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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)**

### **Overseas Regulatory Announcement**

#### **Announcement on the Commencement of the First Exercise Period under the 2017 Share Option Incentive Scheme**

*This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.*

*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.*

As announced by ZTE Corporation (the “Company”) on 1 July 2019, the exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme of the Company has been fulfilled. Following examination by the Shenzhen Stock Exchange and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, 1,684 participants shall be entitled to exercise their share options and 39,664,153 share options shall be exercisable in the first exercise period under the 2017 Share Option Incentive Scheme of the Company.

The first exercise period under the 2017 Share Option Incentive Scheme of the Company shall officially commence on 16 July 2019. The share option code for the voluntary exercise of share options: 037050; the abbreviated title of the option: 中興JLC2

#### **I. Overview of the 2017 Share Option Incentive Scheme**

On 24 April 2017, the “Resolution on ‘ZTE Corporation 2017 Share Option Incentive Scheme (Draft)’ (the ‘Draft Scheme’) and its summary”, “Resolution on the ‘ZTE Corporation 2017 Share Option Incentive Scheme Performance Appraisal System’” and “Resolution on a mandate granted to the Board of Directors by the General Meeting of ZTE Corporation to deal with matters pertaining to the 2017 Share Option Incentive Scheme” were considered and passed at the Seventeenth Meeting of the Seventh Session of the Board of Directors and Fourteenth Meeting of the Seventh Session of the Supervisory Committee of the Company. The Supervisory Committee of the Company has verified the list of participants to be granted share options as confirmed under the Draft Scheme and the Independent Non-executive Directors and legal advisor of the Company have furnished opinions on matters relating to share option incentives, respectively.

The Company published the “Public Notice of the List of Participants for the 2017 Share Option Incentive Scheme of the Company” on the Company’s website ([www.zte.com.cn](http://www.zte.com.cn)) on 24 April 2017 to give public notice of the names and positions of the aforesaid participants. The public notice period commenced on 24 April 2017 and ended on 4 May 2017. No instances of participants’ non-fulfillment

of relevant qualifications had been identified upon the expiry of the public notice period. The Company disclosed the result of the verification of the list of participants by the Supervisory Committee and the result of the public notice 5 days prior to the general meeting held to consider the 2017 Share Option Incentive Scheme.

The 2017 Share Option Incentive Scheme was approved pursuant to the “Resolution on the ‘ZTE Corporation 2017 Share Option Incentive Scheme (Draft)’ and its Summary”, “Resolution on the ‘ZTE Corporation 2017 Share Option Incentive Scheme Performance Appraisal System’” and “Resolution on a mandate granted to the Board of Directors by the General Meeting of ZTE Corporation to deal with matters pertaining to the 2017 Share Option Incentive Scheme” considered and approved at the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017 (together, the “Shareholders’ Meetings”) on 20 June 2017.

Under the 2017 Share Option Incentive 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 Draft 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 Shares Options under the 2017 Share Option Incentive Scheme” and “Resolution on the Adjustment to the List of Participants and Number of Share Options to be Granted under the 2017 Share Option Incentive Scheme” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the date of grant for the 2017 Share Option Incentive Scheme of the Company was set for 6 July 2017 (Thursday), and share options were granted to participants according to the adjusted list of participants and the number of share options to be granted; 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; The “Resolution on Matters pertaining to the Grant of Shares Options under the 2017 Share Option Incentive Scheme” and “Resolution on the Adjustment to the List of Participants and Number of Share Options to be Granted under the 2017 Share Option Incentive Scheme” were considered and passed at the Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, and the Seventh 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. The registration of the grant under the 2017 Share Option Incentive Scheme was completed on 20 July 2017. The initial exercise price was RMB17.06 per share.

On 1 July 2019, the “Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme”, “Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme”, “Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme” and “Resolution on the cancellation of certain share options”, among others, were considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company, pursuant to which the adjustments to participants and number of share options granted under the 2017 Share Option Incentive Scheme, confirmation of the fulfillment of exercise conditions for the first exercise period and non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of share options previously granted to participants who no longer fulfilled the conditions to be a participant or share options that did not meet the exercise conditions were approved; the Independent Non-executive Directors have furnished an unequivocal affirmative independent opinion on the adjustments to participants and number of share options granted, fulfillment of exercise conditions for the first

exercise period and non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of certain share options; at the Fifth Meeting of the Eighth Session of the Supervisory Committee, the “Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme”, “Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme”, “Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme” and “Resolution on the cancellation of certain share options”, among others, were considered and passed, and the Supervisory Committee has furnished an unequivocal affirmative examination opinion on the adjusted list of participants and number of share options, fulfillment of exercise conditions for the first exercise period and non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of certain share options.

## **II. Details and arrangements for exercise of share options in the first exercise period under the 2017 Share Option Incentive Scheme**

(I) Source of underlying shares of the 2017 Share Option Incentive Scheme: additional A shares denominated in RMB placed to participants.

(II) Description of the exercise conditions for the first exercise period under 2017 Share Option Incentive Scheme and the fulfillment of the exercise conditions:

1. Exercise conditions required to be fulfilled for the first exercise period are as follows:

(1) Exercise conditions for the first exercise period in relation to the Company’s business performance:

The weighted average return on net assets (ROE) for 2017 not lower than 10% and net profit growth rate attributable to holders of ordinary shares of the listed company (net profit growth rate) for 2017 not lower than 10% on the basis of RM3,825 million.

(2) Events described in Paragraph 1 under Article 20<sup>①</sup> of the Draft Scheme not having happened to the Company.

(3) Subject to the fulfilment of conditions relating to the Company’s business performance, personal exercise conditions in relation to the participant:

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① Article 20: Conditions of grant of the share options

The Company shall grant share options to the participants in accordance with the Scheme only if it is not subject to the following:

1. None of the following has occurred to the Company

(1) A certified public accountant furnishing an audit report containing an opinion of disapproval or indicating the inability to give an opinion in respect of the financial accounting report for the most recent accounting year;

(2) A certified public accountant furnishing an audit report containing an opinion of disapproval or indicating the inability to give an opinion in respect of the internal control of financial reporting for the most recent accounting year;

(3) Failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the past 36 months after listing;

(4) Prohibition from the implementation of share option incentives under laws and regulations;

(5) Other circumstances as determined by China Securities Regulatory Commission (the “CSRC”).

2 None of the following circumstances has occurred to the participant:

(1) Having been declared an inappropriate candidate by the Shenzhen Stock Exchange in the past 12 months; (2) Having been declared an inappropriate candidate by the CSRC or its local bureaus in the past 12 months; (3) Having been subject to administrative penalties or prohibited from market entry by the CSRC or its local bureaus in the past 12 months due to material violation of laws and regulations; (4) Being prohibited from acting as a director or a senior management personnel of a company under the Company Law; (5) Being prohibited from participating in share option incentive schemes of listed companies under laws and regulations; (6) Other circumstances as determined by the CSRC; (7) Other serious violation of pertinent provisions of the Company as determined by the Board of Directors of the Company.

a. Events described in Paragraph 2 under Article 20 of the Draft Scheme not having happened to the participant during the valid period of the 2017 Share Option Incentive Scheme date prior to the commencement of the current exercise period;

b. The participant having passed the performance appraisal for the previous year in accordance with the “ZTE Corporation 2017 Share Option Incentive Scheme Performance Appraisal System”.

2. Exercise conditions of the first exercise period have been fulfilled.

(1) According to the audited 2017 financial reports of the Company considered and passed at the 2017 Annual General Meeting of the Company, ROE for 2017 was 15.74% and net profit growth rate for 2017 was 19.42% based on an amount of RMB3,825 million. The exercise condition for the first exercise period of “ROE for 2017 not lower than 10% and net profit growth rate for 2017 not lower than 10% on the basis of RM3,825 million” has been fulfilled.

a. In accordance with the Draft Scheme net profit adopted in the calculation of the weighted average return on net assets (ROE) and net profit growth rate attributable to holders of ordinary shares of the listed company (net profit growth rate) shall be the net profit attributable to holders of ordinary shares in the listed company . Net assets refer to net assets attributable to holders of ordinary shares in the listed company.

b. 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》).

(2) Events described in Paragraph 1 under Article 20 of the Draft Scheme have not happened to the Company. Events described in Paragraph 2 under Article 20 of the Draft Scheme not having happened to the participant during the valid period of the 2017 Share Option Incentive Scheme date prior to the commencement of the current exercise period. The participants entitled to the exercise have passed the performance appraisal for the previous year in accordance with the “ZTE Corporation 2017 Share Option Incentive Scheme Performance Appraisal System”.

(III) Participants entitled to exercise their share options and number of share options exercisable in the first exercise period:

Position	Name	Number of share options exercisable in the first exercise period <sup>Note</sup>
		(Unit: in ten thousands)
Director and President	Xu Ziyang	8.4000
Executive Vice President	Wang Xiyu	8.7466
Executive Vice President, Chief Financial Officer	Li Ying	5.2800
Other participants	1,681 persons	3,943.9887
Total	1,684 persons	3,966.4153

Note: In the first exercise period, the participants are entitled to exercise 1/3 of the share options granted, rounded down to the nearest unit.

1,684 participants shall be entitled to exercise their share options and 39,664,153 share options shall be exercisable in the first exercise period under the 2017 Share Option Incentive Scheme. The list of entitled participants for the first exercise period has been verified by the Supervisory Committee,

Independent Non-executive Directors and Remuneration and Evaluation Committee of the Company, respectively.

Funds required for the exercise of options by the participants and the payment of personal income tax shall be financed by the participants on their own. The Company undertakes not to provide loans or financial assistance in any other forms to the participants for their exercise of share options under the 2017 Share Option Incentive Scheme, including the provision of guarantee for loans.

(IV) Exercise price: the exercise price for share options of the Company for the first exercise period under the 2017 Share Option Incentive Scheme is RMB17.06 per share. In the event of any dividend distribution, increase of share capital by way of conversion of capital reserve, issue of bonus shares, share division or consolidation during the exercise period, the exercise price will be adjusted accordingly.

(V) Exercise period: dates on which the share options are exercisable during the period from 16 July 2019 to 5 July 2020.

(VI) Method of exercise: The participants shall exercise the share options on a voluntary basis. The participants may report their exercise of share options voluntarily via the system of the agent securities firm (Guosen Securities Co., Ltd.) during the exercise period. The agent securities firm has adopted effective measures to ensure the functions of the relevant service systems are in compliance with requirements for listed companies in relation to business operations and compliance. Shares increased as a result of the exercise of share options by Directors and senior management will be managed in accordance with relevant requirements of the Shenzhen Stock Exchange and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited.

(VII) Details of the dedicated account for the deposit of issue proceeds

The Company has opened a dedicated account for the management of proceeds from the exercise of options. Issue proceeds from the exercise of options shall be deposited in the aforesaid bank account and utilised as additional working capital for the Company.

The Company undertakes that proceeds from the exercise of options shall be deposited in the aforesaid designated bank account and shall be applied in strict accordance with the use of proceeds as disclosed.

(VIII) Participants shall not exercise their share options during the following periods:

1. The period commencing on the date which is 30 days prior to the publication of periodic report, or in the event of delay in publishing the annual report and interim report for special reasons, 30 days prior to the original date of publication, and ending on the date which is 1 day prior to the publication;
2. The period commencing on the date which is 10 days prior to the preliminary results announcement or express results announcement of the Company;
3. The period commencing on the date on which a significant event that may have a material impact on the trading prices of the Company's shares and their derivative products or the date on which the decision-making relating to such significant event has started and ending on the lapse of 2 trading days after the relevant announcement in accordance with the law; and
- 4 Other periods stipulated by the CSRC and Shenzhen Stock Exchange.

“A significant event that may have a material impact” described above shall be transactions or other significant events required to be disclosed by the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange or the Rules Governing the Listing of Securities on The

Stock Exchange of Hong Kong Limited.

Any transfer of subject shares held by participants shall be in compliance with the provisions of laws, regulations and regulatory documents, including the Company Law, Securities Law and Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, and the Articles of Association. Participants who are Directors or members of the senior management should avoid short-term trading, namely, they shall not sell their holdings of shares in the Company within 6 months after exercising any share options, nor shall they exercise the share options within 6 months after selling any of their holdings of shares in the Company.

(IX) The exercise of share options will not result in the distribution of shareholdings not meeting listing requirements

The 39,664,153 share options currently exercisable account for 0.9460% of the total share capital of the Company of 4,192,671,843 shares. The full exercise of share options exercisable in the first exercise period will result in the increase of the Company's share capital to 4,232,335,996 shares, which will not result in non-compliance with listing requirements regarding the breakdown of shareholdings.

### **III. The effect of the exercise on the financial conditions and results of operation of the Company for the relevant year**

In accordance with the "ASBE 11 – Share-based Payment", services rendered by participants are charged to relevant costs or expenses at the fair value of the share options on the date of grant and the capital reserve is credited accordingly, based on the best estimates of number of exercisable share options. During the exercise period of the share options, the Company will not adjust recognised costs or expenses. According to the actual situation of exercising, the Company recognized monetary funds received, as well as the increase in the share capital and capital reserve.

The share options shall be exercised by participants on a voluntary basis. The fair value on the date of grant of equity-settled share options granted is estimated by an independent third party engaged by the Company using the Binomial Tree model taking into account the terms and conditions for the grant of share options. As of now, based on the best estimates of expected number of exercisable options, the fair value of share options granted in 2017 is RMB821,468,400, while the amounts of share option expenses recognised for 2017 and 2018 are RMB262,956,500 and RMB193,186,600, respectively. The amounts of share option expenses estimated for 2019, 2020 and 2021 are RMB205,367,100, RMB106,638,800 and RMB53,319,400, respectively.

If the share options for the first exercise period are exercised in full, the total share capital of the Company will increase by 39,664,153 shares, and its capital reserve will increase by RMB637,006,300. Based on relevant figures as at the end of 2018, the basic earnings per share for 2018 would have increased by RMB0.02, and the fully diluted return on net assets would have increased by 0.88 percentage point<sup>②</sup>.

The actual figures of the effect are subject to figures audited by the accountant.

### **VI. Arrangements pertaining to subsequent information disclosure**

The Company will disclose such information as changes in participants under the 2017 Share Option Incentive Scheme, adjustments to significant parameters of the share options, details of voluntary exercise by participants and changes in the share capital of the Company on a quarterly basis in its regular reports (including quarterly reports, interim reports and annual reports) or in the form of

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<sup>②</sup> As the Company's net loss was recorded for 2018, the exercise of the options resulted in the increase in total share capital and the increase in basic earnings per share and fully diluted yield on net assets.

interim announcements.

By Order of the Board

**Li Zixue**

*Chairman*

Shenzhen, the PRC

14 July 2019

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