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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)

Announcement

Non-fulfillment of Exercise Conditions for the Third Exercise Period under the Share Option Incentive Scheme

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 or material omission in this announcement.

I. Overview of the Scheme

Pursuant to the “Resolution on the ZTE Corporation (the “Company”) Share Option Incentive Scheme (Revised Draft) (the “Scheme”) and its Summary” considered and approved at the Third Extraordinary General Meeting of 2013, the First A Shareholders’ Class Meeting of 2013 and the First H Shareholders’ Class Meeting of 2013 (together the “Meetings”) held on 15 October 2013, the Scheme was approved.

Under the Scheme, share options are employed as an incentive means. Upon satisfaction of specific conditions by the Company and the participants, the Company may grant share options to the participants in accordance with the provisions of the Scheme. All share options shall be subject to a vesting period of 24 months from the date of grant, during which the rights are not exercisable. Thereafter upon each exercise period, it will be determined, on the basis of whether the Company and the participants have satisfied the exercise conditions, whether the share options corresponding to such period are exercisable.

Pursuant to the “Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company” and the “Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted under the Share Option Incentive Scheme of the Company” considered and approved at the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant was set for 31 October 2013 (the “Date of Grant”). The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on adjustments to the list of participants and the number of share options to be granted and the grant of share

options to participants as adjusted. On 31 October 2013, the “Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company” and the “Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted under the Share Option Incentive Scheme of the Company” were considered and approved at the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company. The Sixth Session of the Supervisory Committee of the Company has furnished an unequivocal affirmative examination opinion on the adjusted list of participants and number of share options to be granted. On 13 November 2013, the registration of grants under the Scheme was completed and the initial exercise price of the share options was set at RMB13.69.

Pursuant to the “Resolution of ZTE Corporation on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2015, the number of share options was adjusted to 123,586,800 and the exercise price of the share options was adjusted to RMB11.22 after the implementation of the 2013 profit distribution plan and the 2014 plan for profit distribution and conversion of capital reserve. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the adjustment of the number and exercise price of share options under the Scheme pursuant to the rules. At the Twenty-first Meeting of the Sixth Session of the Supervisory Committee of the Company held on 22 July 2015, the “Resolution on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” was considered and approved and an unequivocal affirmative examination opinion on the adjustment was furnished.

At the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the “Resolution on the Adjustment of Participants and Number of Share Options for the First Exercise Period of the Share Option Incentive Scheme” and the “Resolution on the Fulfillment of Exercise Conditions for the First Exercise Period of the Share Option Incentive Scheme” were considered and approved to confirm the fulfillment of exercise conditions for the first exercise period under the Scheme. Following the adjustment, there shall be 1,424 participants entitled to exercise the share options and 34,884,360 exercisable share options for the first exercise period under the Scheme. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the fulfillment of exercise conditions for the first exercise period and the adjustment of participants entitled to exercise the share options and the number of share options. At the Twenty-fourth Meeting of the Sixth Session of the Supervisory Committee held on 27 October 2015, the “Resolution on the Adjustment of Participants and Number of Share Options for the First Exercise Period of the Share Option Incentive Scheme” and the

“Resolution on the Fulfillment of Exercise Conditions for the First Exercise Period under the Share Option Incentive Scheme” were considered and approved to confirm the fulfillment of exercise conditions for the first exercise period under the Scheme and an unequivocal affirmative examination opinion on the adjusted list of participant and number of share options granted was furnished.

At the Seventh Meeting of the Seventh Session of the Board of Directors of the Company held on 15 July 2016, the “Resolution on the Adjustment of the Exercise Prices of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” was considered and approved. After the implementation of the 2015 profit distribution plan, the exercise price of the share options was adjusted to RMB10.97. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the adjustment of the exercise price of share options under the Scheme pursuant to the rules. At the Fifth Meeting of the Seventh Session of the Supervisory Committee held on 15 July 2016, the “Resolution on the Adjustment of the Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” was considered and approved, giving consent to the implementation of the adjustment by the Company and furnishing an unequivocal affirmative examination opinion on the adjustment.

At the Ninth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 October 2016, the “Resolution on the Adjustment of Participants and Number of Share Options for the Second Exercise Period of the Share Option Incentive Scheme” and the “Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period of the Share Option Incentive Scheme” were considered and approved to confirm the fulfillment of exercise conditions for the second exercise period under the Scheme. Following the adjustment, there shall be 1,350 participants entitled to exercise the share options and 33,101,640 exercisable share options for the second exercise period under the Scheme. The Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the fulfillment of exercise conditions for the second exercise period and the adjustment of participants entitled to exercise the share options and the number of share options. At the Seventh Meeting of the Seventh Session of the Supervisory Committee of the Company held on 27 October 2016, the “Resolution on the Adjustment of Participants and Number of Share Options for the Second Exercise Period of the Share Option Incentive Scheme” and the “Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period under the Share Option Incentive Scheme” were considered and approved to confirm the fulfillment of exercise conditions for the second exercise period under the Scheme and an unequivocal affirmative examination opinion on the adjusted list of participant and number of share options granted was furnished.

II. Non-fulfillment of exercise conditions for the third exercise period under the

Scheme:

(I) Exercise conditions to be fulfilled for the third exercise period

1. Within the valid period of the Scheme, the net profit attributable to shareholders of the listed company and the net profit after extraordinary items attributable to shareholders of the listed company cannot be lower than the average of the three most recent accounting years before the Date of Grant and cannot be a negative figure.

2. The weighted average return on net assets for 2016 shall be no less than 10% and the growth rate of net profit attributable to shareholders of the listed company for 2016 over 2014 shall be no less than 44%.

Net profit adopted in the calculation of the above indicators is the lower of net profit before extraordinary items and net profit after extraordinary items. Net assets refer to net assets attributable to shareholders of the listed company.

3. None of the following has occurred to the participant:

(1) having been publicly censured or declared as an ineligible candidate by the Shenzhen Stock Exchange in the last three years;

(2) having been imposed with administrative penalties by the CSRC during the last three years due to material non-compliance of laws and regulations;

(3) being prohibited from acting as a Director or a member of the senior management of the Company under the Company Law; or

(4) having committed other material violations of relevant regulations of the Company, as determined by the Board of Directors of the Company.

4. The participant has passed the performance appraisal for the previous year in accordance with the ZTE Share Option Incentive Scheme Performance Appraisal System.

(II) Non-fulfillment of exercise conditions for the third exercise period

1. According to the audited 2016 financial report of the Company, net profit attributable to shareholders of the listed company for 2016 amounts to RMB-2,357 million, which are lower than the average amounts of RMB823 million for the three accounting years (2010-2012) immediately prior to the Date of Grant (31 October 2013); net profit after extraordinary items attributable to shareholders of the listed company for 2016 amounts to RMB2,131 million, which are higher than the average amounts of RMB-130 million for the three accounting years (2010-2012) immediately prior to the Date of Grant (31 October 2013), which is not fulfill the exercise conditions for the third exercise period that requires “Within the valid period of the Scheme, the net profit attributable to shareholders of the listed company cannot

be lower than the average of the three most recent accounting years before the Date of Grant and cannot be a negative figure.”

2. According to the audited 2016 financial report of the Company, the weighted average return on net assets for 2016 is -8.40%, and the weighted average return on net assets after extraordinary items for 2016 is 7.59%; the net profit attributable to shareholders of the listed company for 2016 is decreased by 189.51% as compared to 2014, while the net profit after extraordinary items attributable to shareholders of the listed company for 2016 is increased by 2.84% as compared to 2014, which not fulfill the exercise conditions for the third exercise period that requires “the weighted average return on net assets for 2016 to be not lower than 10% and the growth rate of net profit attributable to shareholders of the listed company for 2016 over 2014 to be not lower than 44%.”

Notes:

(1) The 2016 financial report shall require consideration and approval at the general meeting.

(2) In accordance with the Scheme, net profit adopted in the calculation of the weighted average return on net assets (ROE) and the growth rate of net profit attributable to shareholders of the listed company (net profit growth rate) shall be the lower of net profit before extraordinary items and net profit after extraordinary items. Net assets refer to net assets attributable to shareholders of the listed company.

(3) The weighted average return on net assets (ROE) is calculated in accordance with “No. 9 of the Rules for the Preparation of Information Disclosure by Public Issuer of Securities – Calculation and Disclosure of Return on Net Assets and Earnings Per Share” (China Securities Regulatory Commission Announcement [2010] No. 2) (中國證券監督管理委員會公告 [2010] 2號《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》).

(4) Comparison between the net profit growth rate for 2016 over 2014 is conducted as follows:

Comparison between the growth rate of net profit attributable to shareholders of the listed company for 2016 over 2014 is arrived at by: $[(\text{Net profit attributable to shareholders of the listed company for 2016} \div \text{Net profit attributable to shareholders of the listed company for 2014}) - 1] \times 100\%$

Comparison between the growth rate of net profit after extraordinary items attributable to shareholders of the listed company for 2016 over 2014 is arrived at by: $[(\text{Net profit after extraordinary items attributable to shareholders of the listed company for 2016} \div \text{Net profit$

after extraordinary items attributable to shareholders of the listed company for 2014) - 1]×100%

(III) Share options not qualified to be exercised

In accordance with the Scheme, share options that cannot be exercised owing to the non-fulfillment of conditions pertaining to business results will lapse with immediate effect and withdrawn and cancelled by the Company without compensation. The number of share options in respect of the third exercise period is 44,356,320. The Company will carry out the procedures for the cancellation of such share options following the consideration and approval of the 2016 financial report at the general meeting.

III. The impact of the non-fulfillment of exercise conditions for the third exercise period under the Scheme on the financial conditions and operating results of the Company for the relevant year

As a result of the non-fulfillment of exercise conditions for the third exercise period under the Scheme, the Company wrote back in 2016 share option expenses amounting to approximately RMB125 million in aggregate recognized for the years 2013-2015, resulting in an increase in the Company's profit before taxation for 2016 by approximately RMB125 million.

IV. Verification opinion of the Remuneration and Evaluation Committee on the non-fulfillment of exercise conditions for the third exercise period

For details, please refer to the Overseas Regulatory Announcement published by the Company on the same date as this announcement.

V. Independent Opinion of the Independent Non-executive Directors on the non-fulfillment of exercise conditions for the third exercise period

For details, please refer to the Overseas Regulatory Announcement published by the Company on the same date as this announcement.

VI. Conclusion of the legal opinion

Beijing Jun He Law Offices (Shenzhen Office) is of the view that: as at the date of the issuance of the "Legal Opinion on the non-fulfillment of exercise conditions for the third exercise period under the Scheme and the cancellation of previously granted share options by ZTE Corporation", the non-fulfillment of exercise conditions for the third exercise period and the cancellation of previously granted share options have been duly authorised and approved

and conducted according to currently required procedures; and procedures performed in connection with the non-fulfillment of exercise conditions for the third exercise period and the cancellation of previously granted share options are in compliance with relevant provisions of pertinent laws and regulations, including the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Measures for the Administration of Share Incentives at Listed Companies, Memorandum for Information Disclosure by Main Board Listed Companies No. 3 – Share Option Incentives and Staff Shareholding Plans”, the Scheme and the Articles of Association. The Company shall process the cancellation of previously granted share options and fulfill its information disclosure obligations following the consideration and approval of the 2016 financial report at the general meeting.

VII. Documents for inspection

1. Resolution of the Fifteenth Meeting of the Seventh Session of the Board of Directors;
2. Resolution of the Twelfth Meeting of the Seventh Session of the Supervisory Committee;
3. Opinion of the Remuneration and Evaluation Committee of the Board of Directors on the non-fulfillment of exercise conditions for the third exercise period;
4. Independent Opinion of the Independent Non-executive Directors on the non-fulfillment of exercise conditions for the third exercise period;
5. “Legal Opinion on the non-fulfillment of exercise conditions for the third exercise period under the Scheme of and the cancellation of previously granted share options by ZTE Corporation” furnished by Beijing Jun He Law Offices (Shenzhen Office).

By Order of the Board

Yin Yimin

Chairman

Shenzhen, the PRC

23 March 2017

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Zhao Xianming and Wei Zaisheng; five non-executive directors, Zhang Jianheng, Luan Jubao, Wang Yawen, Tian Dongfang and Zhan Yichao; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.