progress of the project(s). Such internal funds will be replaced by the proceeds upon the receipt of the proceeds.

LETTER FROM THE BOARD

(h) Place of listing

The A Shares to be issued under the Proposed Non-public Issuance of A Shares will be listed and traded on the SZSE upon expiration of the lock-up period.

(i) Arrangement for the retained undistributed profits prior to the Proposed Non-public Issuance of A Shares

The retained undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares will be shared by the existing Shareholders and the new Shareholders upon Completion.

(j) Validity period of the resolutions in relation to the Proposed Non-public Issuance of A Shares

The resolutions in relation to the Proposed Non-public Issuance of A Shares shall remain valid for 12 months from the date on which the resolutions are considered and approved at the EGM.

The proposal will be submitted, by way of special resolution for the Shareholders' consideration and approval at the EGM (to be voted upon item by item).

3. Proposal in relation to the Company's "Proposal for the Proposed Non-public Issuance of A Shares"

The "Proposal for the Proposed Non-public Issuance of A Shares", which was prepared in the Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 31 January 2018. The full text of the English translation is set out in Appendix I to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

4. Proposal in relation to the Company's "Feasibility Analysis Report on the Use of Proceeds of the Proposed Non-public Issuance of A Shares"

The "Feasibility Analysis Report on the Use of Proceeds of the Proposed Non-public Issuance of A Shares", which was prepared in the Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 31 January 2018. The full text of the English translation is set out in Appendix II to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

LETTER FROM THE BOARD

The proposal will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

5. Proposal in relation to the exemption from the preparation of a report on the use of proceeds from the previous fund raising

The "Statement on the Exemption from the Preparation of a Report on the Use of Proceeds from the Previous Fund Raising", which was prepared in the Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 31 January 2018. The full text of the English translation is set out in Appendix III to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

6. Proposal in relation to the "Remedial Measures regarding Dilution on Returns for the Current Period due to the Proposed Non-public Issuance of A Shares and the Undertakings by the Relevant Entities"

The "Remedial Measures regarding Dilution on Returns for the Current Period due to the Proposed Non-public Issuance of A Shares and the Undertakings by the Relevant Entities", which was prepared in the Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 31 January 2018. The full text of the English translation is set out in Appendix IV to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

7. Proposal in relation to the "Shareholders' Dividend and Return Plan (2018–2020)"

The "Shareholders' Dividend and Return Plan (2018–2020)", which was prepared in the Chinese language, was disclosed in the overseas regulatory announcement of the Company dated 31 January 2018. The full text of the English translation is set out in Appendix V to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

LETTER FROM THE BOARD

8. Proposal in relation to the general meeting's authorization to the Board and its authorized representatives to deal with matters in connection with the Company's Proposed Non-public Issuance of A Shares with full discretion

The Board proposes to seek approval from the Shareholders at the EGM for the authorization to the Board and its authorized representatives to deal with all matters in connection with the Proposed Non-public Issuance of A Shares, including:

- (a) authorization to deal with all matters relating to the plan for the Proposed Non-public Issuance of A Shares, including but not limited to the method and time of issuance, the target subscribers and method of subscription, the issue price and pricing principles, the number of A Shares to be issued and lock-up period under the Proposed Non-public Issuance of A Shares;
- (b) authorization to deal with all matters pertaining to applications to and the receipt of approvals from PRC domestic authorities and relevant overseas authorities in respect of the Proposed Non-public Issuance of A Shares, to formulate, prepare, modify, fine-tune and execute all documents relating to the Proposed Non-public Issuance of A Shares, to execute contracts, agreements and documents relating to the Proposed Non-public Issuance of A Shares (including but not limited to agreements for the hiring or appointment of intermediaries) and to approve and handle information disclosures relating to the Proposed Non-public Issuance of A Shares;
- (c) authorization to adjust specific arrangements for the projects invested with the proceeds from the Proposed Non-public Issuance of A Shares within the scope of the resolution adopted by the EGM;
- (d) authorization to adjust the plan of the Proposed Non-public Issuance of A Shares and the use of proceeds and to carry on with the Proposed Non-public Issuance of A Shares in accordance with relevant provisions of the State, requirements of relevant government authorities and securities regulatory authorities (including feedback after examination of the application for the non-public issuance) in the event of new provisions relating to the policy on non-public issuance under laws and regulations or announced by the securities regulatory authorities and any change in market conditions, save for matters required to be voted upon anew at the general meeting under pertinent laws and regulations and the Articles of Association;
- (e) authorization to process capital verification formalities in connection with the Proposed Non-public Issuance of A Shares;
- (f) authorization to execute material contracts during the course of implementation of the projects invested with issue proceeds from the Proposed Non-public Issuance of A Shares;

LETTER FROM THE BOARD

- (g) authorization to process registration of shares, lock-up of shares and listing matters and the submission of relevant documents following the Proposed Non-public Issuance of A Shares;
- (h) authorization to deal with amendment of relevant clauses of the Articles of Association, corresponding approval procedures, and various registration procedures for the change in the registered capital of the Company following the Proposed Non-public Issuance of A Shares;
- (i) authorization to deal with all other matters pertaining to the Proposed Non-public Issuance of A Shares;
- (j) authorization to cause a direct transfer of powers to the Chairman of the Company, Mr. Yin Yimin and his delegate by the Board to deal with matters described above after obtaining the aforesaid authorization at the EGM;
- (k) the authorizations set out above shall be effective within 12 months from the date of approval of this resolution on authorization at the EGM of the Company.

The proposal will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

9. Proposal in relation to the amendment of relevant clauses in the Articles of Association

Reference is made to the circular and the announcement of the Company dated 30 August 2013 and 15 October 2013, respectively, in relation to, among other things, the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (the "**Scheme**"). Pursuant to the terms of the Scheme, the participants of the Scheme had exercised the rest of the share options granted to them, which led to an increase in the share capital of the Company. As a result, the amendments to the Articles of Association are required.

In addition, pursuant to the relevant requirements under the "Notice on Further Implementing Matters concerning Cash Dividends of Listed Companies" and the "Guidelines No. 3 on the Supervision and Administration of Listed Companies — Distribution of Cash Dividends of Listed Companies" issued by the CSRC, the Company proposes to make certain amendments to the provisions in relation to distribution of dividends.

LETTER FROM THE BOARD

The proposed amendments to the Articles of Association are set out as follows:

Existing articles

Article 24 Subsequent to its establishment, the Company shall issue 4,185,896,909 ordinary shares, comprising 755,502,534 H Shares, accounting for 18.05% of the total number of ordinary shares issuable by the Company; and 3,430,394,375 Domestic Shares, accounting for 81.95% of the total number of ordinary shares issuable by the Company.

Article 27 The registered capital of the Company shall be RMB4,185,896,909.

Article 35 1) reduction of the capital of the Company.

Article 234 The profit distribution policy of the Company shall be as follows:

1) Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy;

To be amended as

Article 24 Subsequent to its establishment, the Company shall issue **4,192,671,843** ordinary shares, comprising 755,502,534 H Shares, accounting for **18.02%** of the total number of ordinary shares issuable by the Company; and **3,437,169,309** Domestic Shares, accounting for **81.98%** of the total number of ordinary shares issuable by the Company.

Article 27 The registered capital of the Company shall be **RMB4,192,671,843**.

Article 35 1) reduction of the **registered** capital of the Company.

Article 234 The profit distribution policy of the Company shall be as follows:

1) Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy, **which should be in compliance with laws and regulations and the relevant requirements of regulatory authorities such as the China Securities Regulatory Commission;**

LETTER FROM THE BOARD

Existing articles

Article 234 3) Dividends may be distributed by the Company by way of cash and/or shares. Interim cash dividend may be distributed. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realized in the three preceding years;

To be amended as

Article 234 3) Subject to the fulfillment of conditions for dividend distribution, the Company shall, **in principle, distribute its profit on an annual basis** by way of cash and/or shares, and may also carry out interim **profit distribution**. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realized in the three preceding years;

The Articles of Association are prepared in Chinese and there is no official English version for the Articles of Association. The English translation above is for reference only. In the event of any discrepancy between the English translation and the Chinese version of the Articles of Association, the Chinese version shall prevail.

The proposal will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM.

III. CONDITIONS PRECEDENT OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

The Proposed Non-public Issuance of A Shares is subject to the approval of the Shareholders at the EGM and the approval of the CSRC. Upon obtaining the approval of the CSRC, the Company will apply to the SZSE and the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited to complete the approval and registration procedures for the Proposed Non-public Issuance of A Shares.

LETTER FROM THE BOARD

IV. EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the total issued share capital of the Company was 4,192,671,843 Shares, which comprises 3,437,169,309 A Shares and 755,502,534 H Shares. The shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after Completion (assuming that (i) the maximum number of A Shares up to 686,836,019 A Shares is being issued and (ii) there is no change in the total issued share capital of the Company from the Latest Practicable Date up to Completion save for Proposed Non-public Issuance of A Shares) is estimated to be as follows:

Shareholder	Class of Shares	As at the Latest Practicable Date			Upon Completion		
		Number of Shares	Approximate percentage of A Shares (%)	Approximate percentage of the total issued share capital (%)	Number of Shares	Approximate percentage of A Shares (%)	Approximate percentage of the total issued share capital (%)
Zhongxingxin	A	1,269,830,333	36.94	30.29	1,269,830,333	30.79	26.03
	H	2,038,000	—	0.05	2,038,000	—	0.04
Subtotal		<u>1,271,868,333</u>	—	<u>30.34</u>	<u>1,271,868,333</u>	—	<u>26.07</u>
Public							
Shareholders	A	2,167,338,976	63.06	51.69	2,854,174,995	69.21	58.49
	H	753,464,534	—	17.97	753,464,534	—	15.44
Subtotal		<u>2,920,803,510</u>	—	<u>69.66</u>	<u>3,607,639,529</u>	—	<u>73.93</u>
Total		<u>4,192,671,843</u>		<u>100.00</u>	<u>4,879,507,862</u>		<u>100.00</u>

Note: The approximate percentages of (i) the A Shares and (ii) the total issued share capital are rounded to the nearest two decimal places may not add up to 100% due to rounding.

V. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not conducted any equity fund raising exercises during the 12 months immediately preceding the Latest Practicable Date.

VI. REASONS FOR AND BENEFITS OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

In recent years, the Company has been pursuing the strategy in leading 5G innovations through the continuous expansion of its investment in research and development as well as marketing for its core segments. With the global leading position in 5G network sector, the Company expects that 2018 to 2020 will be a crucial period for the formulation and industrialization of the global standard for 5G technology. The Company will continue to focus on 5G technology as its core strategy, and will commit its effort to various aspects

LETTER FROM THE BOARD

including the formulation of standards, product research and development and commercial verification in order to maintain its leading position in terms of progress development, product functionality and cost advantage.

The Company considers that the Proposed Non-public Issuance of A Shares will enable the Company to maintain its high level of investment in research and development, help ensure its technological competitive edge and develop its main products and businesses with core advantages, which may help the Company increase its market shares in the mainstream products and markets as well as enhance customer satisfaction, thereby help increasing the profitability of the Company.

In addition, the demand for working capital of the Company for business development may be replenished by the Proposed Non-public Issuance of A Shares and the capital structure of the Company is expected to be further optimized, which may help the Company mitigate risks.

VII. GENERAL MANDATE TO ISSUE THE A SHARES

The A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares will be allotted and issued under the General Mandate. The Board has been authorized to allot and issue not more than 686,836,019 A Shares pursuant to the General Mandate. As at the Latest Practicable Date, the Company has not issued any A Shares or H Shares pursuant to the General Mandate.

VIII. EGM

EGM Notice, Proxy Form and Reply Slip

The EGM will be convened by the Company on Wednesday, 28 March 2018 at 9:00 a.m. at 4th Floor, A Wing, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China to consider and, if thought fit, pass, among other things, the resolutions in relation to (i) the Proposed Non-public Issuance of A Shares under the General Mandate and (ii) the proposed amendments to the Articles of Association. The EGM Notice, proxy form and reply slip were despatched to Shareholders on 5 February 2018. A supplementary notice of the EGM together with the revised proxy form were despatched to Shareholders on 13 February 2018.

Whether or not you are able to attend the EGM, please complete and return the proxy form 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 EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting thereof should you so wish. Any H Shareholders intending to attend the EGM shall deliver the reply slip to the Company by hand, post or facsimile on or before Wednesday, 7 March 2018.

LETTER FROM THE BOARD

Close of share register

The Company will close its H share register from Monday, 26 February 2018 to Tuesday, 27 March 2018 (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., Friday, 23 February 2018.

Voting by way of poll at a general meeting

In accordance with Rule 13.39 (4) of the Hong Kong Listing Rules, all resolutions proposed at a general meeting for consideration and approval if thought fit shall be voted upon by way of poll, provided that resolutions pertaining to procedural or administrative matters only may be voted upon by a show of hands if permission for the same is given in good faith by the chairman of the general meeting.

IX. RECOMMENDATION

The Board is of the view that the resolutions set out in the EGM Notice in respect of (i) the Proposed Non-public Issuance of A Shares and (ii) the proposed amendments to the Articles of Association are in the best interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the relevant resolutions at the EGM.

X. 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 enquiries, 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 herein or this circular misleading.

By Order of the Board
Yin Yimin
ZTE Corporation
Chairman

Shenzhen, the PRC

This English Translation is for reference only. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese Version shall prevail.

中興通訊股份有限公司
ZTE CORPORATION

(ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen)

PROPOSAL FOR THE NON-PUBLIC ISSUANCE OF A SHARES IN 2018

January 2018

REPRESENTATIONS OF THE COMPANY

1. The Company and all the members of the Board of Directors confirm that all the information contained in this Proposal is true, accurate and complete and that there is no false and misleading statement in or material omission from this Proposal, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
2. The Company shall bear its own responsibility for any changes in its operations and income following the Non-public Issuance of A Shares; investors shall bear their own investment risks arising from the Non-public Issuance of A Shares.
3. This Proposal represents the statement of the Board of Directors of the Company on the Non-public Issuance of A Shares. Any representations to the contrary shall be deemed as untruthful statements.
4. If investors are in any doubt, they should consult their securities dealer, solicitor, professional accountant or other professional advisers.
5. Matters described in this Proposal should not be deemed as specific judgments, confirmations, approvals of the approving authorities in respect of matters pertaining to the Non-public Issuance of A Shares. The effectiveness and completion of matters pertaining to the Non-public Issuance of A Shares described in this Proposal is subject to the approvals of relevant approving authorities.

HIGHLIGHTS

1. Matters pertaining to the Non-public Issuance of A Shares of the Company have been considered and approved at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors held on 31 January 2018. Matters pertaining to the Non-public Issuance of A Shares are subject to consideration and approval at the general meeting of the Company and approval by the CSRC.
2. The target subscribers of the Non-public Issuance of A Shares will be not more than 10 specific subscribers which satisfy the relevant requirements of the CSRC, including securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies, finance companies, qualified foreign institutional investors and other legally qualified investors. A securities investment fund management company subscribing through 2 or more funds under its management shall be deemed as one single subscriber. A trust investment company, as a subscriber, can only subscribe for the shares with its internal funds. Subject to the above requirements, the Company will determine the specific target subscribers through bidding in accordance with the “Implementation Rules of Non-public Issuance of Shares by Listed Companies” (as revised in 2017) after obtaining the approval of the CSRC for the Non-public Issuance of A Shares. All shares to be issued under the Issuance will be subscribed for in cash.
3. The Price Determination Date for the Non-public Issuance of A Shares shall be the first day of the issue period, and the issue price shall not be lower than 90% of the average trading price of the Company’s A shares for the 20 trading days immediately preceding the Price Determination Date. The final issue price shall be determined through negotiations between the Board of Directors of the Company or its authorized representative and the sponsor (the lead underwriter) based on the bidding results in accordance with the “Implementation Rules of Non-public Issuance of Shares by Listed Companies” (as revised in 2017), after the Company has obtained approval for the Non-public Issuance of A Shares from the CSRC.

The average trading price of the Company’ A shares for the 20 trading days immediately preceding the Price Determination Date = Total turnover of the Company’ A shares for the 20 trading days immediately preceding the Price Determination Date/Total trading volume of the Company’ A shares for the 20 trading days immediately preceding the Price Determination Date.

4. The number of shares to be issued under the Non-public Issuance of A Shares shall not exceed 686,836,019 shares, which is determined based on 20% of the A share capital of the Company as at the date of the general meeting of the Company, being 20 June 2017, in which the “Resolution of the Company on the Application for General Mandate for 2017” was considered and approved by the shareholders.
5. The retained undistributed profits of the Company prior to the Non-public Issuance of A Shares will be shared by the existing shareholders and the new shareholders upon completion of the Issuance.

6. The gross proceeds from the Non-public Issuance of A Shares will not exceed RMB13 billion. The proceeds (after deducting all expenses related to the issuance) will be applied towards the “technology research and product development relating to 5G network evolution” and as “replenishment of working capital”. If there is any shortfall between the net proceeds from the Non-public Issuance of A Shares (after deducting all expenses related to the issuance) and the proposed amount of proceeds to be applied in each of the above item, the shortfall will be met by the internal funds of the Company. Prior to the receipt of the proceeds from the Non-public Issuance of A Shares, the Company will finance such projects with its internal funds based on the actual progress of the projects. Such internal funds will be replaced by the proceeds upon the receipt of the proceeds.
7. The shares to be subscribed for by the target subscribers under the Non-public Issuance shall be subject to a lock-up period of 12 months from the date of completion of the Non-public Issuance of A Shares. After the expiration of the lock-up period, any transfer shall be carried out in accordance with the relevant regulations of the CSRC and the SZSE.
8. The Controlling Shareholder of the Company is Zhongxingxin. The Non-public Issuance will not result in a change in the Controlling Shareholder of the Company or an allocation of the Company’s shareholdings that does not conform to its listing conditions.
9. For details of the Company’s profit distribution policy and cash dividend distribution for the 3 immediately preceding years, please refer to the section headed “Section IV the Company’s profit distribution policy and its implementation” in this Proposal.
10. As the total share capital of the Company will increase after the due receipt of the proceeds from the Non-public Issuance of A Shares, it is probable that the Company’s return for the current period (financial indicators such as basic earnings per share and diluted earnings per shares) might decrease over the short term. Hence, investors should beware of the risk of possible dilution of return for the current period arising from the Non-public Issuance. Although the Company has formulated remedial measures for return to address the risk of dilution of return for the current period, such remedial measures for return as formulated should not be deemed as any guarantee for the future profit of the Company. Meanwhile, the hypothetical analysis on the net profit attributable to holders of ordinary shares of the listed company after extraordinary items made by the Company in the course of estimating the dilutive effect of the Non-public Issuance on return for the current period does not constitute a profit forecast of the Company. Investors are reminded that they should not rely on such analysis in their investment decisions.

DEFINITIONS

In this Proposal, the following terms shall have the meanings set out below, unless the context otherwise requires:

Definition of general terms

“Company” or “ZTE”	ZTE Corporation, a company incorporated in China, the shares of which are listed on the SZSE and the SEHK, respectively
“Articles of Association”	The Articles of Association of ZTE Corporation
“Company Law”	Company Law of the People’s Republic of China
“Securities Law”	Securities Law of the People’s Republic of China
“CSRC”	China Securities Regulatory Commission
“SZSE”	The Shenzhen Stock Exchange
“SEHK”	The Stock Exchange of Hong Kong Limited
“Zhongxingxin” or “Controlling Shareholder”	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
“Proposal”	The proposal for Non-public Issuance of A Shares in 2018 of ZTE Corporation
“Non-public issuance of A shares” or “Non-public Issuance” or the “Issuance”	The proposed non-public issuance of A shares by the ZTE Corporation to specific target subscribers for the purpose of raising funds
“Price Determination Date”	The price determination date for the Non-public Issuance of A Shares, being the first day of the issue period, in accordance with the “Implementation Rules of Non-public Issuance of Shares by Listed Companies” (as revised in 2017)
“MIIT”	Ministry of Industry and Information Technology of the People’s Republic of China
“NDRC”	National Development and Reform Commission of the People’s Republic of China
“MST”	Ministry of Science and Technology of the People’s Republic of China

“RMB”, “RMB in ten thousand”, “RMB in 100 million” Renminbi Yuan, ten thousand Renminbi Yuan, 100 million Renminbi Yuan

Glossary of technical terms

“4G” Fourth-generation mobile communications operating according to IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, which support theoretical download rates of 1Gbit/s at fixed locations and 100Mbit/s in motion.

“5G” Fifth-generation mobile communications, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than currently available) and more connections (100 times more than currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the internet of vehicles.

“Pre-5G” The adoption of the 5G technology without modifying existing air interfaces standards, providing in advance a 5G-like user experience on existing terminals.

“IMT-2020” The official name of 5G formally confirmed by the radio communication department of the International Telecommunication Union (ITU-R) during 26 October 2015 to 30 October 2015.

“ICT” New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).

“MIMO” Multiple-Input Multiple-Output, the use of multiple transmitting and receiving antennas on the transmitting end and receiving end, respectively, to facilitating the transmission and reception of signals via multiple antennas on the transmitting end and receiving end for the improvement of communication quality.

“Massive MIMO” Large-scale MIMO, the substantial increase in the number of antennas for traditional MIMO to facilitate greater wireless data flow and more reliable connectivity.

“R15 protocol”	The first 5G new air interface non-independent networking standards announced by 3GPP in December 2017 to meet the requirements of carriers for deploying 5G on existing LTE networks.
“Network slicing”	One of the key technical features of 5G, namely, the slicing of the physical network of the carrier into multiple virtual networks based on different service requirements, such as latency, bandwidth, security and reliability, in order to respond to the network application scenarios in a flexible manner, namely, to apply streaming management of the network.
“Core network”	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.
“Bearer network”	The network at the bearer level that provides fundamental bearer functions. It directs information flow of each service to the target end according to the requirements of the business level and requests for the dispatch of network resources according to the attributes of each service to ensure the functionality and performance of the services. It also provides QoS assurances and network security assurances required by communications of different types and natures.
“Fixed-line broadband”	Corresponding to the mobile broadband, the fixed-line broadband provides broadband services such as optic fibre and telephone lines on fixed circuits.
“IOT”	A massive network connecting all sorts of information sensory devices, such as radio frequency identification units, ultra-red sensors, global positioning systems and laser scanners, to the Internet with the aim of connecting all things to the network for easy identification and management.
“Cloud Computing”	The concept underlining the fusion of traditional computing technologies such as grid computation and distributed computation with network technology development. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in business models such as SaaS, PaaS and IaaS.

“Big Data”

A data set that is too large and complex to be processed by existing conventional database management technologies and tools, and that requires the use of new data processing and management technologies in order to create value from the set in a speedy and economic manner. It has revolutionary long-term implications for the development of informatisation, smart applications and business models of the society. Big Data is often characterised by 4Vs: Volume, Variety, Velocity and Value.

“Hz”, “GHz”

The units for the measurement of frequency under the International System of Units, the formula for conversion of which is as follows: $1\text{GHz} = 1,000,000,000\text{Hz}$.

In this proposal, the aggregation of individual amounts may differ from the sum of the same amounts owing to rounding.

CONTENTS

	<i>Page</i>
REPRESENTATIONS OF THE COMPANY	I-2
HIGHLIGHTS	I-3
DEFINITIONS	I-5
CONTENTS	I-9
SECTION I SUMMARY OF THE PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES	I-11
I. General information of the Company	I-11
II. Background to and Purpose of the Non-public Issuance of A Shares	I-12
III. Summary of the plan for the Non-public Issuance of A Shares	I-13
IV. Whether the Non-public Issuance of A Shares constitutes a connected transaction	I-16
V. Whether the Non-public Issuance of A Shares will result in changes in control over the Company	I-16
VI. Outstanding approval procedures to be fulfilled in respect of the Non-public Issuance of A Shares	I-17
SECTION II FEASIBILITY ANALYSIS OF THE BOARD OF DIRECTORS ON THE USE OF PROCEEDS	I-18
I. Plans for use of proceeds	I-18
II. Feasibility analysis of the investment project utilising the proceeds	I-19
III. Impact of the Non-public Issuance on the Company’s business operations and financial position	I-27
SECTION III BOARD DISCUSSION AND ANALYSIS OF THE IMPACT OF THE NON-PUBLIC ISSUANCE ON THE COMPANY	I-28
I. Changes in the Company’s business, Articles of Association, shareholding structure, senior management structure and business revenue mix	I-28
II. Changes in the Company’s financial position, profitability and cash flow	I-30

III. Changes in the business connections, management connections, connected transactions and competition in the same business between the Company and the Controlling Shareholder and its associates ... I-30

IV. No appropriation of the Company’s funds or assets by the Controlling Shareholder and its associates or provision of guarantee by the Company for the Controlling Shareholder and its associates I-30

V. Impact of the Issuance on the Company’s liabilities I-31

VI. Risks relating to the Issuance I-31

SECTION IV THE COMPANY’S PROFIT DISTRIBUTION POLICY AND ITS IMPLEMENTATION I-35

I. The Company’s profit distribution policy I-35

II. Cash dividend by the Company for the 3 immediately preceding years and use of unallocated profit I-38

III. Shareholders’ Dividend and Return Plan (2018–2020) I-39

SECTION V DILUTION OF RETURN FOR THE CURRENT PERIOD DUE TO THE NON-PUBLIC ISSUANCE AND REMEDIAL MEASURES I-43

I. Impact of the dilution of return for the current period due to the Non-public issuance of A shares on the Company’s key financial indicators I-43

II. Justification and necessity of the Non-public Issuance I-47

III. Special risk reminder relating to the dilution of shareholders’ return for the current period due to the Non-public Issuance I-47

IV. How the project utilising the issue proceeds relates to the Company’s existing business and the Company’s build-up in staff, technology and market for the project utilising the issue proceeds I-48

V. Proposed measures to address the dilution of return for the current period due to the Issuance I-49

VI. Undertakings by the Company’s Controlling Shareholder, Directors and senior management in relation to the implementation of remedial measures to address the dilution of return for the current period due to the Non-public Issuance of shares I-53

SECTION I

SUMMARY OF THE PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES

I. General information of the Company

Name in Chinese:	中興通訊股份有限公司
Name in English:	ZTE CORPORATION
Address:	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen
Legal representative:	Yin Yimin
Date of incorporation:	11 November 1997
Uniform social credit code:	9144030027939873X7
Place of share listing:	SZSE and SEHK
Abbreviated name of the Company's A shares:	中興通訊
Stock code of the Company's A shares:	000063
Abbreviated name of the Company's H shares:	ZTE
Stock code of the Company's H shares:	00763
Contact address:	No. 55, Keji Road South, Shenzhen, Guangdong Province
Postal code:	518057
Telephone:	+ 86 755 26770282
Facsimile:	+ 86 755 26770286
E-mail:	IR@zte.com.cn
Website:	http://www.zte.com.cn

Scope of operations: 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, technical design, development, consultancy and services for projects of computer software/hardware, closed-circuit TV, microwave communications, automatic signal controls, computer data processing, process control systems, disaster warning system, new energy power generation and application systems; 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); leasing of owned properties. 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.

II. Background to and Purpose of the Non-public Issuance of A Shares

(I) Background to the Non-public Issuance of A Shares

1. Expedited 5G evolution of global communication networks

After the confirmation of the 5G vision and timetable in 2015 by the International Telecommunication Union (ITU), the commercial application of 5G by 2020 has become the consensus among industry players, and the drive of uniform 5G standards has become a goal commanding the joint effort of members of the sector. Carriers of various countries have announced their timetables for the commercial application of 5G by 2020 or earlier and, driven by this demand, the process of 5G standardisation has been gaining pace. In 2016, 3GPP, an international communication standard organisation, initiated the project for the formulation of 5G standards. The standards for 5G non-independent networking were officially completed in December 2017, and it is hopeful that the standards for independent networking will be completed by June 2018. Technologies for 5G networks have dominated the development trends of the industry. With the advancement of the standardisation process, growing maturity of key 5G technologies, ongoing improvements in abilities for chips and terminals, and developments in ICT integration, the conditions are ready for the construction of 5G networks and planning for commercial application in the coming years.

2. Historic opportunities and challenges for the Company in the course of 5G network evolution

As a world-leading provider of integrated communication and information solutions, the Company is committed to becoming a leader in 5G development, as it actively takes part in the formulation of 5G standards as a major participant in and contributor to global 5G technologies and relevant standards. Meanwhile, the Company has pioneered in proposing the application of key 5G technologies in 4G networks (Massive MIMO) and launching Pre-5G products to help carriers enhance their network performance at lower costs. The Company's efforts have been widely recognised in the industry and commercial applications have commenced in many countries around the world, with its Pre-5G Massive MIMO solution winning the "Best Mobile Technology Breakthrough Award" at the Mobile World Congress. In September 2016, the Company became the one of the first manufacturers to have completed the first stage of China's 5G testing. Excellent results were reported as it ranked first among all manufacturers in

duration, pass-through rate and coverage in the network architecture test. In September 2017, the Company received the certificate for 5G technology R&D and testing (second stage) issued by the IMT-2020 (5G) Promotion Group on the back of excellent results. The Company has gradually assumed a leading position in 5G development with the execution of respective 5G strategic cooperation agreements with carriers including China Mobile, Softbank of Japan, KT of Korea, Telefonica of Spain, and T-Mobile of Germany. In the future, the Company will continue to persist in the strategy of staying ahead in technology and increase its investment in the research of 5G and other core technologies and in product development. The acceleration of the global process of 5G commercial application and the requirement for telecommunication infrastructure upgrades will once again present the Company with historic opportunities as well as challenges.

(II) Purpose of the Non-public Issuance of A Shares

The Company is currently a global leader in the 5G sector, having persisted in the strategy of leading 5G innovations since recent years on the back of increasing investments in the R&D and marketing for core segments. Years 2018 to 2020 will be a crucial period for the formulation, preparation and industrialisation of global standards for the 5G technology. As such, the Company will continue to focus on 5G as its core strategy and commit its full effort to standard formulation, product R&D and verification for commercial use to ensure that it stays atop of the market in terms of progress, product functionality and cost advantage. The Issuance will enable the Company to maintain its high level of investment in R&D, ensure leadership in technology, develop mainstay products and services with core competitiveness, increase its market shares for mainstream products in mainstream markets and enhance customer satisfaction, thereby increasing the Company's profitability.

In addition, the demand for working capital of the Company for business development may be replenished by the Non-public Issuance and the capital structure of the Company is expected to be further optimized, which may help the Company mitigate risks.

III. Summary of the plan for the Non-public Issuance of A Shares

(I) Class and par value of shares to be issued

The shares to be issued shall be domestic listed RMB ordinary shares (A shares) with a par value of RMB1.00 per share.

(II) Method and time of issuance

The Non-public Issuance of A Shares will be carried out by way of non-public issuance to specific subscribers. The shares will be issued at any appropriate time within the valid period as approved by the CSRC.

(III) Target subscribers and method of subscription

The target subscribers of the Non-public Issuance of A Shares will be not more than 10 specific subscribers which satisfy the relevant requirements of the CSRC, including securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies, finance companies, qualified foreign institutional investors and other legally qualified investors. A securities investment fund management company subscribing through 2 or more funds under its management shall be deemed as one single subscriber. A trust investment company, as a subscriber, can only subscribe for the shares with its internal funds. Subject to the above requirements, the Company will determine the specific target subscribers through bidding in accordance with the “Implementation Rules of Non-public Issuance of Shares by Listed Companies” (as revised in 2017) after obtaining the approval of the CSRC for the Non-public Issuance of A Shares. All shares to be issued under the Issuance will be subscribed for in cash.

(IV) Issue price and pricing principles

Pursuant to the “Implementation Rules of Non-public Issuance of Shares by Listed Companies” (as revised in 2017), the Price Determination Date shall be the first day of the issue period of the Non-public Issuance of A Shares. The issue price of the Non-public Issuance of A Shares shall not be lower than 90% of the average trading price of the Company’s A Shares for the 20 trading days immediately preceding the Price Determination Date. The final issue price shall be determined through negotiations between the Board or its authorized representative and the sponsor (the lead underwriter) based on the bidding results and in accordance with the “Implementation Rules of Non-public Issuance of Shares by Listed Companies” (as revised in 2017), after the Company has obtained the approval for the Non-public Issuance of A Shares from the CSRC.

The average trading price of the Company’s A shares for the 20 trading days immediately preceding the Price Determination Date = Total turnover of the Company’s A shares for the 20 trading days immediately preceding the Price Determination Date/Total trading volume of the Company’s A shares for the 20 trading days immediately preceding the Price Determination Date.

(V) Number of shares to be issued

The number of shares to be issued under the Non-public Issuance of A Shares shall not exceed 686,836,019 shares, which is determined based on 20% of the A share capital of the Company as at the date of the general meeting of the Company, being 20 June 2017, in which the “Resolution of the Company on the Application for General Mandate for 2017” was considered and approved by the shareholders. After obtaining the written approval for the Non-public Issuance from the CSRC, the Board of Directors or its authorized representative shall, pursuant to the authorization by the

general meeting, negotiate with the sponsor (the lead underwriter) to determine the final number of shares to be issued according to the relevant regulations of the CSRC and the price bids submitted by the target subscribers.

(VI) Lock-up period

The shares to be subscribed for by the target subscribers under the Non-public Issuance shall be subject to a lock-up period of 12 months from the date of completion of the Non-public Issuance of A Shares. After the expiration of the lock-up period, any transfer shall be carried out in accordance with the relevant regulations of the CSRC and the SZSE.

(VII) Amount and use of proceeds

The gross proceeds from the Non-public Issuance of A Shares will not exceed RMB13 billion. The net proceeds (after deducting all expenses related to the issuance) will be applied as follows:

Unit: RMB in 100 million

No.	Item	Total amount required	Amount to be applied from the proceeds
1	Technology research and product development relating to 5G network evolution	428.78	91.00
2	Replenishment of working capital	<u>39.00</u>	<u>39.00</u>
	Total	<u>467.78</u>	<u>130.00</u>

If there is any shortfall between the net proceeds from the Non-public Issuance of A Shares (after deducting all expenses related to the issuance) and the proposed amount of proceeds to be applied in each of the above item, the shortfall will be met by the internal funds of the Company. Prior to the receipt of the proceeds from the Non-public Issuance of A Shares, the Company will finance such projects with its internal funds based on the actual progress of the projects. Such internal funds will be replaced by the proceeds upon the receipt of the proceeds.

(VIII) Place of listing

The A shares to be issued under the Non-public Issuance will be listed and traded on the SZSE upon expiration of the lock-up period.

(IX) Arrangement for the retained undistributed profits prior to the Non-public Issuance of A Shares

The retained undistributed profits of the Company prior to the Non-public Issuance of A Shares will be shared by the existing shareholders and the new shareholders upon completion of the Non-public Issuance of A Shares.

(X) Validity period of the resolutions in relation to the Non-public Issuance of A Shares

The resolutions in relation to the Non-public Issuance of A Shares shall remain valid for 12 months from the date on which the resolutions are considered and approved at the general meeting of the Company.

IV. Whether the Non-public Issuance of A Shares constitutes a connected transaction

The Non-public Issuance of A Shares does not constitute a connected transaction.

V. Whether the Non-public Issuance of A Shares will result in changes in control over the Company

The Non-public issuance of A shares will not result in any changes in control over the Company.

Prior to the Non-public issuance of A shares, Zhongxingxin, the Controlling Shareholder of the Company, held 1,269,830,333 A shares in the Company directly and 2,038,000 H shares in the Company through the Shenzhen-Hong Kong Stock mutual market access programme (“**Shenzhen-Hong Kong Stock Connect**”), accounting in aggregate for 30.34% of the Company’s shares in issue.

As at the date of the announcement of this Proposal, the shareholders of Zhongxingxin, the Controlling Shareholder of the Company, include Xi’an Microelectronics Technology Research Institute, Shenzhen Aerospace Guangyu Industrial Company Limited, Shenzhen Zhongxing WXT Equipment Company Limited and Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership), holding 34%, 14.5%, 49% and 2.5% stakes in Zhongxingxin, respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi’an Microelectronics Technology Research Institute, 2 by Shenzhen Aerospace Guangyu Industrial Company Limited, and 4 by Shenzhen Zhongxing WXT Equipment Company Limited, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin respectively. As no shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure, the Company does not have any de facto controller.

The number of shares to be issued under the Non-public Issuance of A Shares shall not exceed 686,836,019 shares. Following the completion of the Non-public Issuance of A Shares, it is expected that the percentage of Zhongxingxin's equity interests in the Company will not be less than 26.07%. Zhongxingxin will remain the Controlling Shareholder, and the Issuance will not result in any changes in the Controlling Shareholder of the Company or changes in the absence of de facto controller for the Company.

VI. Outstanding approval procedures to be fulfilled in respect of the Non-public Issuance of A Shares

The Non-public Issuance of A Shares has been considered and approved at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors, pending consideration and approval at the general meeting of the Company and submission for CSRC approval. Upon approved by the CSRC, the Company shall apply to the SZSE and China Securities Depository and Clearing Corporation Limited, Shenzhen Branch for the issue and listing of the shares and complete the submission and approval procedures for the Non-public Issuance of A Shares.

SECTION II
FEASIBILITY ANALYSIS OF THE BOARD OF DIRECTORS ON
THE USE OF PROCEEDS

I. Plans for use of proceeds

The gross proceeds from the Non-public Issuance of A Shares will not exceed RMB13 billion. The net proceeds (after deducting all expenses related to the issuance) will be applied as follows:

Unit: RMB in 100 million

No.	Item	Total amount required	Amount to be applied from the proceeds
1	Technology research and product development relating to 5G network evolution	428.78	91.00
2	Replenishment of working capital	<u>39.00</u>	<u>39.00</u>
	Total	<u>467.78</u>	<u>130.00</u>

If there is any shortfall between the net proceeds from the Non-public Issuance of A Shares (after deducting all expenses related to the issuance) and the proposed amount of proceeds to be applied in each of the above item, the shortfall will be met by the internal funds of the Company. Prior to the receipt of the proceeds from the Non-public Issuance of A Shares, the Company will finance such projects with its internal funds based on the actual progress of the projects. Such internal funds will be replaced by the proceeds upon the receipt of the proceeds.

II. Feasibility analysis of the investment project utilising the proceeds***(I) Technology research and product development relating to 5G network evolution******1. General information on the project***

This project will be implemented by the Company and its wholly-owned subsidiary for a period of 3 years. It comprises the technology research and product development for cellular mobile communication networks, technology research and product development for core network, research and product development for transmission and bearer networks, research and product development for fixed-line broadband, as well as technology research and product development for Big Data and network intelligence. Details of the project are set out as follows:

(1) Technology research and product development for cellular mobile communication networks

In terms of technology research, the Company is committed to the achievement of key technological objectives, such as large-volume data communication for cellular mobile communication networks, ultra-reliability and low latency, virtualised network architecture, 4G/5G integration and R15 protocol synchronisation. In terms of product development, the Company transforms the deliverables of technological research and developed major products such as communication base station systems, including low-frequency (<6GHz) commercial equipment and high-frequency (such as 26GHz, 39GHz) commercial equipment. The former supports enhanced mobile broadband (eMBB) and ultra-reliable and low-latency (uRLLC) scenarios, while the latter supports eMBB scenarios.

(2) Technology research and product development for core networks

A core network compatible with 5G network evolution requires a more convenient and flexible vertical industrial framework, namely, an SBA (Service-Based Architecture). In terms of technology research, the Company is committed to the development of a core network SBA that will meet 4 technological characteristics: gradual deconsolidation of traditional net elements, automated management of services, optimisation of communication path, and reciprocal decoupling among services. In terms of product development, the Company transforms the deliverables of technological research. Through further evolution of the development based on existing 4G technological architecture, adoption of SBA and introduction of new technologies such as SDN (Software Defined Network)/NFV (Network Function Virtualisation) and network slicing, core network products with virtualisation functions have been successfully launched.

- (3) Technology research and product development for transmission and bearer networks

The satisfaction of the future requirement for a 1,000-time increase in the density of 5G capacity will call for the deployment of ultra-dense and flexible base stations. In terms of technology research, the Company is committed to achieving technological objectives for the transmission and bearer networks, such as ultra-dense and big bandwidth networking, ultra-low latency networking, ultra-high precision time synchronisation, and the satisfaction of demands from diverse 5G business scenarios. In terms of product development, the Company transforms the deliverables of technological research. Breakthroughs have been made in the integration of wireless and optical transmission with the proposal and implementation of a comprehensive bearer scheme with large capacity and low-latency compatible with 5G network evolution. A high-end router meeting all business bearer requirements relating to 5G network evolution has also been developed.

- (4) Technology research and product development for fixed-line and broadband

In terms of technology research, the Company is committed to resolving issues such as the choice of key technologies for fixed-line broadband evolution and the architecture for virtualised networks based on SDN technologies, in order to meet the need for fixed-line broadband to support additional application scenarios and services. In terms of product development, the Company transforms the deliverables of technological research with the development of SDN/NFV-based future fixed-line broadband network system equipment and the support for products such as network slicing for full service bearer and differentiated broadband access network and control for tunnel lease line service.

- (5) Technology research and product development for Big Data and network intelligence

In terms of technology research, the Company is committed to resolving Big Data issues such as data collection, storage, processing and analysis, as well as issues relating to the support of future automated network operations built around COMPA (Control/Operation/Manage/Policy/Analysis), compatibility with 5G slicing network, and network intelligence for tenant-level smart operational services. In terms of product development, the Company transforms the deliverables of technological research. Centralised storage and computation services for a multi-tenant scenario, corporate-level Big Data platforms providing value-added services such as data sharing, separation, access permission management, billing management and security management; advanced components for centralised management featuring

important management capabilities such as intuitive and user-friendly planning, installation, configuration, dispatch of resources, operational control, security and warning; as well as SDx network-based smart administrative platforms capable of providing solutions for smart testing of irregularities, smart strategic optimisation, smart decision-making and dispatch, and smart operations, have been developed.

2. *Necessity and feasibility of the project*

(1) Necessity of the project

- ① Increasingly sophisticated demand for technology R&D in tandem with the evolution in communication network technologies

Since the 1980s, the mobile communication sector has witnessed a new-generation of revolutionary technologies every other 10 years, putting the information industry on a fast track for innovation. Given the increasing pace in the evolution and generation replacement of communication technologies and the growing technology barrier for the industry, communication equipment manufacturers who wish to maintain leadership in technology are compelled to retain a stable, sizeable and high-calibre R&D team and make commensurate investments in R&D. The 5th generation mobile communication technology (5G) is expected to afford a peak speed rate at least 10 times that of 4G, latency measured by the millisecond and connectivity measured by units of 100 billion, as it ushers in the new era of interaction of all things and in-depth man-machine interaction. With the evolution of communication network standards from 1G to 5G and increasing technological sophistication, more demanding requirements in technology R&D are put forward for industry players.

- ② Strengthening the Company's existing advantage in the process of 5G network evolution

As a world-leading provider of integrated communication and information solutions, the Company has identified 5G network as the focus for future business development based on its profound insights on the development trends of the global communication industry, and a strategy has been formulated to establish leading 5G innovations through enhanced R&D and market investment in core 5G sectors.

In connection with technological research and standard formulation, the Company is a major participant in and contributor to global 5G technologies and relevant standards. As a core member of IMT-2020, the Company is heading researches for more than 30% of the topics concerned. In connection with products, the Company has pioneered in proposing the application of key 5G technologies in 4G

networks (Massive MIMO) and launching Pre-5G products to help carriers enhance their network performance at lower costs. The Company's products are widely recognised in the industry with commercial applications in numerous countries around the world. The Company is one of the first manufacturers to have passed the first and second stages of national 5G testing on the back of excellent performances. Meanwhile, The Company has gradually assumed a leading position in 5G development in the course of 5G network evolution with the execution of 5G strategic cooperation agreement with carriers of certain major countries and regions in the world. Through this project, the Company will continue to drive technological research in relating to 5G network evolution, so that the Company can further consolidate and strengthen its advantage in addressing 5G network evolution.

- ③ Enhancing the Company's product competitiveness and global market position in view of 5G network evolution

In accordance with the 3GPP planning of the international organisation for communication standards, the standards for independent networking technologies will hopefully be completed in June 2018 and the commercial application of 5G networks is scheduled for 2020. Technologies for 5G network have become a dominant trend for the development of the industry, and the coming 3 years will be a crucial period for the formulation of 5G technological standards and preparation for industrialisation. Currently, the Company is staying ahead of its peers in core areas of technology, such as 5G wireless, core networks, bearers and chips. In the international telecommunication market, the Company has persisted in the strategy of focusing on populous nations and mainstream global carriers, having provided innovative technology and product solutions to telecommunications service providers and government and corporate clients in more than 160 countries and regions and entered into 5G strategic cooperation agreements with carriers in some of the major countries and regions. As the global process of 5G commercial application continues to gain pace with constant upgrades in telecommunication architectures, it is imperative for the Company to increase its investment in technological research and product development on an ongoing basis during this crucial period for 5G network evolution, so that it could transform its technological advantage into a market advantage and seize opportunities arising from changes in the technology and landscape of the global telecommunication market to enhance its global market position.

(2) Feasibility of the project

- ① In tandem with development trends of the industry and the direction of national policies

5G is undergoing a crucial period for the formulation of technological standards and preparation for industrialisation. Major economies around the world have attached great importance to the standardisation, industrialisation and commercialisation of 5G. Domestic 5G sectors of China, the United States, Japan, Korea and the European Union are receiving active support from their respective governments, as these countries become engaged in intense competition for dominance in the 5G era. In February 2013, the IMT-2020 (5G) Promotion Group was formed jointly by MIIT, NDRC and MST to assemble the R&D resources of China's industrial and academic sectors for the advancement of research in China's 5th generation mobile communication technologies and promotion of international exchange and cooperation to drive global 5G standardisation and industrialisation. The IMT-2020 (5G) Promotion Group has issued the "White Paper on the 5G Vision and Demand", "White Paper on the 5G Concept" and "White Paper on 5G Network Security Requirements and Architecture" to elucidate the technological scenarios, potential technologies and key performance indicators for 5G. At the same time, top-level deployments are starting to take place at the national and government level. The "Summary of the 13th Five Year Plan for National Economic and Social Development" calls for active advancement of 5G research and commencement of 5G commercial application, while the State Council document "Made in China 2025" aims at comprehensive breakthroughs in 5G technologies, and a major effort to drive joint R&D, testing and pre-commercial trials of 5G has been proposed in "13th FYP Planning for the Development of National Strategic New Industries", another State Council document. The "State Council Guiding Opinion on Further Expanding and Upgrading Retail Spending on Information and Continuous Unleashing of the Potential of Domestic Demand" published in August 2017 has expressly indicated that "the research on standards, testing of technologies and advancement of industrial development for 5th generation mobile communication (5G) should be expedited and every effort should be made to commence commercial applications in 2020".

- ② The Company has stocked up resources in talents, technologies and markets

As a technology-intensive innovative enterprise, the Company has a strong pool of talents in the communications sector. The Company is also well aware of the importance of talents as a crucial assurance for

the lasting sustainability of its business foundation. As at the end of 2016, the Company had over 80,000 employees, 66.6% of whom were holding bachelor's degree or above. The Company has established 20 R&D centres in China, the United States, Sweden, France, Japan and Canada. More than 30,000 R&D personnel employed in China and elsewhere, accounting for 36.9% of the total staff headcount. Most of them are R&D technical staff in the communications sector.

With a strong emphasis on R&D, the Company has maintained R&D expenditure equivalent to more than 10% of its operating revenue for the past 3 years. Annual R&D expenditure exceeded RMB10 billion for 2015 and 2016 mainly in the carriers' network business. The Company is fully prepared in technology to address 5G network evolution. As a project participating entity, the Company received the National S&T Progress Award (Special Class) and the National Technology Invention Award (Second Class) in 2016, and the National S&T Progress Award (Second Class) and the National Technology Invention Award (Second Class) in 2017. According to the statistics of World Intellectual Property Organization (WIPO), the Company has ranked among the top 3 in global PCT international patent applications for 7 years in a row, including a first ranking for 2016. At the end of 2017, the Company held over 69,000 items of patented assets, including global patents for over 30,000 items.

On the marketing front, the Company has persisted in the strategy of focusing on populous nations and mainstream global carriers, having provided innovative technology and product solutions to telecommunications service providers and government and corporate clients in more than 160 countries and regions. The Company has gradually assumed a leading position in 5G following the signing of respective 5G strategic cooperation agreements with carriers including China Mobile, Softbank of Japan, KT of Korea, Telefonica of Spain, and T-Mobile of Germany.

- ③ The Company's 5G R&D is in tandem with developments in the global commercial application of 5G

After the announcement of the 5G vision and timetable by the International Telecommunication Union (ITU) in 2015, the realisation of 5G commercial applications by 2020 has become the consensus among industrial players. In line with its commitment to leading 5G innovations, the Company has been actively involved in the formulation of 5G standards as a major participant in and contributor to global 5G technologies and related standards. Meanwhile, the Company has pioneered in the application of key 5G technologies in 4G networks (Massive MIMO) and maintaining fast generation replacement and

upgrading for core products to help carriers enhance their network performance at lower costs. The Company's efforts have been widely recognised in the industry and commercial applications have commenced in many countries around the world. The Company's Pre-5G Massive MIMO solution won the "Best Mobile Technology Breakthrough Award" at the Mobile World Congress. Years 2018 to 2020 will be a crucial period for the formulation of 5G technological standards and preparation for industrialisation. As such, the Company needs to maintain strong investments in R&D. The "technology research and product development relating to 5G network evolution" for which issue proceeds are proposed to be utilised is in tandem with developments in global commercial application of 5G.

3. Project investment estimates

Total investment in the project is estimated at RMB42.878 billion. It is proposed that RMB9.1 billion out of the issue proceeds will be utilised. Project investment estimates are set out as follows:

Unit: RMB in 100 million

No.	Item	Total investment in project	Proposed investment utilising issue proceeds
1	Purchase of R&D equipment and software etc.	28.00	28.00
2	R&D expenditure and investment	400.78	63.00
2.1	Capitalised R&D	63.00	63.00
2.2	R&D accounted for as expense	337.78	—
	Total	428.78	91.00

Note: R&D expenditure and investment represents the Company's expenses on staff wages, raw materials, assessment tests and other expenses during the course of research and development. Capitalised R&D represents R&D expenditure and investment that meets the conditions for capitalisation and is accounted for as development expenses in intangible assets under the "Accounting Standards for Business Enterprises No. 6 — Intangible Assets" (《企業會計準則第6號 — 無形資產》) promulgated by the PRC Ministry of Finance. R&D accounted for as expense represents R&D expenditure and investment that does not meet the conditions for capitalisation under the "Accounting Standards for Business Enterprises No. 6 — Intangible Assets" (《企業會計準則第6號 — 無形資產》).

4. Analysis of project benefits

According to the R&D strategic planning of the Company, the long-term benefits of the project shall mainly be reflected in the following:

The implementation of the project should enable the Company to enhance its product competitiveness and global market position in the carriers' network business. The Company has gradually assumed a leading position in 5G in the course of 5G network evolution. The project will enable the Company to maintain its high level of investment in R&D, develop mainstay products and services with core competitiveness, increase its market shares for mainstream products in mainstream markets and enhance customer satisfaction, thereby increasing the Company's profitability.

The implementation of the project is also conducive to the concerted development of other businesses of the Company. The 5G network is a key infrastructure for full-scale economic and social digital transformation. Through the application and build-up of technological research and product development in 5G network evolution, effective support will be provided for the expansion of the government and corporate business and the consumer business, while enabling the Company to further focus on technologies such as communication network, IOT, Big Data and Cloud Computing and their related core ICT products, as well as the development of products such as smart phones, mobile data terminals, home terminals, integrated innovative terminals, wearable devices and their related software applications and value-added services, in order to empower the digital transformation of enterprises. It will also allow the Company to foster technological abilities and conduct new product development which focuses on enhancing consumer experience with smart products to seize development opportunities in the ICT industry.

5. Project submission and approval

The project does not involve the addition of new sites for construction. Hence, no processing of land application procedures is required.

Project listing procedures and environmental assessment procedures (if required) for the project have yet to be completed. The Company will fulfill approval or filing procedures in accordance with relevant requirements.

(II) Replenishment of working capital

It is intended that RMB3.9 billion out of the issue proceeds will be applied to replenish working capital to supplement the needs for cash flow for the Company's business development and optimise the capital structure of the Company.

The Company is a world-leading provider of integrated communication and information solutions that covers extensively mainstream carriers and government and corporate customers around the world. With the imminent launch of 5G, global carriers have been announcing 5G plans and vigorously driving its process. As a committed forerunner in 5G development, the Company is currently an industry leader in 5G R&D. Given sound growth in the market demand for innovative technologies and product solutions for carriers' network, working capital requirements will also increase accordingly. The application of issue proceeds to provide additional working capital will enable the Company to replenish its working capital for future business development and further optimise its capital structure.

III. Impact of the Non-public Issuance on the Company's business operations and financial position***(I) Impact of the Issuance on the Company's operations and management***

The project proposed to be financed by the issue proceeds is in accord with relevant national industrial policies and the direction of Company's general strategic development for the future and offers sound prospects for market development and long-term benefits. Proceeds from the Non-public Issuance will enhance the Company's R&D capabilities and product competitiveness. In addition to enhancing the Company's product competitiveness and global market position in the carriers' network business, it will also drive the concerted development of other businesses of the Company and enable the Company to seize development opportunities in the ICT industry as well as improve its profitability and ability for sustainable development.

(II) Impact of the Issuance on the Company's financial position

After the completion of the Non-public Issuance, the Company's net assets will be increased and its gearing ratio is expected to be lowered, and its R&D strengths and development potential will be enhanced notably. Meanwhile, the Company's ratio of return on net assets might decrease to a certain extent as a result of financial dilution. In the medium to longer term, with the implementation of the project utilising issue proceeds, the Company's profitability and stability in profit is expected to grow stronger, which can benefit its long-term development. The Non-public Issuance will enable the Company to enlarge its asset size, strengthen its core competitiveness and optimise its capital structure, and is therefore in the interest of the Company's shareholders as a whole.

SECTION III
BOARD DISCUSSION AND ANALYSIS OF THE IMPACT OF
THE NON-PUBLIC ISSUANCE ON THE COMPANY

I. Changes in the Company’s business, Articles of Association, shareholding structure, senior management structure and business revenue mix

(I) Impact on the Company’s principal business

Following the completion of the Non-public Issuance, the Company’s principal business will remain unchanged. There are no plans to integrate businesses or assets in connection with the Non-public Issuance.

Proceeds from the Non-public Issuance will be applied towards the “technology research and product development relating to 5G network evolution” and as “replenishment of working capital”. The implementation of the project utilising issue proceeds is an important move in the Company’s execution of its strategy of leading 5G innovations. It will enable the Company to focus its resources on R&D, reinforce its leading position in 5G technologies, as well as enhance its product competitiveness and global market position. At the same time, the Non-public Issuance of A Shares is expected to lower the Company’s gearing ratio, allowing the Company to optimise its capital structure and enlarge its asset size. This will provide strong assurance as the Company brings its strengths in principal operations into further play.

(II) Impact on the Articles of Association

Following the completion of the Non-public Issuance of A Shares, the Company’s registered capital, total number of shares and share capital structure will be changed. The Company will amend the relevant clauses of the Articles of Association and process changes in its industrial and commercial registration according to the result of the Issuance.

(III) Impact on the Company's shareholding structure

As at the date of the announcement of this Proposal, the Controlling Shareholder of the Company was Zhongxingxin with a 30.34% shareholding. Based on the maximum limit for the Issuance (namely, 686,836,019 shares), the shareholding percentage of Zhongxingxin following the completion of the Non-public Issuance will be 26.07% and Zhongxingxin will remain the Controlling Shareholder of the Company. A comparison between the shareholder structure of the Company before and after the completion of the Non-public Issuance of A Shares is set out below:

Name of shareholder	Before the Non-public Issuance		After the Non-public Issuance	
	Number of shares (share)	Percentage (%)	Number of shares (share)	Percentage (%)
Zhongxingxin	1,271,868,333	30.34	1,271,868,333	26.07
Comprising:				
A shares	1,269,830,333	30.29	1,269,830,333	26.03
H shares	2,038,000	0.05	2,038,000	0.04
Other shareholders	<u>2,920,803,510</u>	<u>69.66</u>	<u>3,607,639,529</u>	<u>73.93</u>
Total	<u>4,192,671,843</u>	<u>100.00</u>	<u>4,879,507,862</u>	<u>100.00</u>

(IV) Impact of the Non-public Issuance of A Shares on the senior management structure

As at the date of announcement of this Proposal, the Company did not have any specific plan to realign the structure of its senior management. Following the completion of the Non-public Issuance, there will be no changes to the Company's senior management, other than personnel changes in the ordinary course of business. In the event that the Company proposes to realign the structure of its senior management in the future, it will comply with requisite legal procedures and information disclosure obligations in accordance with relevant provisions.

(V) Impact of the Non-public issuance of A shares on the business revenue mix

The Non-public Issuance of A Shares will not have any material impact on the Company's principal business and revenue mix.

II. Changes in the Company's financial position, profitability and cash flow***(I) Impact on financial position***

Following the completion of the Non-public Issuance, the Company's net assets and total assets are expected to increase and its gearing ratio will be lowered. The capital structure of the Company is expected to be further optimised, giving it stronger ability to counter financial risks.

(II) Impact on profitability

Following the completion of the Non-public Issuance, the proceeds will mainly be applied towards the "technology research and product development relating to 5G network evolution" and as "replenishment of working capital", which will enable the Company to continue to strengthen its advantage in the 5G sector and improve its product competitiveness and global market position, thereby enhancing its profitability.

(III) Impact on cash flow

Following the completion of the Non-public Issuance, the Company's cash flow from financing activities is expected to increase substantially. During the implementation of the project utilising issue proceeds, cash flow from investing activities is expected to increase with the application of the proceeds. With stronger core competitiveness and profitability for the Company after the completion of the project utilising issue proceeds, cash flow from operating activities is also expected to increase.

III. Changes in the business connections, management connections, connected transactions and competition in the same business between the Company and the Controlling Shareholder and its associates

Following the completion of the Non-public Issuance, there will be no change to the business connections and management connections between the Company on the one hand and Zhongxingxin, the Controlling Shareholder, and its associates on the other, or competition or potential competition in the same business, or new connected transactions resulting therefrom.

IV. No appropriation of the Company's funds or assets by the Controlling Shareholder and its associates or provision of guarantee by the Company for the Controlling Shareholder and its associates

Following the completion of the Non-public Issuance, there will be no appropriation of the Company's funds or assets by the Controlling Shareholder and its associates or provision of guarantee by the Company for the Controlling Shareholder and its associates.

V. Impact of the Issuance on the Company's liabilities

As at the end of September 2017, the Company's gearing ratio was 69.18%. After the due receipt of proceeds from the Non-public Issuance, the size of both the total assets and net assets of the Company will increase, thereby lowering the Company's gearing ratio. The Company's financial position and capital structure will be further optimised as a result.

VI. Risks relating to the Issuance***(I) Risks relating to the Non-public Issuance of A Shares******1. Approval risks***

The Issuance is subject to consideration and approval at the Company's general meeting and CSRC approval. There are uncertainties as to whether and when the Issuance will obtain the aforesaid approvals.

2. Risks associated with the project utilising the issue proceeds

Proceeds of the Company's issue of shares will be applied mainly towards the "technology research and product development relating to 5G network evolution" and as "replenishment of working capital". Implementation of the project utilising the issue proceeds is in accord with the Company's strategy of 5G innovations and conducive to the strengthening of the Company's existing advantage in the 5G sector, and the enhancement of the Company's product competitiveness and global market position. The project utilising issue proceeds is based on future development trends of the global communications industry, the Company's strategy, international as well as domestic market conditions and industrial policies and its feasibility and justification is supported by feasibility study and deliberations. Nevertheless, the markets for the Company's products are subject to national policies on the communications industry, trade policies of export nations and the intensity of industry competition, which might result in the Company's project utilising issue proceeds falling short of expectations.

3. Risks associated with the dilution of return for the current period

As at the end of September 2017, net assets attributable to holders of ordinary shares of the listed company amounted to RMB30,866 million. For the nine months ended 30 September 2017, the Company's weighted average return on net assets was 13.64%. Following the completion of the Non-public Issuance and the due receipt of the issue proceeds, the Company's share capital and net assets will increase, while it will take a considerable period of time for the project utilising the issue proceeds to be commissioned. Moreover, the issue proceeds are applied mainly towards the technology research and product development relating to 5G network evolution, which will contribute to improvements in the Company's results in a gradual manner, such that profit growth in the short term might be less than the growth in net assets. Consequently, there is a risk that

the Company's return for the current period (financial indicators including basic earnings per share and diluted earnings per share) after the due receipt of the issue proceeds will be diluted.

(II) Risks relating to the Company

1. Country risks

Given complex international economic and political conditions and the presence of the Company's business and branch organisations operating in over 160 nations, the Company continues to be exposed to trade protection, debtors' risks, political risks or even warfare or the succession of political regimes in countries where it operates. Meanwhile, import and export regulation, taxation compliance and antitrust measures of national governments around the world means that a very high level of operational and risk control capabilities is required of the Company. The Company currently seeks systematic management of country risks mainly through studies in the political and economic developments and policies of various countries, regular assessment, timely warning and proactive response and also controls such risks by taking out country risk insurance policies. Nevertheless, the Company's day-to-day operations and profitability might be adversely affected in the event of any changes in the bilateral relations between China and the countries or regions where the Company's business and branch organisations are located, or contingencies, such as political turmoils or military conflicts, occurring in the aforesaid countries or regions in the future.

2. Risks associated with intellectual property rights

The Company has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. Trademarks of the Company's products and services are all registered, and such products and services are all protected under relevant patent rights. While the Company has adopted stringent measures to protect its intellectual property rights, potential conflicts over intellectual property rights with other telecommunications equipment manufacturers, franchisee companies and carriers which are partners of the Company cannot be ruled out. The Company will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

3. *Risks associated with exchange rate fluctuations*

As a world-leading provider of integrated communication and information solutions, the Company is engaged in continuous expansion of its overseas business, and its overseas sales revenue has accounted for a high percentage of its total revenue. The Company's overseas sales revenue for 2016 amounted to RMB42,680 million, accounting for 42.16% of its operating revenue for the same year. The Company's financial statements are expressed in RMB. Its exchange rate risk arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates. The Company seeks to mitigate the impact of exchange rate volatility on its operations on an ongoing basis through business strategy guidance, internal settlement management, financing mix adjustment, internal exchange settlement and application of derivative financial instruments with the maintenance of favourable exposures as appropriate and stringent control over unfavourable exposures with apparent adverse trends or unfavourable exposures without value preservation products, based on the principle of prudent exposure management. The Company also actively explores foreign exchange sources in countries practicing exchange control, strengthens liquidity management and facilitates RMB pricing and settlement for overseas projects to lower its exchange rate risks in the long run. Nevertheless, in the event of the increase in non-RMB trading and settlement amount, increased volatility in RMB exchange rates in both directions and changes in the export and import environment in the future, the Company might be subject to the risk of exchange rate fluctuations.

4. *Risks associated with interest rate fluctuations*

The interest rate risk of the Company is mainly associated with interest-bearing liabilities. Fluctuations in the interest rates of RMB and foreign currencies will result in changes in the total amount of interest payable by the Company and will therefore affect the Company's profitability. The Company seeks to lower its interest rate risk mainly by managing the total amount and structure of its interest-bearing liabilities. Control over the total amount of interest-bearing liabilities is mainly achieved by improving the cash turnover efficiency and increasing the free cash flow of the Company. Structured management of interest-bearing liabilities is achieved mainly through portfolio control of a mixture of long-term/short-term domestic and overseas loans denominated in RMB or foreign currencies with fix or floating interests, complemented by derivative instruments such as interest rate swaps, sought from a diverse range of low-cost financing channels in the global market taking into account the trends of market changes. Nevertheless, given the increasingly complex macro-economic environment in the current world and rapidly changing monetary policies of various countries, it would be difficult to make accurate predictions of interest rate levels. Hence, the Company might be subject to the risk of the increase in total interest expense for interest-bearing liabilities resulting from interest rate fluctuations.

5. *Risks associated with customers' credit profile*

The Company provides one-stop communication and information solutions to its customers. With the rapid expansion of its business, the Company is serving a large customer base with differing credit status, and its business development will inevitably be affected by the varied credit profiles of these customers. The Company seeks to mitigate the aforesaid impact mainly by identifying and managing credit risks through the adoption of internal credit management measures, such as customer credit search, customer credit rating, customer credit limit management, overall risk control and credit control against customers with faulty payment records, and by transferring credit risks through the purchase of credit insurance and appropriate financial instruments. The Company might be subject to customer credit risk in the event of changes in the macro-economic environment or the financial conditions of customers or the deterioration of credit standings of the Company's major customers.

SECTION IV

THE COMPANY'S PROFIT DISTRIBUTION POLICY AND ITS IMPLEMENTATION

I. The Company's profit distribution policy

To improve and reinforce a scientific, continuous and stable mechanism for shareholders' return, enhance the transparency and operability in decision-making of its profit distribution policy and assure genuine protection for the lawful interests of public investors, the Company has amended the clauses relating to cash dividend distribution under the profit distribution policy in the Articles of Association in accordance with requirements under the Company Law, "Notice on Further Implementing Matters concerning Cash Dividends of Listed Companies" (《關於進一步落實上市公司現金分紅有關事項的通知》), "Guidelines No. 3 on the Supervision and Administration of Listed Companies — Distribution of Cash Dividends of Listed Companies" (《上市公司監管指引第3號 — 上市公司現金分紅》) and "Guidelines for Articles of Association of Listed Companies (Revised 2016)" (《上市公司章程指引(2016年修訂)》). The "Resolution on the Amendment of Relevant Clauses of the 'Articles of Association'" has been considered and approved at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors held on 31 January 2018, pending consideration and approval at the Company's general meeting.

Provisions of the amended Articles of Association on the profit distribution policy are set out as follows:

"Article 230: When distributing the current year's after-tax profits, the Company shall allocate 10% of its profits into its statutory common reserve fund. When the aggregate amount of the statutory common reserve fund has reached 50% or more of its registered capital, further allocations are not required.

If the Company's statutory common reserve fund is not sufficient to make up for the its losses incurred during the previous year, before allocations are made to the statutory common reserve fund in accordance with the preceding paragraph, the current year's profits shall be used to make up for such losses.

After the Company has allocated funds from the after-tax profits for the statutory common reserve fund and subject to a resolution adopted at the general meeting of shareholders, it may also allocate funds from the after-tax profits to the discretionary common reserve fund.

After the Company has made up its losses and made allocations to its statutory common reserve fund from the after-tax profits, it may also make profit distributions in accordance with the proportion of the shares held by each shareholder unless it is stipulated in the Articles of Association stipulate that no profit distributions shall be made in accordance with the shareholding proportion.

If the general meeting has, in violation of the provisions of the preceding paragraphs, distributed profits to the shareholders before the Company has made up for its losses and made allocations to the statutory common reserve fund, the shareholders must return the profits distributed in violation of the provision to the Company.

No profits shall be distributed in respect of the shares held by the Company.

Article 233: After the resolution of profit distribution has been adopted by the general meeting of shareholders, the Board of Directors of the Company is required to complete the distribution of dividends (or shares) within two months following the meeting.

Any payment for the shares paid before calls on shares shall be entitled to dividends. However, shareholders shall not be entitled to receive dividends where the dividends are subsequently declared.

Article 234: The profit distribution policy of the Company shall be as follows:

- (I) Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy, which should be in compliance with laws and regulations and relevant requirements of regulatory authorities such as the CSRC;
- (II) Cash dividends and other amounts payable by the Company to domestic shareholders shall be computed, declared and payable in RMB. Cash dividends and other amounts payable by the Company to H shareholders shall be computed and declared in RMB and payable in Hong Kong Dollars. Foreign currency requirements of the Company for the payment of cash dividends and other amounts to holders of overseas-listed foreign shares shall be procured in accordance with the relevant foreign exchange administration regulations of the State;
- (III) Subject to the fulfillment of conditions for dividend distribution, the Company shall, in principle, distribute its profit on an annual basis by way of cash and/or shares, and may also carry out interim profit distribution. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realized in the three preceding years;

The Company may conduct cash dividend distributions subject to the following conditions:

1. The Company having reported positive profit available for distribution for the year (namely profit after taxation after making up for losses and allocations for reserve funds) with ample cash flow and the distribution of cash dividends not affecting the normal operation and long-term development of the Company;

2. The auditor having furnished a standard, unqualified audit report in respect of the Company's financial report for the year;
 3. The Company having reported a sound gear ratio and having no significant investment plans or significant cash expenditure for the next 12 months in relation to any proposed external investments, asset acquisitions or purchases of equipment with an aggregate expenditure reaching or exceeding 10% of the Company's latest audited net assets.
- (IV) Profit distribution shall be carried out first and foremost in the form of cash distribution. Depending on the actual conditions of the Company, profit distribution may alternatively be carried out by way of bonus share distribution. Bonus share distribution may be implemented independently or in combination with cash dividend distribution. In determining the specific amount for profit distribution by way of bonus share distribution, sufficient consideration should be given to whether the total share capital after the distribution of profit by way of share issue will be compatible with the current scale of business and rate of profit growth, so as to ensure that the distribution plan is in line with the overall and long-term interests of all shareholders;
- (V) The Board of the Company shall take into full consideration the opinion of the Independent Non-executive Directors when formulating proposals for the Company's profit distribution, and an independent opinion should be furnished by the Independent Non-executive Directors. Where the Board of Directors of the Company has not made any proposal for cash profit distribution, the reason for the non-distribution and the use of the undistributed funds retained by the Company should be disclosed in its periodic reports, and the Independent Non-executive Directors should furnish an independent opinion thereon;
- (VI) Where fund appropriation by a shareholder against regulation has been identified, deductions should be made by the Company against the cash dividend which should otherwise be distributed to such shareholder in reimbursement of the funds appropriated;
- (VII) The Company shall implement the profit distribution policy stipulated in these Articles and profit distribution plans considered and approved at general meetings in a stringent manner. Where it becomes genuinely necessary to adjust the stated profit distribution policy and profit distribution plans considered and approved at general meetings, such adjustments shall be discussed at and approved by the Board of the Company (with the Independent Non-executive Directors furnishing an independent opinion) and then submitted to the general meeting for consideration and approval by way of a special resolution before implementation;
- (VIII) Following the statutory announcement of the profit distribution plan, the Company shall give sufficient consideration to the opinions and suggestions of shareholders in general and the minority shareholders in particular. When the

profit distribution plan is being considered at the general meeting, the Company shall provide multiple means (including but not limited to attendance in person at the general meeting, the Internet and investors' hotline, etc) to receive suggestions in relation to the profit distribution plan furnished by shareholders in general and the minority shareholders in particular and shall give sufficient consideration to the opinions and demands of minority shareholders.”

II. Cash dividend by the Company for the 3 immediately preceding years and use of unallocated profit

Cash dividend distribution of the Company for the 3 immediately preceding years are set out as follows:

Unit: RMB in ten thousand

Year of dividend distribution	Amount of cash dividend (before tax)	Net profit attributable to holders of ordinary shares of the listed company shown in the consolidated statements for the year of dividend distribution	As a percentage of net profit attributable to holders of ordinary shares of the listed company shown in the consolidated statements
2016	—	-235,741.80	—
2015	103,856.56	320,788.50	32.38%
2014	<u>68,750.83</u>	<u>263,357.10</u>	<u>26.11%</u>
Total	<u>172,607.39</u>	<u>348,403.80</u>	<u>49.54%</u>

Cumulative cash dividend amount for the 3 immediately preceding years as a percentage of average net profit attributable to holders of ordinary shares of the listed company shown in the consolidated statements 148.63%

To facilitate sustainable development, the Company's retained profit accumulated over the years will be allocated to its business development funds and invested in its production operations.

III. Shareholders' Dividend and Return Plan (2018–2020)

The “Resolution on the Shareholders' Dividend and Return Plan (2018–2020)” was considered and approved at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors of the Company held on 31 January 2018, pending consideration and approval at the general meeting. Major contents of the Company's plan for shareholders' return for the next 3 years are set out as follows:

(I) Principal considerations of the Company in formulating the Plan

Focused on the objective of long-term and sustainable development with due emphasis on providing reasonable return to shareholders and taking into consideration shareholders' demands and intentions, the external environment, the actual conditions of the Company, including its profitability, cash flow conditions and operational and development strategies, the Company has developed a continuous, stable and scientific plan and mechanism for investors' return and made systemic arrangements for the Company's profit distribution to ensure the continuity and stability of its policy on profit distribution.

(II) Principles underlying the formulation of the Plan

1. In formulating the Company's plan for shareholders' return, the views of the Company's shareholders (the minority shareholders in particular) and Independent Non-executive Directors should be sufficiently heard and considered;
2. In formulating the Company's plan for shareholders' return, the profit distribution policy stipulated in the Articles of Association should be strictly implemented;
3. In formulating the Company's plan for shareholders' return, sufficient consideration should be given to investors' return, a reasonable and proper balance between the Company's stable development and reward for shareholders, in order to implement a scientific, continuous and stable profit distribution policy.

(III) Plan for shareholders' return for the next 3 years (2018–2020)***1. Form of profit distribution***

The Company may distribute its dividends by way of cash or bonus share issue. Dividend distribution by way of bonus share issue may be implemented independently or in combination with cash dividend distribution.

2. *Intervals of profit distribution*

Subject to the fulfillment of conditions for dividend distribution, the Company shall, in principle, distribute its profit on an annual basis, although the Board of Directors of the Company may also recommend interim profit distribution based on the Company's actual conditions.

3. *Conditions for and ratio of cash dividend distribution*

Subject to the fulfillment of the following conditions, the Company may implement a cash dividend distribution:

- (1) The Company having reported positive profit available for distribution for the year (namely profit after taxation after making up for losses and allocations for reserve funds) with ample cash flow and the distribution of cash dividends not affecting the normal operation and long-term development of the Company;
- (2) The auditor having furnished a standard, unqualified audit report in respect of the Company's financial report for the year;
- (3) The Company having reported a sound gear ratio and having no significant investment plans or significant cash expenditure for the next 12 months in relation to any proposed external investments, asset acquisitions or purchases of equipment with an aggregate expenditure reaching or exceeding 10% of the Company's latest audited net assets.

Aggregate profit distribution of the Company in the form of cash for the past 3 years shall not be less than 30% of the annual average profit available for distribution for the past 3 years.

4. *The policy for differentiated cash dividend distribution*

Whenever the Company distributes its profit, the Board of Directors should propose a policy of differentiated cash dividend distribution, taking into general consideration factors such as the characteristics of the industry in which the Company operates, the Company's stage of development, business model and profitability and whether there are arrangements for significant capital outlay, and differentiating for the following circumstances:

- (1) Where the Company is in a mature stage of development without arrangements for significant capital outlay, cash should account for at least 80% of the profit distribution;
- (2) Where the Company is in a mature stage of development with arrangements for significant capital outlay, cash should account for at least 40% of the profit distribution;

- (3) Where the Company is undergoing a growth period in the stage of development with arrangements for significant capital outlay, cash should account for at least 20% of the profit distribution;
- (4) Where the Company is in a stage of development that cannot be readily identified while having arrangements for significant capital outlay, profit distribution should be dealt with in accordance with the foregoing provisions.

5. *The policy for dividend distribution by way of bonus share issue*

The Company should consider profit distribution first and foremost by way of cash, although separate profit distribution by way of bonus share issue may also be adopted, based on the actual conditions of the Company. Distribution by way of bonus share issue may be implemented independently or in combination with cash dividend distribution. In determining the amount of profit distribution by way of shares, the Company should take into full consideration whether the total capital resulting from the distribution of profit by way of share issue is compatible with the Company's current business scale and profit growth rate, so as to ensure that the distribution plan is in the overall and long-term interests of the shareholders as a whole.

(IV) The cycle of formulation and decision-making mechanism of the plan for shareholders' return

The Company should review the plan for shareholders' return at least every 3 years and should determine the plan for shareholders' return for the period based on the Company's operating conditions and the views of shareholders (the minority shareholders in particular).

The plan for shareholders' return should be formulated by the Board of Directors and tabled at the general meeting for consideration following review by the Board of Directors and the furnishing of an opinion by the Independent Non-executive Directors, having taken into full consideration the scale of the Company's profit, cash flow conditions, stage of development and current funding requirements and having taken into account the views of shareholders (the minority shareholders in particular).

(V) Adjustment of the plan for shareholders' return

During the period of the Plan, where it becomes necessary for the Company to adjust the 3-year plan for return determined under this Plan owing to material changes in external business conditions or the internal operating conditions of the Company, such adjustments should be made subject to the fulfillment of conditions stipulated under the Articles of Association following detailed deliberations and the completion of relevant decision-making procedures, and should require approval at a general meeting by two-third of the voting rights held by shareholders attending.

(VI) Disclosure of the implementation of the profit distribution plan and cash dividend policy

The Company should disclose in detail in the annual report the formulation and implementation of the cash dividend policy. Where there have been adjustments or changes to the cash dividend policy, a detailed statement on whether the conditions and procedures for the adjustments or changes are compliant and transparent should also be provided. If the Board of Directors has not made a proposal for cash dividend distribution for a profitable year of the Company, the Company should disclose in the annual report the reasons for not having made the proposal for cash dividend distribution, how the funds retained by the Company which would have otherwise been applied to dividend distribution have been utilised, and the independent opinion furnished by the Independent Non-executive Directors.

(VII) Supplementary provisions

Matters not provided in the Plan shall be implemented in accordance with pertinent laws and regulations, regulatory documents and the Articles of Association. The Board of Directors shall be responsible for the interpretation of the Plan, which shall come into effect on the date on which it is considered and approved at the general meeting of the Company.

SECTION V
DILUTION OF RETURN FOR THE CURRENT PERIOD DUE TO
THE NON-PUBLIC ISSUANCE AND REMEDIAL MEASURES

To further implement in accordance with relevant provisions of documents including “Opinions of the State Council on Further Facilitating the Healthy Development of the Capital Market” (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)), “Opinion of the General Office of the State Council on Further Strengthening Protection for Lawful Interests of Minority Shareholders in the Capital Market” (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)) and “Guiding Opinion on Matters Pertaining to Dilution of Return for the Current Period Under Initial Public Offering, Refinancing and Significant Asset Restructuring” (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(中國證券監督管理委員會公告[2015]31號)), the Company has conducted an analysis on the impact of the Non-public Issuance of shares on the dilution of return for the current period and formulated specific measures on compensation for return. The relevant principal entities have given their undertakings for the implementation of the Company’s specific measures on compensation for return, the details of which are set out as follows:

I. Impact of the dilution of return for the current period due to the Non-public Issuance of A Shares on the Company’s key financial indicators

The gross proceeds from the Non-public Issuance of A Shares will not exceed RMB13 billion, and the number of shares to be issued shall not exceed 686,836,019 shares. Following the completion of the Issuance, the share capital of the Company will increase from 4,192,671,843 shares to a maximum of 4,879,507,862 shares, and the total assets and net assets of the Company will increase substantially, while its gearing ratio will be lowered. The Company will have a stronger balance sheet with further improvements in overall financial conditions. Nevertheless, as it will take a considerable period of time for the project utilising the issue proceeds to generate benefits, there is a risk that the Company’s earnings per share and return on net assets will decrease in the short term.

(I) Principal assumptions for the calculation of financial indicators and related explanations

The assumptions discussed below represent estimations of the impact of the Non-public Issuance of A Shares on the Company’s major financial indicators only. They should not be regarded as the Company’s judgement on business conditions and trends, nor do they constitute any profit forecast. Investors should not rely on such assumptions in their investment decisions.

1. The assumption that there will be no material adverse changes in the macro-economic environment and the conditions of the industry in which the Company operates.

2. The assumption that the number of shares to be issued of the Non-public Issuance of A Shares will be the upper limit for the issue plan as considered and approved by the Board of Directors, namely, 686,836,019 shares, and the total share capital of the Company following the completion of the Issuance shall be 4,879,507,862 shares. This assumption is adopted only for the estimation of the impact of the Issuance on the Company's earnings per share. It should not be regarded as the Company's judgement on the actual number of shares to be issued, and is subject to the final number of shares actually issued.
3. The assumption that the gross proceeds from the Non-public Issuance of A Shares will not exceed RMB13 billion, not taking into account any issue expenses.
4. The assumption that the Non-public Issuance of A Shares will be completed by September 2018. Such timing of completion is tentative and is subject to the timing of the approval of the Issuance by CSRC and other securities regulatory authorities and the actual completion of the Issuance.
5. The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2016 amounted to RMB2,131 million. Assuming net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2017 will be the same as that of 2016, and net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 will increase by 0%, 10%, 20% and 30% on the basis of the aforesaid assumptions for 2017. Such hypothetical analysis has been adopted only for the estimation of the impact of the dilution of return for the current period due to the Issuance on the Company's major financial indicators and does not constitute the Company's profit forecast or profit undertaking. Investors should not rely upon such analysis in their investment decisions.
6. In July 2017, the Company completed the registration of grants under the 2017 Share Option Incentive Scheme and granted 149,601,200 share options to scheme participants. It is assumed that there has been and will be no repurchase and cancellation of such share options during the period from 1 January 2018 to 31 December 2018 as a result of staff resignation and other reasons.
7. The impact of the implementation of the project utilising the issue proceeds on the Company's production operations and financial position (such as financial expenses and investment income) has not been taken into account.
8. The assumption that other actions affecting the number of shares, such as cash dividend distribution, capitalisation by way of conversion of reserves and dividend distribution by way of bonus share issue, will not be conducted in respect of 2018.

(II) Impact on major indicators of the Company

Based on the assumptions and explanations discussed above, the Company has estimated the impact of the Non-public Issuance of A Shares on its earnings per share as follows:

Item	2017	2018	
		Prior to the issuance	After the issuance
Total share capital (million shares)	4,192.67	4,192.67	4,879.51
Scenario I: The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 is unchanged versus 2017			
Net profit attributable to holders of ordinary shares of the listed company after extraordinary items (RMB million)	2,130.77	2,130.77	2,130.77
Basic earnings per share after extraordinary items (RMB)	0.51	0.51	0.49
Diluted earnings per share after extraordinary items (RMB)	0.50	0.50	0.48
Scenario II: The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 increases by 10% versus 2017			
Net profit attributable to holders of ordinary shares of the listed company after extraordinary items (RMB million)	2,130.77	2,343.84	2,343.84
Basic earnings per share after extraordinary items (RMB)	0.51	0.56	0.54
Diluted earnings per share after extraordinary items (RMB)	0.50	0.55	0.53

Item	2017	2018	
		Prior to the issuance	After the issuance
Scenario III: The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 increases by 20% versus 2017			
Net profit attributable to holders of ordinary shares of the listed company after extraordinary items (RMB million)	2,130.77	2,556.92	2,556.92
Basic earnings per share after extraordinary items (RMB)	0.51	0.61	0.59
Diluted earnings per share after extraordinary items (RMB)	0.50	0.60	0.58
Scenario IV: The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 increases by 30% versus 2017			
Net profit attributable to holders of ordinary shares of the listed company after extraordinary items (RMB million)	2,130.77	2,770.00	2,770.00
Basic earnings per share after extraordinary items (RMB)	0.51	0.66	0.63
Diluted earnings per share after extraordinary items (RMB)	0.50	0.65	0.63

Note: The calculation of earnings per share and diluted earnings per share has been carried out in accordance with the requirements of the "Guiding Opinion on Matters Pertaining to Dilution of Return for the Current Period Under Initial Public Offering, Refinancing and Significant Asset Restructuring" (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》) and "Rules for the Preparation of Information Disclosure by Companies Conducting Public Issue of Securities No. 9 — Calculation and Disclosure of Return on Net Assets and Earnings Per Share" (《公開發行證券的公司信息披露編報規則第9號 — 淨資產收益率和每股收益的計算及披露》) formulated by the CSRC.

II. Justification and necessity of the Non-public Issuance

It is proposed that proceeds from the Non-public Issuance of A Shares will be applied towards the “technology research and product development relating to 5G network evolution” and as “replenishment of working capital”. Major economies around the world have attached great importance to the standardisation, industrialisation and commercialisation of 5G. Hence, the project utilising the issue proceeds from the Non-public Issuance is in tandem with development trends of the industry and the direction of national policies. The Company has stocked up resources in talents, technologies and markets for 5G technology R&D and commercial application. Years 2018 to 2020 will be a crucial period for the formulation, preparation and industrialisation of global standards for the 5G technology. As such, strong investments in R&D will need to be maintained. The project utilising the issue proceeds from the Non-public Issuance is in tandem with developments in global commercial application of 5G.

The evolution of communication network standards from 1G to 5G has been underpinned increasing technological sophistication, suggesting more demanding requirements in technology R&D for industry players. The Company’s project utilising the issue proceeds is an ongoing drive of its technological research relating to 5G network evolution which will further fortify and enhance the Company’s existing advantage in the process of addressing 5G network evolution. Meanwhile, it is imperative for the Company to increase its investment in technological research and product development on an ongoing basis during this crucial period for 5G network evolution, so that it could transform its technological advantage into a market advantage and seize opportunities arising from changes in the technology and landscape of the global telecommunication market to enhance its global market position.

III. Special risk reminder relating to the dilution of shareholders’ return for the current period due to the Non-public Issuance

As the total share capital of the Company will increase after the due receipt of the proceeds from the Non-public Issuance of A Shares, it is probable that the Company’s return for the current period (financial indicators such as basic earnings per share and diluted earnings per shares) might decrease over the short term. Hence, investors should beware of the risk of possible dilution of return for the current period arising from the Non-public Issuance. Although the Company has formulated measures on compensation for return to address the risk of dilution of return for the current period, such measures on compensation for return as formulated should not be deemed as any guarantee for the future profit of the Company. Meanwhile, the hypothetical analysis on the profit attributable to holders of ordinary shares of the listed company after extraordinary items made by the Company in the course of estimating the dilutive effect of the Non-public Issuance on return for the current period does not constitute a profit forecast of the Company. Investors are reminded that they should not rely on such analysis in their investment decisions.

IV. How the project utilising the issue proceeds relates to the Company’s existing business and the Company’s build-up in staff, technology and market for the project utilising the issue proceeds

(I) How the project utilising the issue proceeds relates to the Company’s existing business

Proceeds from the Non-public Issuance will be applied towards the “technology research and product development relating to 5G network evolution” and as “replenishment of working capital”. The “technology research and product development relating to 5G network evolution” is conducive to the implementation of the Company’s strategy to stay ahead in 5G development. The Company has been actively involved in the formulation of 5G standards as a major participant in and contributor to global 5G technologies and related standards. At the same time, the Company has pioneered in proposing the application of key 5G technologies in 4G networks (Massive MIMO) and launching Pre-5G products to help carriers enhance their network performance at lower costs. The Company’s products are widely recognised in the industry with commercial applications in numerous countries around the world. As the global process of 5G commercial application continues to gain pace with constant upgrades in telecommunication architectures, it is imperative for the Company to increase its investment in technological research and product development on an ongoing basis during this crucial period for 5G network evolution, so that it could transform its technological advantage into a market advantage and seize opportunities arising from changes in the technology and landscape of the global telecommunication market to enhance its global market position. The availability of “replenishment of working capital” can supplement the needs for cash flow for the Company’s business development and optimise the capital structure of the Company.

(II) The Company’s build-up in staff, technology and market for the project utilising the issue proceeds

1. Reserve of talents

As a technology-intensive innovative enterprise, the Company has a strong reserve of talents in the communications sector, and is well aware of the importance of talents as a crucial assurance for the lasting sustainability of its business foundation. As at the end of 2016, the Company had over 80,000 employees, 66.6% of who were holding bachelor’s degree or above. The Company has established 20 R&D centres in China, the United States, Sweden, France, Japan and Canada. More than 30,000 R&D personnel employed in China and elsewhere, accounting for 36.9% of the total staff headcount. Most of them are R&D technical staff in the communications sector.

2. *Reserve of technology*

With a strong emphasis on R&D, the Company has maintained R&D expenditure equivalent to more than 10% of its operating revenue for the past 3 years. Annual R&D expenditure exceeded RMB10 billion for each of 2015 and 2016 and was committed mainly to the carriers' business. The Company is fully prepared in technology to address 5G network evolution. As a project participating entity, the Company received the National S&T Progress Award (Special Class) and the National Technology Invention Award (Second Class) in 2016, and the National S&T Progress Award (Second Class) and the National Technology Invention Award (Second Class) in 2017. According to the statistics of World Intellectual Property Organization (WIPO), the Company has ranked among the top 3 in global PCT international patent applications for 7 years in a row, including a first ranking for 2016. As at the end of 2017, the Company held over 69,000 items of patented assets, including global patents for over 30,000 items.

3. *Reserve of market*

On the marketing front, the Company has persisted in the strategy of focusing on populous nations and mainstream global carriers, having provided innovative technology and product solutions to telecommunications service providers and government and corporate clients in more than 160 countries and regions. The Company has gradually assumed a leading position in 5G following the signing of respective 5G strategic cooperation agreements with carriers including China Mobile, Softbank of Japan, KT of Korea, Telefonica of Spain, and T-Mobile of Germany.

V. Proposed measures to address the dilution of return for the current period due to the Issuance

(I) Operating conditions, development trends, major risks and responsive measures in relation to the Company's existing business segments

1. *Operating conditions and development trends of the Company's existing business segments*

The Company is a world-leading provider of integrated communication and information solutions. Through the provision of innovative technology and product solutions to telecommunications service providers and government and corporate customers in more than 160 countries and regions, the Company enables communications services via multiple means, such as voice, data, multi-media, wireless broadband and wireline broadband for users all over the world. Currently, the Company is providing extensive services to global mainstream carriers and government and corporate customers. In the domestic market, the Company is working actively to support the big three carriers' requirements in network construction and technological evolution, as its market shares for core

products, such as 4G and optical transmission products, continue to increase further. The Company is one of the first manufacturers to have passed the first and second stages of national 5G testing on the back of excellent performances. In the international market, the Company has persisted in its focus on populous nations and mainstream carriers with increasing strategic investments, resulting in growing reputation among high-end customers and a further optimised market profile. For the consumer business, the Company's strengths in R&D innovation and its global presence have been brought into full play, as its North American operations sustains rapid growth, while its domestic business development is also trending positively.

2. *Major risks faced by the Company and measures to address such risks*

(1) Country risks

Given complex international economic and political conditions and the presence of the Company's business and branch organisations operating in over 160 nations, the Company continues to be exposed to trade protection, debtors' risks, political risks or even warfare or the succession of political regimes in countries where it operates. Meanwhile, import and export regulation, taxation compliance and antitrust measures of national governments around the world means that a very high level of operational and risk control capabilities is required of the Company. The Company's day-to-day operations and profitability might be affected in the event of any changes in the bilateral relations between China and the countries or regions where the Company's business are located, or contingencies, such as political turmoils or military conflicts, occurring in the aforesaid countries or regions in the future. The Company currently seeks systematic management of country risks mainly through studies in the political and economic developments and policies of various countries, regular assessment, timely warning and proactive response and also controls such risks by taking out country risk insurance policies.

(2) Risks associated with intellectual property rights

The Company has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. Trademarks of the Company's products and services are all registered, and such products and services are all protected under relevant patent rights. While the Company has adopted stringent measures to protect its intellectual property rights, potential conflicts over intellectual property rights with other telecommunications equipment manufacturers, franchisee companies and carriers which are partners of the Company cannot be ruled out. The Company will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

(3) Risks associated with exchange rate fluctuations

As a world-leading provider of integrated communication and information solutions, the Company is engaged in continuous expansion of its overseas business, and its overseas sales revenue has accounted for a high percentage of its total revenue. The Company's overseas sales revenue for 2016 amounted to RMB42,680 million, accounting for 42.16% of its operating revenue for the same year. The Company's financial statements are expressed in RMB. Its exchange rate risk arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates. In the event of the increase in non-RMB trading and settlement amount, increased volatility in RMB exchange rates in both directions and changes in the export and import environment in the future, the Company might be subject to the risk of exchange rate fluctuations. The Company seeks to mitigate the impact of exchange rate volatility on its operations on an ongoing basis through business strategy guidance, internal settlement management, financing mix adjustment, internal exchange settlement and application of derivative financial instruments with the maintenance of favourable exposures as appropriate and stringent control over unfavourable exposures with apparent adverse trends or unfavourable exposures without value preservation products, based on the principle of prudent exposure management. The Company also actively explores foreign exchange sources in countries practicing exchange control, strengthens liquidity management and facilitates RMB pricing and settlement for overseas projects to lower its exchange rate risks in the long run.

(II) Specific measures to enhance daily operational efficiency, reduce operating costs and improve operating results of the Company

1. Regulating the management of issue proceeds to ensure reasonable application

To regulate the management and application of issue proceeds, the Company has amended the "Regulations for the Management of Issue Proceeds of ZTE Corporation" in accordance with, among others, "Guidance for the Regulation of Listed Companies No. 2 — Regulatory Requirements for the Management and Application of Issue Proceeds of Listed Companies" (《上市公司監管指引第2號 — 上市公司募集資金管理和使用的監管要求》) to set out detailed provisions for the deposit, use, change of use and management and regulation of issue proceeds. Moreover, the Company will open a designated bank account for the deposit of proceeds from the current issue, with plans to enter into an "agreement for tripartite supervision of issue proceeds" with the banker and the sponsor which will provide for the joint management of the proceeds by the sponsor, the banker and the Company to ensure reasonable and compliant applications of the issue proceeds.

2. *Active implementation of the project utilising the issue proceeds to expand and strengthen the Company's business*

The implementation of the project utilising the issue proceeds will effectively consolidate the Company's foundation for business development and enhance its market competitiveness to provide strong assurance for its strategic development. After the due receipt of proceeds from the Non-public Issuance, the Company management will make a major effort to actively drive the implementation of the project utilising the issue proceeds and strive to achieve sound yield ahead of schedule, so as to reduce the risk of dilution of shareholders' return for the current period due to the Issuance.

3. *Seizing opportunities in the communication market with full effort to achieve stable growth in market shares*

The Company is currently a global leader in the 5G sector, having persisted in the strategy of leading 5G innovations since recent years on the back of increasing investments in the R&D and marketing for core segments. Years 2018 to 2020 will be a crucial period for the formulation, preparation and industrialisation of global standards for the 5G technology. As such, the Company will continue to focus on 5G as its core strategy and commit its full effort to standard formulation, product R&D and verification for commercial use to ensure that it stays atop of the market in terms of progress, product functionality and cost advantage. The Issuance will enable the Company to maintain its high level of investment in R&D, ensure leadership in technology, develop mainstay products and services with core competitiveness, increase its market shares for mainstream products in mainstream markets and enhance customer satisfaction, thereby increasing the Company's profitability.

4. *Control over management and operational risks facilitated through ongoing improvements to the Company's corporate governance structure*

The Company will continue to improve its corporate governance structure and enhance its internal control regime in accordance with the requirements of relevant laws, regulations and regulatory documents, including the Company Law, the Securities Law and Corporate Governance Standards for Listed Companies, so as to ensure sound and effective exercise of powers by the Board of Directors, Supervisory Committee and management which will allow stringent control over management and operational risks while being conducive to efficient decision-making, thereby offering effective protection for investors' interests, in particular the lawful interests of minority shareholders.

VI. Undertakings by the Company's Controlling Shareholder, Directors and senior management in relation to the implementation of remedial measures to address the dilution of return for the current period due to the Non-public Issuance of shares

(I) Undertaking by the Controlling Shareholder

In accordance with relevant provisions of the CSRC, Zhongxingxin, the Controlling Shareholder of the Company, has undertaken, in respect of the implementation of the Company's measures relating to compensation for return, that it will:

- “1. Not, for so long as it remains the Controlling Shareholder of the Company, act beyond its powers to interfere with the Company's operating and management activities or infringe upon the Company's interests.
2. Willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.”

(II) Undertaking by the Directors and senior management of the Company

In accordance with relevant provisions of the CSRC, each of the Directors and senior management of the Company, has undertaken, in respect of the implementation of the Company's measures relating to compensation for return, that he/she will:

- “1. Not be engaged in tunneling in favour of other units or individuals on a no-payment basis or upon unfair terms, or compromise the interests of the Company in any other manner;
2. Exercise restraint in spending when performing duties of their office;
3. Not misappropriate Company assets for investing activities or expenses not related to the performance of their duties;
4. Procure the linking of the remuneration regime formulated by the Board of Directors or the Remuneration Committee of the Board of Directors with the implementation of the Company's measures relating to compensation for return;
5. Procure the linking of the exercise conditions under the Company's share option incentives to be announced with the implementation of the Company's measures relating to compensation for return;

6. Willingly assume the liability for compensating the Company or shareholders in accordance with the law in the event of losses incurred by the Company or shareholders as a result of my violation of or refusal to honour my undertaking.”

Board of Directors
ZTE Corporation
31 January 2018

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ZTE Corporation

**Feasibility Analysis Report on the Use of Proceeds of
the Non-public Issuance of A Shares**

I. PLANS FOR USE OF PROCEEDS

The gross proceeds from the Non-public Issuance of A Shares will not exceed RMB13 billion. The net proceeds (after deducting all expenses related to the issuance) will be applied as follows:

Unit: RMB in 100 million

No.	Item	Total amount required	Amount to be applied from the proceeds
1	Technology research and product development relating to 5G network evolution	428.78	91.00
2	Replenishment of working capital	39.00	39.00
Total		467.78	130.00

If there is any shortfall between the net proceeds from the Non-public Issuance of A Shares (after deducting all expenses related to the issuance) and the proposed amount of proceeds to be applied in each of the above item, the shortfall will be met by the internal funds of the Company. Prior to the receipt of the proceeds from the Non-public Issuance of A Shares, the Company will finance such projects with its internal funds based on the actual progress of the projects. Such internal funds will be replaced by the proceeds upon the receipt of the proceeds.

II. FEASIBILITY ANALYSIS OF THE INVESTMENT PROJECT UTILISING THE PROCEEDS**(I) Technology research and product development relating to 5G network evolution****1. General information on the project**

This project will be implemented by the Company and its wholly-owned subsidiary for a period of 3 years. It comprises the technology research and product development for cellular mobile communication networks, technology research and product development for core network, research and product development for transmission and bearer networks, research and product development for fixed-line broadband, as well as technology research and product development for Big Data and network intelligence. Details of the project are set out as follows:

(1) Technology research and product development for cellular mobile communication networks

In terms of technology research, the Company is committed to the achievement of key technological objectives, such as large-volume data communication for cellular mobile communication networks, ultra-reliability and low latency, virtualised network architecture, 4G/5G integration and R15 protocol synchronisation. In terms of product development, the Company transforms the deliverables of technological research and developed major products such as communication base station systems, including low-frequency (<6GHz) commercial equipment and high-frequency (such as 26GHz, 39GHz) commercial equipment. The former supports enhanced mobile broadband (eMBB) and ultra-reliable and low-latency (uRLLC) scenarios, while the latter supports eMBB scenarios.

(2) Technology research and product development for core networks

A core network compatible with 5G network evolution requires a more convenient and flexible vertical industrial framework, namely, an SBA (Service-Based Architecture). In terms of technology research, the Company is committed to the development of a core network SBA that will meet 4 technological characteristics: gradual deconsolidation of traditional net elements, automated management of services, optimisation of communication path, and reciprocal decoupling among services. In terms of product development, the Company transforms the deliverables of technological research. Through further evolution of the development based on existing 4G technological architecture, adoption of SBA and introduction of new technologies such as SDN (Software Defined Network)/NFV (Network Function Virtualisation) and network slicing, core network products with virtualisation functions have been successfully launched.

(3) *Technology research and product development for transmission and bearer networks*

The satisfaction of the future requirement for a 1,000-time increase in the density of 5G capacity will call for the deployment of ultra-dense and flexible base stations. In terms of technology research, the Company is committed to achieving technological objectives for the transmission and bearer networks, such as ultra-dense and big bandwidth networking, ultra-low latency networking, ultra-high precision time synchronisation, and the satisfaction of demands from diverse 5G business scenarios. In terms of product development, the Company transforms the deliverables of technological research. Breakthroughs have been made in the integration of wireless and optical transmission with the proposal and implementation of a comprehensive bearer scheme with large capacity and low-latency compatible with 5G network evolution. A high-end router meeting all business bearer requirements relating to 5G network evolution has also been developed.

(4) *Technology research and product development for fixed-line and broadband*

In terms of technology research, the Company is committed to resolving issues such as the choice of key technologies for fixed-line broadband evolution and the architecture for virtualised networks based on SDN technologies, in order to meet the need for fixed-line broadband to support additional application scenarios and services. In terms of product development, the Company transforms the deliverables of technological research with the development of SDN/NFV-based future fixed-line broadband network system equipment and the support for products such as network slicing for full service bearer and differentiated broadband access network and control for tunnel lease line service.

(5) *Technology research and product development for Big Data and network intelligence*

In terms of technology research, the Company is committed to resolving Big Data issues such as data collection, storage, processing and analysis, as well as issues relating to the support of future automated network operations built around COMPA (Control/Operation/Manage/Policy/Analysis), compatibility with 5G slicing network, and network intelligence for tenant-level smart operational services. In terms of product development, the Company transforms the deliverables of technological research. Centralised storage and computation services for a multi-tenant scenario, corporate-level Big Data platforms providing value-added services such as data sharing, separation, access permission management, billing management and security

management; advanced components for centralised management featuring important management capabilities such as intuitive and user-friendly planning, installation, configuration, dispatch of resources, operational control, security and warning; as well as SDx network-based smart administrative platforms capable of providing solutions for smart testing of irregularities, smart strategic optimisation, smart decision-making and dispatch, and smart operations, have been developed.

2. *Necessity and feasibility of the project*

(1) Necessity of the project

- ① Increasingly sophisticated demand for technology R&D in tandem with the evolution in communication network technologies

Since the 1980s, the mobile communication sector has witnessed a new-generation of revolutionary technologies every other 10 years, putting the information industry on a fast track for innovation. Given the increasing pace in the evolution and generation replacement of communication technologies and the growing technology barrier for the industry, communication equipment manufacturers who wish to maintain leadership in technology are compelled to retain a stable, sizeable and high-calibre R&D team and make commensurate investments in R&D. The 5th generation mobile communication technology (5G) is expected to afford a peak speed rate at least 10 times that of 4G, latency measured by the millisecond and connectivity measured by units of 100 billion, as it ushers in the new era of interaction of all things and in-depth man-machine interaction. With the evolution of communication network standards from 1G to 5G and increasing technological sophistication, more demanding requirements in technology R&D are put forward for industry players.

- ② Strengthening the Company's existing advantage in the process of 5G network evolution

As a world-leading provider of integrated communication and information solutions, the Company has identified 5G network as the focus for future business development based on its profound insights on the development trends of the global communication industry, and a strategy has been formulated to establish leading 5G innovations through enhanced R&D and market investment in core 5G sectors.

In connection with technological research and standard formulation, the Company is a major participant in and contributor to global 5G technologies and relevant standards. As a core member of IMT-2020, the Company is heading researches for more than 30% of the

topics concerned. In connection with products, the Company has pioneered in proposing the application of key 5G technologies in 4G networks (Massive MIMO) and launching Pre-5G products to help carriers enhance their network performance at lower costs. The Company's products are widely recognised in the industry with commercial applications in numerous countries around the world. The Company is one of the first manufacturers to have passed the first and second stages of national 5G testing on the back of excellent performances. Meanwhile, The Company has gradually assumed a leading position in 5G development in the course of 5G network evolution with the execution of 5G strategic cooperation agreement with carriers of certain major countries and regions in the world. Through this project, the Company will continue to drive technological research in relating to 5G network evolution, so that the Company can further consolidate and strengthen its advantage in addressing 5G network evolution.

- ③ Enhancing the Company's product competitiveness and global market position in view of 5G network evolution

In accordance with the 3GPP planning of the international organisation for communication standards, the standards for independent networking technologies will hopefully be completed in June 2018 and the commercial application of 5G networks is scheduled for 2020. Technologies for 5G network have become a dominant trend for the development of the industry, and the coming 3 years will be a crucial period for the formulation of 5G technological standards and preparation for industrialisation. Currently, the Company is staying ahead of its peers in core areas of technology, such as 5G wireless, core networks, bearers and chips. In the international telecommunication market, the Company has persisted in the strategy of focusing on populous nations and mainstream global carriers, having provided innovative technology and product solutions to telecommunications service providers and government and corporate clients in more than 160 countries and regions and entered into 5G strategic cooperation agreements with carriers in some of the major countries and regions. As the global process of 5G commercial application continues to gain pace with constant upgrades in telecommunication architectures, it is imperative for the Company to increase its investment in technological research and product development on an ongoing basis during this crucial period for 5G network evolution, so that it could transform its technological advantage into a market advantage and seize opportunities arising from changes in the technology and landscape of the global telecommunication market to enhance its global market position.

(2) Feasibility of the project

- ① In tandem with development trends of the industry and the direction of national policies

5G is undergoing a crucial period for the formulation of technological standards and preparation for industrialisation. Major economies around the world have attached great importance to the standardisation, industrialisation and commercialisation of 5G. Domestic 5G sectors of China, the United States, Japan, Korea and the European Union are receiving active support from their respective governments, as these countries become engaged in intense competition for dominance in the 5G era. In February 2013, the IMT-2020 (5G) Promotion Group was formed jointly by MIIT, NDRC and MST to assemble the R&D resources of China's industrial and academic sectors for the advancement of research in China's 5th generation mobile communication technologies and promotion of international exchange and cooperation to drive global 5G standardisation and industrialisation. The IMT-2020 (5G) Promotion Group has issued the "White Paper on the 5G Vision and Demand", "White Paper on the 5G Concept" and "White Paper on 5G Network Security Requirements and Architecture" to elucidate the technological scenarios, potential technologies and key performance indicators for 5G. At the same time, top-level deployments are starting to take place at the national and government level. The "Summary of the 13th Five Year Plan for National Economic and Social Development" calls for active advancement of 5G research and commencement of 5G commercial application, while the State Council document "Made in China 2025" aims at comprehensive breakthroughs in 5G technologies, and a major effort to drive joint R&D, testing and pre-commercial trials of 5G has been proposed in "13th FYP Planning for the Development of National Strategic New Industries", another State Council document. The "State Council Guiding Opinion on Further Expanding and Upgrading Retail Spending on Information and Continuous Unleashing of the Potential of Domestic Demand" published in August 2017 has expressly indicated that "the research on standards, testing of technologies and advancement of industrial development for 5th generation mobile communication (5G) should be expedited and every effort should be made to commence commercial applications in 2020".

- ② The Company has stocked up resources in talents, technologies and markets

As a technology-intensive innovative enterprise, the Company has a strong pool of talents in the communications sector. The Company is also well aware of the importance of talents as a crucial assurance for the lasting sustainability of its business foundation. As at the end of 2016, the Company had over 80,000 employees, 66.6% of whom were holding bachelor's degree or above. The Company has established 20 R&D centres in China, the United States, Sweden, France, Japan and Canada. More than 30,000 R&D personnel employed in China and elsewhere, accounting for 36.9% of the total staff headcount. Most of them are R&D technical staff in the communications sector.

With a strong emphasis on R&D, the Company has maintained R&D expenditure equivalent to more than 10% of its operating revenue for the past 3 years. Annual R&D expenditure exceeded RMB10 billion for 2015 and 2016 mainly in the carriers' network business. The Company is fully prepared in technology to address 5G network evolution. As a project participating entity, the Company received the National S&T Progress Award (Special Class) and the National Technology Invention Award (Second Class) in 2016, and the National S&T Progress Award (Second Class) and the National Technology Invention Award (Second Class) in 2017. According to the statistics of World Intellectual Property Organization (WIPO), the Company has ranked among the top 3 in global PCT international patent applications for 7 years in a row, including a first ranking for 2016. At the end of 2017, the Company held over 69,000 items of patented assets, including global patents for over 30,000 items.

On the marketing front, the Company has persisted in the strategy of focusing on populous nations and mainstream global carriers, having provided innovative technology and product solutions to telecommunications service providers and government and corporate clients in more than 160 countries and regions. The Company has gradually assumed a leading position in 5G following the signing of respective 5G strategic cooperation agreements with carriers including China Mobile, Softbank of Japan, KT of Korea, Telefonica of Spain, and T-Mobile of Germany.

- ③ The Company’s 5G R&D is in tandem with developments in the global commercial application of 5G

After the announcement of the 5G vision and timetable by the International Telecommunication Union (ITU) in 2015, the realisation of 5G commercial applications by 2020 has become the consensus among industrial players. In line with its commitment to leading 5G innovations, the Company has been actively involved in the formulation of 5G standards as a major participant in and contributor to global 5G technologies and related standards. Meanwhile, the Company has pioneered in the application of key 5G technologies in 4G networks (Massive MIMO) and maintaining fast generation replacement and upgrading for core products to help carriers enhance their network performance at lower costs. The Company’s efforts have been widely recognised in the industry and commercial applications have commenced in many countries around the world. The Company’s Pre-5G Massive MIMO solution won the “Best Mobile Technology Breakthrough Award” at the Mobile World Congress. Years 2018 to 2020 will be a crucial period for the formulation of 5G technological standards and preparation for industrialisation. As such, the Company needs to maintain strong investments in R&D. The “technology research and product development relating to 5G network evolution” for which issue proceeds are proposed to be utilised is in tandem with developments in global commercial application of 5G.

3. *Project investment estimates*

Total investment in the project is estimated at RMB42.878 billion. It is proposed that RMB9.1 billion out of the issue proceeds will be utilised. Project investment estimates are set out as follows:

Unit: RMB in 100 million

No.	Item	Total investment in project	Proposed investment utilising issue proceeds
1	Purchase of R&D equipment and software etc.	28.00	28.00
2	R&D expenditure and investment	400.78	63.00
2.1	Capitalised R&D	63.00	63.00
2.2	R&D accounted for as expense	337.78	—
	Total	428.78	91.00

Note: R&D expenditure and investment represents the Company's expenses on staff wages, raw materials, assessment tests and other expenses during the course of research and development. Capitalised R&D represents R&D expenditure and investment that meets the conditions for capitalisation and is accounted for as development expenses in intangible assets under the "Accounting Standards for Business Enterprises No. 6 — Intangible Assets" (《企業會計準則第6號 — 無形資產》) promulgated by the PRC Ministry of Finance. R&D accounted for as expense represents R&D expenditure and investment that does not meet the conditions for capitalisation under the "Accounting Standards for Business Enterprises No. 6 — Intangible Assets" (《企業會計準則第6號 — 無形資產》).

4. *Analysis of project benefits*

According to the R&D strategic planning of the Company, the long-term benefits of the project shall mainly be reflected in the following:

The implementation of the project should enable the Company to enhance its product competitiveness and global market position in the carriers' network business. The Company has gradually assumed a leading position in 5G in the course of 5G network evolution. The project will enable the Company to maintain its high level of investment in R&D, develop mainstay products and services with core competitiveness, increase its market shares for mainstream products in mainstream markets and enhance customer satisfaction, thereby increasing the Company's profitability.

The implementation of the project is also conducive to the concerted development of other businesses of the Company. The 5G network is a key infrastructure for full-scale economic and social digital transformation. Through the application and build-up of technological research and product development in 5G network evolution, effective support will be provided for the expansion of the government and corporate business and the consumer business, while enabling the Company to further focus on technologies such as communication network, IOT, Big Data and Cloud Computing and their related core ICT products, as well as the development of products such as smart phones, mobile data terminals, home terminals, integrated innovative terminals, wearable devices and their related software applications and value-added services, in order to empower the digital transformation of enterprises. It will also allow the Company to foster technological abilities and conduct new product development which focuses on enhancing consumer experience with smart products to seize development opportunities in the ICT industry.

5. *Project submission and approval*

The project does not involve the addition of new sites for construction. Hence, no processing of land application procedures is required.

Project listing procedures and environmental assessment procedures (if required) for the project have yet to be completed. The Company will fulfill approval or filing procedures in accordance with relevant requirements.

(II) Replenishment of working capital

It is intended that RMB3.9 billion out of the issue proceeds will be applied to replenish working capital to supplement the needs for cash flow for the Company's business development and optimise the capital structure of the Company.

The Company is a world-leading provider of integrated communication and information solutions that covers extensively mainstream carriers and government and corporate customers around the world. With the imminent launch of 5G, global carriers have been announcing 5G plans and vigorously driving its process. As a committed forerunner in 5G development, the Company is currently an industry leader in 5G R&D. Given sound growth in the market demand for innovative technologies and product solutions for carriers' network, working capital requirements will also increase accordingly. The application of issue proceeds to provide additional working capital will enable the Company to replenish its working capital for future business development and further optimise its capital structure.

**III. IMPACT OF THE NON-PUBLIC ISSUANCE ON THE COMPANY'S BUSINESS
OPERATIONS AND FINANCIAL POSITION****(I) Impact of the Issuance on the Company's operations and management**

The project proposed to be financed by the issue proceeds is in accord with relevant national industrial policies and the direction of Company's general strategic development for the future and offers sound prospects for market development and long-term benefits. Proceeds from the Non-public Issuance will enhance the Company's R&D capabilities and product competitiveness. In addition to enhancing the Company's product competitiveness and global market position in the carriers' network business, it will also drive the concerted development of other businesses of the Company and enable the Company to seize development opportunities in the ICT industry as well as improve its profitability and ability for sustainable development.

(II) Impact of the Issuance on the Company's financial position

After the completion of the Non-public Issuance, the Company's net assets will be increased and its gearing ratio is expected to be lowered, and its R&D strengths and development potential will be enhanced notably. Meanwhile, the Company's ratio of return on net assets might decrease to a certain extent as a result of financial dilution. In the medium to longer term, with the implementation of the project utilising issue proceeds, the Company's profitability and stability in profit is expected to grow stronger, which can benefit its long-term development. The Non-public Issuance will enable the Company to enlarge its asset size, strengthen its core competitiveness and optimise its capital structure, and is therefore in the interest of the Company's shareholders as a whole.

Note: Unless otherwise specified, capitalised terms in this appendix shall have the same meanings as defined in the "Appendix I — Proposal for the proposed Non-public Issuance of A Shares".

Board of Directors
ZTE Corporation
31 January 2018

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ZTE Corporation

**Statement on Exemption from the Preparation of a Report
on the Use of Proceeds from the Previous Fund Raising**

The Company and all the members of the Board of Directors confirm that all the information contained in this announcement is true, accurate and complete and that there is no false and misleading statement in or material omission.

It is stipulated in the “Regulations on the Report of the Use of Proceeds From the Previous Fund Raising” (Zheng Jian Fa Xing Zi [2007] No. 500) (《關於前次募集資金使用情況報告的規定》(證監發行字[2007]500號)) announced by the China Securities Regulatory Commission that: “Where a listed company has applied for the issuance of securities and a period of 5 accounting years has yet to lapse since its receipt of proceeds from the previous fund raising, its board of directors shall prepare a report on the use of proceeds from the previous fund raising in accordance with the provisions hereunder, providing a detailed description of the actual use of proceeds from the most recent fund raising (whether domestic or overseas) prior to the date up to which the latest audited financial report contained in the issue application documents is prepared, and shall pass a resolution in respect of the report on the use of proceeds from the previous fund raising before tabling the same at the general meeting for approval”.

ZTE Corporation (the “**Company**”) has not conducted any fund raising exercise by way of, among others, public issuance of shares, non-public issuance of shares (including financing in support of significant asset restructuring), share placing or issuance of convertible bonds in the immediately preceding 5 years. Hence, in accordance with the “Regulations on the Report of the Use of Proceeds From the Previous Fund Raising”, the Company is exempted from the preparation of a report on the use of proceeds from the previous fund raising, nor is it required to appoint an accountants’ firm to furnish, in respect of the non-public issuance of A Shares to be conducted by the Company, a verification report on the use of proceeds from the previous fund raising.

Board of Directors
ZTE Corporation
31 January 2018

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ZTE Corporation

Remedial Measures Regarding Dilution on Returns for the Current Period due to the Non-Public Issuance of A Shares and the Undertakings by the Relevant Entities

The Company and all the members of the Board of Directors confirm that all the information contained in this announcement is true, accurate and complete and that there is no false and misleading statement in or material omission.

To further implement in accordance with relevant provisions of documents including “Opinions of the State Council on Further Facilitating the Healthy Development of the Capital Market” (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)), “Opinion of the General Office of the State Council on Further Strengthening Protection for Lawful Interests of Minority Shareholders in the Capital Market” (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)) and “Guiding Opinion on Matters Pertaining to Dilution of Return for the Current Period Under Initial Public Offering, Refinancing and Significant Asset Restructuring” (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(中國證券監督管理委員會公告[2015]31號)), the Company has conducted an analysis on the impact of the Non-public Issuance of shares on the dilution of return for the current period and formulated specific measures on compensation for return. The relevant principal entities have given their undertakings for the implementation of the Company’s specific measures on compensation for return, the details of which are set out as follows:

I. IMPACT OF THE DILUTION OF RETURN FOR THE CURRENT PERIOD DUE TO THE NON-PUBLIC ISSUANCE OF A SHARES ON THE COMPANY’S KEY FINANCIAL INDICATORS

The gross proceeds from the Non-public Issuance of A Shares will not exceed RMB13 billion, and the number of shares to be issued shall not exceed 686,836,019 shares. Following the completion of the Issuance, the share capital of the Company will increase from 4,192,671,843 shares to a maximum of 4,879,507,862 shares, and the total assets and net assets of the Company will increase substantially, while its gearing ratio will be lowered. The Company will have a stronger balance sheet with further improvements in overall financial conditions. Nevertheless, as it will take a considerable period of time for the project utilising the issue proceeds to generate benefits, there is a risk that the Company’s earnings per share and return on net assets will decrease in the short term.

(I) Principal assumptions for the calculation of financial indicators and related explanations

The assumptions discussed below represent estimations of the impact of the Non-public Issuance of A Shares on the Company's major financial indicators only. They should not be regarded as the Company's judgement on business conditions and trends, nor do they constitute any profit forecast. Investors should not rely on such assumptions in their investment decisions.

1. The assumption that there will be no material adverse changes in the macro-economic environment and the conditions of the industry in which the Company operates.
2. The assumption that the number of shares to be issued of the Non-public Issuance of A Shares will be the upper limit for the issue plan as considered and approved by the Board of Directors, namely, 686,836,019 shares, and the total share capital of the Company following the completion of the Issuance shall be 4,879,507,862 shares. This assumption is adopted only for the estimation of the impact of the Issuance on the Company's earnings per share. It should not be regarded as the Company's judgement on the actual number of shares to be issued, and is subject to the final number of shares actually issued.
3. The assumption that the gross proceeds from the Non-public Issuance of A Shares will not exceed RMB13 billion, not taking into account any issue expenses.
4. The assumption that the Non-public Issuance of A Shares will be completed by September 2018. Such timing of completion is tentative and is subject to the timing of the approval of the Issuance by CSRC and other securities regulatory authorities and the actual completion of the Issuance.
5. The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2016 amounted to RMB2,131 million. Assuming net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2017 will be the same as that of 2016, and net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 will increase by 0%, 10%, 20% and 30% on the basis of the aforesaid assumptions for 2017. Such hypothetical analysis has been adopted only for the estimation of the impact of the dilution of return for the current period due to the Issuance on the Company's major financial indicators and does not constitute the Company's profit forecast or profit undertaking. Investors should not rely upon such analysis in their investment decisions.

6. In July 2017, the Company completed the registration of grants under the 2017 Share Option Incentive Scheme and granted 149,601,200 share options to scheme participants. It is assumed that there has been and will be no repurchase and cancellation of such share options during the period from 1 January 2018 to 31 December 2018 as a result of staff resignation and other reasons.
7. The impact of the implementation of the project utilising the issue proceeds on the Company's production operations and financial position (such as financial expenses and investment income) has not been taken into account.
8. The assumption that other actions affecting the number of shares, such as cash dividend distribution, capitalisation by way of conversion of reserves and dividend distribution by way of bonus share issue, will not be conducted in respect of 2018.

(II) Impact on major indicators of the Company

Based on the assumptions and explanations discussed above, the Company has estimated the impact of the Non-public Issuance of A Shares on its earnings per share as follows:

Item	2017	2018	
		Prior to the issuance	After the issuance
Total share capital (<i>million shares</i>)	4,192.67	4,192.67	4,879.51
 Scenario I: The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 is unchanged versus 2017			
Net profit attributable to holders of ordinary shares of the listed company after extraordinary items (<i>RMB million</i>)	2,130.77	2,130.77	2,130.77
Basic earnings per share after extraordinary items (<i>RMB</i>)	0.51	0.51	0.49
Diluted earnings per share after extraordinary items (<i>RMB</i>)	0.50	0.50	0.48

Item	2017	2018	
		Prior to the issuance	After the issuance
Scenario II: The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 increases by 10% versus 2017			
Net profit attributable to holders of ordinary shares of the listed company after extraordinary items (<i>RMB million</i>)	2,130.77	2,343.84	2,343.84
Basic earnings per share after extraordinary items (<i>RMB</i>)	0.51	0.56	0.54
Diluted earnings per share after extraordinary items (<i>RMB</i>)	0.50	0.55	0.53
Scenario III: The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 increases by 20% versus 2017			
Net profit attributable to holders of ordinary shares of the listed company after extraordinary items (<i>RMB million</i>)	2,130.77	2,556.92	2,556.92
Basic earnings per share after extraordinary items (<i>RMB</i>)	0.51	0.61	0.59
Diluted earnings per share after extraordinary items (<i>RMB</i>)	0.50	0.60	0.58
Scenario IV: The Company's net profit attributable to holders of ordinary shares of the listed company after extraordinary items for 2018 increases by 30% versus 2017			
Net profit attributable to holders of ordinary shares of the listed company after extraordinary items (<i>RMB million</i>)	2,130.77	2,770.00	2,770.00
Basic earnings per share after extraordinary items (<i>RMB</i>)	0.51	0.66	0.63
Diluted earnings per share after extraordinary items (<i>RMB</i>)	0.50	0.65	0.63

Note: The calculation of earnings per share and diluted earnings per share has been carried out in accordance with the requirements of the “Guiding Opinion on Matters Pertaining to Dilution of Return for the Current Period Under Initial Public Offering, Refinancing and Significant Asset Restructuring” (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》) and “Rules for the Preparation of Information Disclosure by Companies Conducting Public Issue of Securities No. 9 — Calculation and Disclosure of Return on Net Assets and Earnings Per Share” (《公開發行證券的公司信息披露編報規則第9號 — 淨資產收益率和每股收益的計算及披露》) formulated by the CSRC.

II. JUSTIFICATION AND NECESSITY OF THE NON-PUBLIC ISSUANCE

It is proposed that proceeds from the Non-public Issuance of A Shares will be applied towards the “technology research and product development relating to 5G network evolution” and as “replenishment of working capital”. Major economies around the world have attached great importance to the standardisation, industrialisation and commercialisation of 5G. Hence, the project utilising the issue proceeds from the Non-public Issuance is in tandem with development trends of the industry and the direction of national policies. The Company has stocked up resources in talents, technologies and markets for 5G technology R&D and commercial application. Years 2018 to 2020 will be a crucial period for the formulation, preparation and industrialisation of global standards for the 5G technology. As such, strong investments in R&D will need to be maintained. The project utilising the issue proceeds from the Non-public Issuance is in tandem with developments in global commercial application of 5G.

The evolution of communication network standards from 1G to 5G has been underpinned increasing technological sophistication, suggesting more demanding requirements in technology R&D for industry players. The Company’s project utilising the issue proceeds is an ongoing drive of its technological research relating to 5G network evolution which will further fortify and enhance the Company’s existing advantage in the process of addressing 5G network evolution. Meanwhile, it is imperative for the Company to increase its investment in technological research and product development on an ongoing basis during this crucial period for 5G network evolution, so that it could transform its technological advantage into a market advantage and seize opportunities arising from changes in the technology and landscape of the global telecommunication market to enhance its global market position.

III. SPECIAL RISK REMINDER RELATING TO THE DILUTION OF SHAREHOLDERS’ RETURN FOR THE CURRENT PERIOD DUE TO THE NON- PUBLIC ISSUANCE

As the total share capital of the Company will increase after the due receipt of the proceeds from the Non-public Issuance of A Shares, it is probable that the Company’s return for the current period (financial indicators such as basic earnings per share and diluted earnings per shares) might decrease over the short term. Hence, investors should beware of the risk of possible dilution of return for the current period arising from the Non-

public Issuance. Although the Company has formulated measures on compensation for return to address the risk of dilution of return for the current period, such measures on compensation for return as formulated should not be deemed as any guarantee for the future profit of the Company. Meanwhile, the hypothetical analysis on the profit attributable to holders of ordinary shares of the listed company after extraordinary items made by the Company in the course of estimating the dilutive effect of the Non-public Issuance on return for the current period does not constitute a profit forecast of the Company. Investors are reminded that they should not rely on such analysis in their investment decisions.

IV. HOW THE PROJECT UTILISING THE ISSUE PROCEEDS RELATES TO THE COMPANY'S EXISTING BUSINESS AND THE COMPANY'S BUILD-UP IN STAFF, TECHNOLOGY AND MARKET FOR THE PROJECT UTILISING THE ISSUE PROCEEDS

(I) How the project utilising the issue proceeds relates to the Company's existing business

Proceeds from the Non-public Issuance will be applied towards the “technology research and product development relating to 5G network evolution” and as “replenishment of working capital”. The “technology research and product development relating to 5G network evolution” is conducive to the implementation of the Company's strategy to stay ahead in 5G development. The Company has been actively involved in the formulation of 5G standards as a major participant in and contributor to global 5G technologies and related standards. At the same time, the Company has pioneered in proposing the application of key 5G technologies in 4G networks (Massive MIMO) and launching Pre-5G products to help carriers enhance their network performance at lower costs. The Company's products are widely recognised in the industry with commercial applications in numerous countries around the world. As the global process of 5G commercial application continues to gain pace with constant upgrades in telecommunication architectures, it is imperative for the Company to increase its investment in technological research and product development on an ongoing basis during this crucial period for 5G network evolution, so that it could transform its technological advantage into a market advantage and seize opportunities arising from changes in the technology and landscape of the global telecommunication market to enhance its global market position. The availability of “replenishment of working capital” can supplement the needs for cash flow for the Company's business development and optimise the capital structure of the Company.

(II) The Company's build-up in staff, technology and market for the project utilising the issue proceeds**1. Reserve of talents**

As a technology-intensive innovative enterprise, the Company has a strong reserve of talents in the communications sector, and is well aware of the importance of talents as a crucial assurance for the lasting sustainability of its business foundation. As at the end of 2016, the Company had over 80,000 employees, 66.6% of who were holding bachelor's degree or above. The Company has established 20 R&D centres in China, the United States, Sweden, France, Japan and Canada. More than 30,000 R&D personnel employed in China and elsewhere, accounting for 36.9% of the total staff headcount. Most of them are R&D technical staff in the communications sector.

2. Reserve of technology

With a strong emphasis on R&D, the Company has maintained R&D expenditure equivalent to more than 10% of its operating revenue for the past 3 years. Annual R&D expenditure exceeded RMB10 billion for each of 2015 and 2016 and was committed mainly to the carriers' business. The Company is fully prepared in technology to address 5G network evolution. As a project participating entity, the Company received the National S&T Progress Award (Special Class) and the National Technology Invention Award (Second Class) in 2016, and the National S&T Progress Award (Second Class) and the National Technology Invention Award (Second Class) in 2017. According to the statistics of World Intellectual Property Organization (WIPO), the Company has ranked among the top 3 in global PCT international patent applications for 7 years in a row, including a first ranking for 2016. As at the end of 2017, the Company held over 69,000 items of patented assets, including global patents for over 30,000 items.

3. Reserve of market

On the marketing front, the Company has persisted in the strategy of focusing on populous nations and mainstream global carriers, having provided innovative technology and product solutions to telecommunications service providers and government and corporate clients in more than 160 countries and regions. The Company has gradually assumed a leading position in 5G following the signing of respective 5G strategic cooperation agreements with carriers including China Mobile, Softbank of Japan, KT of Korea, Telefonica of Spain, and T-Mobile of Germany.

V. PROPOSED MEASURES TO ADDRESS THE DILUTION OF RETURN FOR THE CURRENT PERIOD DUE TO THE ISSUANCE**(I) Operating conditions, development trends, major risks and responsive measures in relation to the Company's existing business segments****1. *Operating conditions and development trends of the Company's existing business segments***

The Company is a world-leading provider of integrated communication and information solutions. Through the provision of innovative technology and product solutions to telecommunications service providers and government and corporate customers in more than 160 countries and regions, the Company enables communications services via multiple means, such as voice, data, multi-media, wireless broadband and wireline broadband for users all over the world. Currently, the Company is providing extensive services to global mainstream carriers and government and corporate customers. In the domestic market, the Company is working actively to support the big three carriers' requirements in network construction and technological evolution, as its market shares for core products, such as 4G and optical transmission products, continue to increase further. The Company is one of the first manufacturers to have passed the first and second stages of national 5G testing on the back of excellent performances. In the international market, the Company has persisted in its focus on populous nations and mainstream carriers with increasing strategic investments, resulting in growing reputation among high-end customers and a further optimised market profile. For the consumer business, the Company's strengths in R&D innovation and its global presence have been brought into full play, as its North American operations sustains rapid growth, while its domestic business development is also trending positively.

2. *Major risks faced by the Company and measures to address such risks***(1) *Country risks***

Given complex international economic and political conditions and the presence of the Company's business and branch organisations operating in over 160 nations, the Company continues to be exposed to trade protection, debtors' risks, political risks or even warfare or the succession of political regimes in countries where it operates. Meanwhile, import and export regulation, taxation compliance and antitrust measures of national governments around the world means that a very high level of operational and risk control capabilities is required of the Company. The Company's day-to-day operations and profitability might be affected in the event of any changes in the bilateral relations between China and the countries or regions where the Company's business are located, or contingencies, such as political

turmoils or military conflicts, occurring in the aforesaid countries or regions in the future. The Company currently seeks systematic management of country risks mainly through studies in the political and economic developments and policies of various countries, regular assessment, timely warning and proactive response and also controls such risks by taking out country risk insurance policies.

(2) Risks associated with intellectual property rights

The Company has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. Trademarks of the Company's products and services are all registered, and such products and services are all protected under relevant patent rights. While the Company has adopted stringent measures to protect its intellectual property rights, potential conflicts over intellectual property rights with other telecommunications equipment manufacturers, franchisee companies and carriers which are partners of the Company cannot be ruled out. The Company will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

(3) Risks associated with exchange rate fluctuations

As a world-leading provider of integrated communication and information solutions, the Company is engaged in continuous expansion of its overseas business, and its overseas sales revenue has accounted for a high percentage of its total revenue. The Company's overseas sales revenue for 2016 amounted to RMB42,680 million, accounting for 42.16% of its operating revenue for the same year. The Company's financial statements are expressed in RMB. Its exchange rate risk arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates. In the event of the increase in non-RMB trading and settlement amount, increased volatility in RMB exchange rates in both directions and changes in the export and import environment in the future, the Company might be subject to the risk of exchange rate fluctuations. The Company seeks to mitigate the impact of exchange rate volatility on its operations on an ongoing basis through business strategy guidance, internal settlement management, financing mix adjustment, internal exchange settlement and application of derivative financial instruments with the maintenance of favourable exposures as appropriate and stringent control over unfavourable exposures with apparent adverse trends or unfavourable exposures without value preservation products, based on the principle of prudent exposure management. The Company also actively explores foreign exchange sources in countries

practicing exchange control, strengthens liquidity management and facilitates RMB pricing and settlement for overseas projects to lower its exchange rate risks in the long run.

(II) Specific measures to enhance daily operational efficiency, reduce operating costs and improve operating results of the Company

1. Regulating the management of issue proceeds to ensure reasonable application

To regulate the management and application of issue proceeds, the Company has amended the “Regulations for the Management of Issue Proceeds of ZTE Corporation” in accordance with, among others, “Guidance for the Regulation of Listed Companies No. 2 — Regulatory Requirements for the Management and Application of Issue Proceeds of Listed Companies” (《上市公司監管指引第2號 — 上市公司募集資金管理和使用的監管要求》) to set out detailed provisions for the deposit, use, change of use and management and regulation of issue proceeds. Moreover, the Company will open a designated bank account for the deposit of proceeds from the current issue, with plans to enter into an “agreement for tripartite supervision of issue proceeds” with the banker and the sponsor which will provide for the joint management of the proceeds by the sponsor, the banker and the Company to ensure reasonable and compliant applications of the issue proceeds.

2. Active implementation of the project utilising the issue proceeds to expand and strengthen the Company’s business

The implementation of the project utilising the issue proceeds will effectively consolidate the Company’s foundation for business development and enhance its market competitiveness to provide strong assurance for its strategic development. After the due receipt of proceeds from the Non-public Issuance, the Company management will make a major effort to actively drive the implementation of the project utilising the issue proceeds and strive to achieve sound yield ahead of schedule, so as to reduce the risk of dilution of shareholders’ return for the current period due to the Issuance.

3. Seizing opportunities in the communication market with full effort to achieve stable growth in market shares

The Company is currently a global leader in the 5G sector, having persisted in the strategy of leading 5G innovations since recent years on the back of increasing investments in the R&D and marketing for core segments. Years 2018 to 2020 will be a crucial period for the formulation, preparation and industrialisation of global standards for the 5G technology. As such, the Company will continue to focus on 5G as its core strategy and commit its full effort to standard formulation, product R&D and verification for commercial use

to ensure that it stays atop of the market in terms of progress, product functionality and cost advantage. The Issuance will enable the Company to maintain its high level of investment in R&D, ensure leadership in technology, develop mainstay products and services with core competitiveness, increase its market shares for mainstream products in mainstream markets and enhance customer satisfaction, thereby increasing the Company's profitability.

4. *Control over management and operational risks facilitated through ongoing improvements to the Company's corporate governance structure*

The Company will continue to improve its corporate governance structure and enhance its internal control regime in accordance with the requirements of relevant laws, regulations and regulatory documents, including the Company Law, the Securities Law and Corporate Governance Standards for Listed Companies, so as to ensure sound and effective exercise of powers by the Board of Directors, Supervisory Committee and management which will allow stringent control over management and operational risks while being conducive to efficient decision-making, thereby offering effective protection for investors' interests, in particular the lawful interests of minority shareholders.

VI. UNDERTAKINGS BY THE COMPANY'S CONTROLLING SHAREHOLDER, DIRECTORS AND SENIOR MANAGEMENT IN RELATION TO THE IMPLEMENTATION OF REMEDIAL MEASURES TO ADDRESS THE DILUTION OF RETURN FOR THE CURRENT PERIOD DUE TO THE NON-PUBLIC ISSUANCE OF SHARES

(I) Undertaking by the Controlling Shareholder

In accordance with relevant provisions of the CSRC, Zhongxingxin, the Controlling Shareholder of the Company, has undertaken, in respect of the implementation of the Company's measures relating to compensation for return, that it will:

- “1. Not, for so long as it remains the Controlling Shareholder of the Company, act beyond its powers to interfere with the Company's operating and management activities or infringe upon the Company's interests.
2. Willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.”

(II) Undertaking by the Directors and senior management of the Company

In accordance with relevant provisions of the CSRC, each of the Directors and senior management of the Company, has undertaken, in respect of the implementation of the Company's measures relating to compensation for return, that he/she will:

- “1. Not be engaged in tunneling in favour of other units or individuals on a no-payment basis or upon unfair terms, or compromise the interests of the Company in any other manner;
2. Exercise restraint in spending when performing duties of their office;
3. Not misappropriate Company assets for investing activities or expenses not related to the performance of their duties;
4. Procure the linking of the remuneration regime formulated by the Board of Directors or the Remuneration Committee of the Board of Directors with the implementation of the Company's measures relating to compensation for return;
5. Procure the linking of the exercise conditions under the Company's share option incentives to be announced with the implementation of the Company's measures relating to compensation for return;
6. Willingly assume the liability for compensating the Company or shareholders in accordance with the law in the event of losses incurred by the Company or shareholders as a result of my violation of or refusal to honour my undertaking.”

Note: Unless otherwise specified, capitalised terms in this appendix shall have the same meanings as defined in the “Appendix I — Proposal for the proposed Non-public Issuance of A Shares”.

Board of Directors
ZTE Corporation
31 January 2018

This English Translation is for reference only. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese Version shall prevail.

ZTE Corporation
Shareholders' Dividend and Return Plan (2018–2020)

To improve and reinforce a scientific, continuous and stable mechanism for shareholders' return, enhance the transparency in decision-making and operability of its profit distribution policy and assure genuine protection for the lawful interests of public investors, ZTE Corporation (the “**Company**”) has formulated the “ZTE Corporation Shareholders' Dividend and Return Plan (2018–2020)” (《中興通訊股份有限公司股東分紅回報規劃(2018年–2020年)》) (the “**Plan**”) in accordance with pertinent provisions of the Company Law, requirements of relevant documents issued by the China Securities Regulatory Commission, including the “Notice on Further Implementing Matters concerning Cash Dividends of Listed Companies” (《關於進一步落實上市公司現金分紅有關事項的通知》) and “Guidelines No. 3 on the Supervision and Administration of Listed Companies — Distribution of Cash Dividends of Listed Companies” (《上市公司監管指引第3號 — 上市公司現金分紅》) and the “Articles of Association of ZTE Corporation” (the “**Articles of Association**”) and taking into consideration the Company's actual conditions, the details of which are set out as follows:

I. PRINCIPAL CONSIDERATIONS OF THE COMPANY IN FORMULATING THE PLAN

Focused on the objective of long-term and sustainable development with due emphasis on providing reasonable return to shareholders and taking into consideration shareholders' demands and intentions, the external environment, the actual conditions of the Company, including its profitability, cash flow conditions and operational and development strategies, the Company has developed a continuous, stable and scientific plan and mechanism for investors' return and made systemic arrangements for the Company's profit distribution to ensure the continuity and stability of its policy on profit distribution.

II. PRINCIPLES UNDERLYING THE FORMULATION OF THE PLAN

- (I) In formulating the Company's plan for shareholders' return, the views of the Company's shareholders (the minority shareholders in particular) and Independent Non-executive Directors should be sufficiently heard and considered;
- (II) In formulating the Company's plan for shareholders' return, the profit distribution policy stipulated in the Articles of Association should be strictly implemented;
- (III) In formulating the Company's plan for shareholders' return, sufficient consideration should be given to investors' return, a reasonable and proper balance between the Company's stable development and reward for shareholders, in order to implement a scientific, continuous and stable profit distribution policy.

III. PLAN FOR SHAREHOLDERS' RETURN FOR THE NEXT 3 YEARS (2018–2020)**(I) Form of profit distribution**

The Company may distribute its dividends by way of cash or bonus share issue. Dividend distribution by way of bonus share issue may be implemented independently or in combination with cash dividend distribution.

(II) Intervals of profit distribution

Subject to the fulfillment of conditions for dividend distribution, the Company shall, in principle, distribute its profit on an annual basis, although the Board of Directors of the Company may also recommend interim profit distribution based on the Company's actual conditions.

(III) Conditions for and ratio of cash dividend distribution

Subject to the fulfillment of the following conditions, the Company may implement a cash dividend distribution:

1. The Company having reported positive profit available for distribution for the year (namely profit after taxation after making up for losses and allocations for reserve funds) with ample cash flow and the distribution of cash dividends not affecting the normal operation and long-term development of the Company;
2. The auditor having furnished a standard, unqualified audit report in respect of the Company's financial report for the year;
3. The Company having reported a sound gear ratio and having no significant investment plans or significant cash expenditure for the next 12 months in relation to any proposed external investments, asset acquisitions or purchases of equipment with an aggregate expenditure reaching or exceeding 10% of the Company's latest audited net assets.

Aggregate profit distribution of the Company in the form of cash for the past 3 years shall not be less than 30% of the annual average profit available for distribution for the past 3 years.

(IV) The policy for differentiated cash dividend distribution

Whenever the Company distributes its profit, the Board of Directors should propose a policy of differentiated cash dividend distribution, taking into general consideration factors such as the characteristics of the industry in which the Company operates, the Company's stage of development, business model and profitability and whether there are arrangements for significant capital outlay, and differentiating for the following circumstances:

1. Where the Company is in a mature stage of development without arrangements for significant capital outlay, cash should account for at least 80% of the profit distribution;
2. Where the Company is in a mature stage of development with arrangements for significant capital outlay, cash should account for at least 40% of the profit distribution;
3. Where the Company is undergoing a growth period in the stage of development with arrangements for significant capital outlay, cash should account for at least 20% of the profit distribution;
4. Where the Company is in a stage of development that cannot be readily identified while having arrangements for significant capital outlay, profit distribution should be dealt with in accordance with the foregoing provisions.

(V) The policy for dividend distribution by way of bonus share issue

The Company should consider profit distribution first and foremost by way of cash, although separate profit distribution by way of bonus share issue may also be adopted, based on the actual conditions of the Company. Distribution by way of bonus share issue may be implemented independently or in combination with cash dividend distribution. In determining the amount of profit distribution by way of shares, the Company should take into full consideration whether the total capital resulting from the distribution of profit by way of share issue is compatible with the Company's current business scale and profit growth rate, so as to ensure that the distribution plan is in the overall and long-term interests of the shareholders as a whole.

IV. THE CYCLE OF FORMULATION AND DECISION-MAKING MECHANISM OF THE PLAN FOR SHAREHOLDERS' RETURN

The Company should review the plan for shareholders' return at least every 3 years and should determine the plan for shareholders' return for the period based on the Company's operating conditions and the views of shareholders (the minority shareholders in particular).

The plan for shareholders' return should be formulated by the Board of Directors and tabled at the general meeting for consideration following review by the Board of Directors and the furnishing of an opinion by the Independent Non-executive Directors, having taken into full consideration the scale of the Company's profit, cash flow conditions, stage of development and current funding requirements and having taken into account the views of shareholders (the minority shareholders in particular).

V. ADJUSTMENT OF THE PLAN FOR SHAREHOLDERS' RETURN

During the period of the Plan, where it becomes necessary for the Company to adjust the 3-year plan for return determined under this Plan owing to material changes in external business conditions or the internal operating conditions of the Company, such adjustments should be made subject to the fulfillment of conditions stipulated under the Articles of Association following detailed deliberations and the completion of relevant decision-making procedures, and should require approval at a general meeting by two-third of the voting rights held by shareholders attending.

VI. DISCLOSURE OF THE IMPLEMENTATION OF THE PROFIT DISTRIBUTION PLAN AND CASH DIVIDEND POLICY

The Company should disclose in detail in the annual report the formulation and implementation of the cash dividend policy. Where there have been adjustments or changes to the cash dividend policy, a detailed statement on whether the conditions and procedures for the adjustments or changes are compliant and transparent should also be provided. If the Board of Directors has not made a proposal for cash dividend distribution for a profitable year of the Company, the Company should disclose in the annual report the reasons for not having made the proposal for cash dividend distribution, how the funds retained by the Company which would have otherwise been applied to dividend distribution have been utilised, and the independent opinion furnished by the Independent Non-executive Directors.

VII. SUPPLEMENTARY PROVISIONS

Matters not provided in the Plan shall be implemented in accordance with pertinent laws and regulations, regulatory documents and the Articles of Association. The Board of Directors shall be responsible for the interpretation of the Plan, which shall come into effect on the date on which it is considered and approved at the general meeting of the Company.

Board of Directors
ZTE Corporation
31 January 2018