

# ZTE中兴

## ZTE CORPORATION

### 中興通訊股份有限公司

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

(Stock Code: 763)

#### ANNOUNCEMENT OF THE RESOLUTIONS PASSED AT THE NINETEENTH MEETING OF THE THIRD SESSION OF THE BOARD OF DIRECTORS

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

ZTE Corporation (hereinafter referred to as the "Company" or "ZTE") has issued the "Notice of convening the Nineteenth Meeting of the Third Session of the Board of Directors" to all the Directors of the Company by electronic mail and telephone on 11 October 2006. The nineteenth meeting of the third session of the Board of Directors of the Company (the "Meeting") was convened at the Shenzhen headquarters of the Company on 25 October 2006. Of the fourteen Directors required to attend the meeting, twelve directors attended in person and two directors appointed proxies to attend on their behalf. Mr. Zhang Junchao, Director, was unable to attend the meeting for work reasons and appointed Mr. Wang Zongyin, Vice Chairman, to vote on his behalf. Mr. He Shiyou, Director, was unable to attend the meeting for work reasons and appointed Mr. Yin Yimin, Director, to vote on his behalf. The Meeting was convened and held in accordance with the relevant laws, administrative regulations, departmental rules and the Company's Articles of Association, and was legal and valid.

The following resolutions were considered and approved at the Meeting:

**I. THAT the 2006 Third Quarterly Report of the Company be considered and approved. For further details, please refer to the 2006 Third Quarterly Report of the Company published simultaneously with this announcement.**

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

**II. Consideration and approval of the resolutions of the Company on Connected Transaction Framework Agreement for 2007 (as defined under the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange) and tabling for consideration and approval at the general meeting of the Company the connected transaction set out in No. 1 below. For further details, please refer to the announcement in relation to the ongoing connected transactions of the Company for the year 2007 under the Rules Governing the Listing of Securities on Shenzhen Stock Exchange published simultaneously on the information disclosure website designated by the Company (<http://www.hkex.com.hk>).**

1. THAT the framework purchase agreements for year 2007 proposed to be entered into between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, on the one hand and connected party Shenzhen Zhongxingxin Telecommunications Equipment Company Limited together with its subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited and Shenzhen Zhongxing Xinzhou Complete Equipment Co., Ltd. on the other, in respect of the purchase of cases, cabinets, distribution frames, flexible printed circuit boards and shelter with an annual cap of aggregated transaction amounts estimated at RMB720 million for 2007 be approved.

Mr. Hou Weigui, Chairman, Mr. Xie Weiliang, Vice Chairman, and Directors Mr. Dong Lianbo, Mr. Yin Yimin, Mr. Shi Lirong, as vice chairman, vice chairman, director, director and director, respectively, of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, did not participate in the vote in respect of this matter at the meeting.

Voting results: votes in favour of: 9, votes against: 0 and votes abstained: 0

2. THAT the framework purchase agreement for year 2007 proposed to be entered into between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, on the one hand and connected party Shenzhen Zhongxing WXT Equipment Company, Ltd. and its investee entity, Shenzhen Gaodonghua Communication Technique Co., Ltd. on the other, in respect of IC, Connector assemblies, optical devices, modules and other ancillary equipment with an annual cap of aggregated transaction amounts estimated at RMB200 million for 2007 be approved.

Mr. Hou Weigui, Chairman, and Directors Mr. Yin Yimin, Mr. Shi Lirong, Mr. He Shiyou as chairman, vice chairman, director and supervisor, respectively, of Shenzhen Zhongxingxin WXT Equipment Company, Limited, did not participate in the vote in respect of this matter at the meeting.

Voting results: votes in favour of: 10, votes against: 0 and votes abstained: 0

3. THAT the framework purchase agreement for year 2007 proposed to be entered into between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, on the one hand and connected party Mobei Antenna Technologies (Shenzhen) Co., Ltd. on the other, in respect of the purchase of communication antenna and radio frequency transmitters with an annual cap of aggregated transaction amounts estimated at RMB180 million for 2007 be approved.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin, as Independent Directors of the Company, have reviewed the above connected transactions framework agreements prior to the meeting of the Board of Directors, and agreed to submit the above connected transactions framework agreements to the Board of Directors for consideration.

Independent Directors Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin issued an independent opinion regarding the above connected transactions framework agreements as follows:

The pricing basis and other provisions prescribed in the above connected transactions framework agreements are in compliance with the requirements of laws and regulations and market principles and are not adverse to the interests of the Company and its shareholders.

**III. Consideration and approval of the resolutions of the Company on the Renewal of Continuing Connected Transactions (as defined under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) for 2007 to 2009 and tabling for consideration and approval at the general meeting of the Company the non-exempt connected transaction set out in No. 8 below. For further details, please refer to the announcement in relation to the continuing connected transactions of the Company under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited published promptly following this announcement.**

The Board of Directors has reviewed and approved each of the following framework agreements for continuing connected transactions and the annual caps of aggregated transaction amounts for 2007, 2008 and 2009. The Board of Directors is of the view that such connected transactions are conducted on normal commercial terms in the Company's ordinary course of business.

1. THAT the framework sales agreement between Shenzhen Kangquan Electromechanical Company, Limited, a subsidiary of the Company, and Shenzhen Ruide Electronic Industrial Company, Limited, a connected party, in respect of the sales of cases and accessories for handset batteries with aggregated transaction amounts estimated at RMB1 million for 2007, RMB1.2 million for 2008 and RMB1.44 million for 2009 be approved.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

2. THAT the framework purchase agreement between Shenzhen Lead Communications Company, Limited, a subsidiary of Shenzhen Changfei Investment Company, Limited, which is in turn a subsidiary of the Company, and Shenzhen Zhongxing Xinyu FPC Company, Limited, a connected party, in respect of the purchase of flexible printed circuit boards with aggregated transaction amounts estimated at RMB3.3 million for 2007, RMB4 million for 2008 and RMB4.8 million for 2009 be approved.

Mr. Hou Weigui, Chairman, Mr. Xie Weiliang, Vice Chairman, and Directors Mr. Dong Lianbo, Mr. Yin Yimin, Mr. Shi Lirong, as vice chairman, vice chairman, director, director and director, respectively, of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, the controlling shareholder of connected party Shenzhen Zhongxing Xinyu FPC Company, Limited, did not participate in the vote in respect of this matter at the meeting.

Voting results: votes in favour of: 9, votes against: 0 and votes abstained: 0

3. THAT the framework sale agreement between Shenzhen Lead Communications Company, Limited, a subsidiary of Shenzhen Changfei Investment Company, Limited, which is in turn a subsidiary of the Company, and Shenzhen Ruide Electronic Industrial Company, Limited, a connected party, in respect of the sales of liquid crystal displays (LCD) with aggregated transaction amounts estimated at RMB4 million for 2007, RMB4.8 million for 2008 and RMB6 million for 2009 be approved.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

4. THAT the framework purchase agreement between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, and Shenzhen Ruide Electronic Industrial Company, Limited, a connected party, in respect of the purchase of handset batteries with annual caps of aggregated transaction amounts estimated at RMB272 million for 2007, RMB326 million for 2008 and RMB392 million for 2009 be approved.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

5. THAT the framework sale agreement between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, and Shenzhen Lead Communications Company, Limited, a connected party, in respect of the sales of liquid crystal displays (LCD) and electronic components with annual caps of aggregated transaction amounts estimated at RMB24 million for 2007, RMB36 million for 2008 and RMB48 million for 2009 be approved.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

6. THAT the framework purchase agreement between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, and Shenzhen Lead Communications Company, Limited, a connected party, in respect of the purchase of liquid crystal modules (LCM) with annual caps of aggregated transaction amounts estimated at RMB330 million for 2007, RMB400 million for 2008 and RMB480 million for 2009 be approved.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

7. THAT the framework sale agreement between Shenzhen Hongde Battery Company, Limited, a subsidiary of the Company, and Shenzhen Ruide Electronic Industrial Company, Limited, a connected party, in respect of the sales of batteries cores with annual caps of aggregated transaction amounts estimated at RMB33 million for 2007, RMB40 million for 2008 and RMB48 million for 2009 be approved.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

8. THAT the framework purchase agreements proposed to be entered into between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, on the one hand and connected party Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited together with its subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited and Shenzhen Zhongxing Xinzhou Complete Equipment Co., Ltd. on the other, in respect of the purchase of cases, cabinets, distribution frames, flexible printed circuit boards and shelter with annual caps of aggregated transaction amounts estimated at RMB720 million for 2007, RMB950 million for 2008 and RMB1,200 million for 2009 and the appointment of Partners Capital International Limited as the independent financial adviser to advise the independent board committee and independent shareholders in connection with such transactions and the relevant caps be approved.

Mr. Hou Weigui, Chairman, Mr. Xie Weiliang, Vice Chairman, and Directors Mr. Dong Lianbo, Mr. Yin Yimin, Mr. Shi Lirong, as vice chairman, vice chairman, director, director and director, respectively, of connected party Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, did not participate in the vote in respect of this matter at the meeting.

Voting results: votes in favour of: 9, votes against: 0 and votes abstained: 0

9. THAT the announcement with respect to the above continuing connected transactions submitted to the Board of Directors for review be considered and approved and that the Secretary to the Board of Directors be hereby authorised to make any necessary modifications to and sign such documents and cause the same to be published.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin, as Independent Directors of the Company, have reviewed the above connected transactions framework agreements prior to the meeting of the Board of Directors, and agreed to submit the above connected transactions framework agreements to the Board of Directors for consideration and approval.

Independent Directors Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin issued an independent opinion regarding the above connected transactions framework agreements as follows:

The pricing basis and other provisions prescribed in the connected transactions framework agreements are in compliance with the requirements of laws and regulations and market principles and are not adverse to the interests of the Company and its shareholders.

**IV. Consideration and approval of the resolution of the Company for the Continued Purchase of “Liability Insurance for Directors, Supervisors and Senior Management”.**

THAT the execution between the Company and AIU Insurance Company Shenzhen Branch of a renewed insurance contract for a maximum annual indemnity amount of RMB30 million for a term of one year in connection with the Company’s plan to continue to purchase “liability insurance for directors, supervisors and senior management” for the directors, supervisors and senior management of the Company with a view to encouraging better performance of their duties be approved.

Voting result: votes in favour of: 14; votes against: 0; votes abstained: 0.

An independent opinion has been furnished by Independent Directors of the Company, Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin, as follows:

The Independent Directors of the Company are of the opinion that the continued purchase of liability insurance for the directors, supervisors and senior management by the Company is in the interests of investors as a whole as it can encourage better performance of their duties and ensure timely and proper compensation for economic losses suffered by third parties as a result of their negligence; and that the transaction has been conducted in a fair, just and open manner in accordance with relevant regulations without adversely affecting the interests of minority shareholders, and the Independent Directors agree to the execution of the transaction.

**V. Consideration and approval of the resolutions regarding ZTE Corporation Share Incentive Scheme (Phase I) (Draft) (the “Share Incentive Scheme (Phase I)”) and the grant of shares to certain connected persons pursuant to the Share Incentive Scheme (Phase I) and tabling the same for consideration and approval at the general meeting of the Company after fulfillment the relevant procedure in accordance with the relevant regulations of China.** For details of the scheme, please refer to the full terms of the ZTE Corporation Share Incentive Scheme (Phase I) (Draft) published simultaneously with this announcement.

1. THAT the implementation of the Share Incentive Scheme (Phase I) by the Company be approved with a view to establishing a long-term incentive mechanism closely linked with the Company’s business performance and long-term strategy that so as to optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company’s operation. Key Terms of the Share Incentive Scheme (Phase I) are set out as follows (Capitalised terms below should have the meaning as defined by the Share Incentive Scheme (Phase I) unless otherwise defined by this announcement):

- (1) The Company shall implement the scheme by way of the grant of new shares. Specifically, the Company shall grant Scheme Participants 47,980,000 A shares, representing approximately 5% of the Total Share Capital of the Company, on a one-off basis. Upon the fulfillment of the unlocking conditions, Scheme Participants may apply to unlock the granted Subject Shares on an annual basis in accordance with provisions of the scheme. The unlocked Subject Shares shall be freely tradable in accordance with the laws.
- (2) The scheme shall be in force for a term of 5 years, comprising a Lock-up Period of 2 years and an Unlocking Period of 3 years.
  - (1) The Lock-up Period shall last for a period of 2 years commencing on the date of approval of the scheme by the general meeting of the Company, during which the Subject Shares (including Subject Shares purchased by the Scheme participants at their own cost) granted to Scheme Participants under the scheme shall be subject to lock-up and shall not be transferable.
  - (2) The Unlocking Period shall last for 3 years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking in 3 tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of the Subject Shares granted (including the Subject Shares purchased by the Scheme Participants at their own cost); the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of the Subject Shares granted (including the Subject Shares purchased by the Scheme Participants at their own cost); the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding Subject Shares. If the unlocking conditions are not satisfied in any one year during the Unlocking Period, the Subject Shares of the year concerned shall lapse; and no application shall be made by the Scheme Participants in subsequent years for the unlocking of such Subject Shares.
- (3) The Scheme Participants shall be the Directors and Senior Management of the Company and Key Personnel of the Company and its controlled subsidiaries. Scheme Participants who participate in the scheme shall not participate in the Company’s distribution of deferred bonus in 2006.
- (4) The weighted average rates of return on net assets of the Company for the years 2007, 2008 and 2009 shall be adopted as the benchmarks of performance appraisal as conditions to Scheme Participants’ application for unlocking the Subject Shares in the first, second and third tranche, respectively. Such rates of return on net assets shall not be less than 10% (before extraordinary income/loss items or after extraordinary income/loss items, whichever is lower);
- (5) The price per share at which the Company shall grant to the Scheme Participants the Subject Shares shall be the Grant Price, which shall represent the closing price of the Company’s A Shares as quoted on the Stock Exchange on the trading day immediately preceding the date on which the Board meeting for reviewing the scheme is convened. Scheme Participants shall pay the subscription amounts on the basis of the purchase of 1 Share at the Grant Price for every 3 Shares granted upon application for the unlocking of Subject Shares.
- (6) The Scheme Participants shall subscribe for relevant Subject Shares at their own cost. The Company shall not provide loans or other financial assistance in any form, including guarantees for any loans, to the Scheme Participants.
- (7) Proceeds from the subscription of Subject Shares by Scheme Participants as a result of the implementation of the scheme by the Company shall be applied as additional working capital for the Company.

Voting results: votes in favour of: 9, votes against: 0 and votes abstained: 0.

*Note:* Mr. Wang Zongyin, Vice Chairman, Mr. Xie Weiliang, Vice Chairman and Directors Mr. Zhang Junchao, Mr. Li Juping and Mr. Dong Lianbo, being beneficiaries of the Share Incentive Scheme (Phase I), did not participate in the vote in respect of this matter at the meeting. The Share Incentive Scheme (Phase I) was unanimously approved by the remaining nine Directors.

2. THAT the grant of shares to certain Scheme Participants who are connected persons (as defined by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) pursuant to the Share Incentive Scheme (Phase I) be approved, the name list of these connected Scheme Participants be submitted together with the Share Incentive Scheme (Phase I) to the general meeting of the Company for consideration and approval and the appointment of Partners Capital International Limited as the independent financial adviser to advise the independent board committee and independent shareholders in connection with the grant of shares to these connected Scheme Participants be approved.

The Directors (other than those who are connected Scheme Participants) are of the view that terms of the Share Incentive Scheme (Phase I) and the grant of shares to the connected Scheme Participants pursuant to the Share Incentive Scheme (Phase I) are fair and reasonable and in the interest of the Company.

*Note:* Mr. Wang Zongyin, Vice Chairman, Mr. Xie Weiliang, Vice Chairman and Directors Mr. Zhang Junchao, Mr. Li Juping and Mr. Dong Lianbo, being beneficiaries of the Share Incentive Scheme (Phase I), did not participate in the vote in respect of this matter at the meeting. The Share Incentive Scheme (Phase I) was unanimously approved by the remaining nine Directors.

Independent Directors of the Company Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin furnished an independent opinion on the resolution to the effect that they unanimously approved the implementation of the Share Incentive Scheme (Phase I) by the Company. Please refer to the Independent Opinion of the Independent Directors of ZTE Corporation on the Share Incentive Scheme (Phase I) published simultaneously with this announcement for details of independent opinion furnished by the Company’s Independent Directors.

**VI. Consideration and approval of the resolution regarding The Performance Appraisal System for Phase I of the Share Incentive Scheme of ZTE Corporation.**

THAT the Performance Appraisal System for Phase I of the Share Incentive Scheme of ZTE Corporation in accordance with the “Administrative Measures on Share Incentives of Listed Company” issued by CSRC and the current performance appraisal system of the company be approved.

Voting results: votes in favour of: 9, votes against: 0 and votes abstained: 0.

*Note:* Mr. Wang Zongyin, Vice Chairman, Mr. Xie Weiliang, Vice Chairman and Directors, Mr. Zhang Junchao, Mr. Li Juping and Mr. Dong Lianbo, being beneficiaries of the Share Incentive Scheme (Phase I), did not participate in the vote in respect of this matter at the meeting. The Performance Appraisal System for Phase I of the Share Incentive Scheme of ZTE Corporation was unanimously approved by the remaining nine Directors.

**VII. Consideration and approval of the resolution of the Company to request the general meeting to authorise the board of directors to Handle the Matters relating to the Share Incentive Scheme (Phase I) be considered and approved, and submission of the scheme to the general meeting of the Company for consideration and approval.**

1. THAT the general meeting be requested to authorise the Board of Directors to be responsible for the implementation of the following in respect of the Share Incentive Scheme (Phase I):

- (1) To confirm the qualifications and conditions for Scheme Participants’ participation in the Share Incentive Scheme (Phase I), to confirm the name list of Scheme Participants other than those who are connected persons of the Company and the number of shares to be granted, and to confirm the Grant Price of the Subject Shares;
- (2) To grant shares to the Scheme Participants upon their fulfillment of the required conditions and handling all matters necessary for the grant and unlocking of shares;
- (3) To adjust the number of Subject Shares in accordance with principles and methods stipulated in the Share Incentive Scheme (Phase I) if such adjustment becomes necessary as a result of the issue of new shares, ex-right and ex-dividend arrangements or otherwise;
- (4) To formulate or amend the administrative and implementation rules of the Share Incentive Scheme (Phase I) from time to time subject to compliance with the terms of the scheme, provided that such amendments by the Board of Directors must be approved by the general meeting of the Company and/or the relevant regulatory authorities if such approval is required under the laws, regulations or relevant regulatory authorities;
- (5) To sign, execute, amend or terminate any agreements related to the Share Incentive Scheme (Phase I) and other relevant agreements;
- (6) To appoint intermediaries such as receiving bankers, accountants and lawyers for the implementation of the Share Incentive Scheme (Phase I);
- (7) To conduct other matters necessary for the implementation of the Share Incentive Scheme (Phase I), save as matters expressly stipulated in relevant documents to be determined by the general meeting of the Company.

2. THAT the general meeting of the Company be requested to authorise that the Board of Directors be authorised to process examination, registration, filing, approval and consent procedures with relevant government authorities; to sign, execute, amend and complete documents to be submitted to relevant government authorities, organisations and individuals; and to do all acts, matters and things deemed necessary, appropriate or expedient in relation to the Share Incentive Scheme (Phase I).

3. THAT the general meeting of the Company be requested to grant that the Board of Directors the above authorisations for a term concurrent with the effective term of the Share Incentive Scheme (Phase I).

Mr. Wang Zongyin, Vice Chairman, Mr. Xie Weiliang, Vice Chairman and Directors, Mr. Zhang Junchao, Mr. Li Juping and Mr. Dong Lianbo, being beneficiaries of the Share Incentive Scheme (Phase I), did not participate in the vote in respect of this matter at the meeting. The Resolution of the Company to Request the General Meeting to Authorise the Board of Directors to Handle matters relating to the Share Incentive Scheme (Phase I) was unanimously approved by the remaining nine Directors.

Voting results: votes in favour of: 9, votes against: 0 and votes abstained: 0

**VIII. Consideration and approval of the resolution for the convening the first extraordinary general meeting for 2006.**

THAT the Company convene its first extraordinary general meeting for 2006 to consider and approve the connected transaction and the relevant caps as set out in sections II. 1 and III. 8 of this announcement at the Novotel Bauhinia Shenzhen Hotel on 28 December 2006.

Voting results: votes in favour of: 14, votes against: 0 and votes abstained: 0

By order of the Board  
**Hou Weigui**  
Chairman

Shenzhen, PRC  
26 October 2006

*As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyou; six non-executive directors, Hou Weigui, Wang Zongyin, Xie Weiliang, Zhang Junchao, Li Juping and Dong Lianbo; and five independent non-executive directors, Zhu Wuxiang, Chen Shaohua, Qiao Wenjun, Mi Zhengkun and Li Jin.*