

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)

Phase I of the Share Incentive Scheme (Revised) of ZTE Corporation

SPECIAL NOTE

- The Share Incentive Scheme is formulated in accordance with relevant provisions of the Company Law of the People's Republic of China (the "Company Law"), the Securities Law of the People's Republic of China (the "Securities Law"), the Administrative Measures on Share Incentives of Listed Company (Provisional) (the "Administrative Measures on Share Incentives") of the CSRC, the Articles of Association of ZTE Corporation ("ZTE"), other relevant laws and regulations and regulatory documents.
- ZTE shall implement the Share Incentive Scheme by way of the grant of new shares. Specifically, ZTE shall grant to Scheme Participants 47,980,000 A Shares, representing approximately 5% of the Total Share Capital of ZTE, on a one-off basis. Upon the fulfilment of the unlocking conditions, Scheme Participants may apply to unlock the granted Subject Shares on an annual basis pursuant to the Share Incentive Scheme. The unlocked Subject Shares shall be freely tradable in accordance with the laws.
- The Share Incentive Scheme shall be in force for a term of five years, comprising a Lock-up Period of two years and an Unlocking Period of three years:
 - The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by the general meeting of ZTE, during which the Subject Shares granted to Scheme Participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;
 - The Unlocking Period shall last for three years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the Share Incentive 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; 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; 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, no application made by the Scheme Participants during such year, nor in subsequent years for the unlocking of such Subject Shares will be accepted. Subject shares that fail to be unlocked as a result of non-fulfillment of unlocking conditions may be repurchased by ZTE at the Subscription Cost paid by the Scheme Participants and cancelled.
- The Scheme Participants of the Share Incentive Scheme shall be the Directors and Senior Management of ZTE and Key Personnel of ZTE and its controlled subsidiaries. Scheme Participants who have participated in the Share Incentive Scheme shall not participate in ZTE's distribution of Deferred Bonus in 2006. Funds resulting from the non-participation in the 2006 distribution of the Deferred Bonus by Scheme Participants under the Share Incentive Scheme will not be distributed as bonus to employees not participating in the Share Incentive Scheme.
- Out of the total number of Subject Shares under Share Incentive Scheme, 10% or 4,798,000 shares will be set aside for employees making significant contributions to the Company and important personnel required by the Company identified after the Share Incentive Scheme has been reviewed and passed at the general meeting. The Supervisory Committee will verify the qualifications of the aforesaid employees. The admission of Directors, Supervisors and Senior Management as Scheme Participants shall be submitted to the general meeting for its approval.
- The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal 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 or after extraordinary income/loss items, whichever is lower).
- After the Share Incentive Scheme has been approved by the general meeting and the grant conditions have been fulfilled, the Board of Directors of the Company shall grant the Subject Shares to the Scheme Participants, upon which the Scheme Participants shall pay the subscription amounts for the Subject Shares.
- The price per share at which ZTE shall grant to the Scheme Participants the Subject Shares shall be the Grant Price, which shall represent the closing price of ZTE A Shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date on which the Board meeting for reviewing the Share Incentive Scheme for the first time was convened. Upon the grant of shares to the Scheme Participants by the Company, Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares at the Grant Price for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be converted by the Deferred Bonus not received by Scheme Participants as a result of their non-participation in the distribution of 2006 Deferred Bonus, calculated as a percentage of the Grant Price.
- ZTE shall not provide loans or other financial assistance in any form to the Scheme Participants, including guarantees for loans.
- The Share Incentive Scheme shall be formulated by the Remuneration and Appraisal Committee (the "Remuneration Committee") of the Board of Directors of ZTE (the "Board") and reviewed by the Board. It shall be implemented upon approval by the general meeting of ZTE after due examination and approval by the CSRC and consent of the holders of the state-owned shares with the approval of the State-owned assets management authorities.

I. Definition

Unless otherwise requires, the following terms used herein shall be defined as follows:

"CSRC"	China Securities Regulatory Commission.
"Deferred Bonus"	An incentive regime currently adopted by ZTE based on anticipation of future performance of company staff. Specifically, cash bonuses are distributed by ZTE to its staff based on corporate performance and individual performance in the previous year. Deferred Bonus received by the staff each year shall be cashed in on an annual basis over a subsequent period of five years.
"Grant Price"	The price per share at which ZTE shall grant to the Scheme Participants the Subject Shares shall be the Grant Price.

"Key Personnel"

Principal staff of ZTE and its controlled subsidiaries recognised by the Board as qualified participants in the Share Incentive Scheme. They shall be individuals who are capable of managing all aspects of the Company's operations, familiar with the core technologies, involved in core operations or otherwise making unique contributions to corporate development in a key position. They shall be able to undertake alone in performing management, research and development and marketing functions, with innovative spirit and organizing powers, as well as the ability to make effective use of resources. They shall be high performance staff who formulate strategies and play a crucial role in implementing them, or potential future leaders of the company evidenced by their personal career paths.

"Lock-up Period"

The period during which the transfer of the Subject Shares (including the Subject Shares purchased by Scheme Participants at their own cost) granted to Scheme Participants under the Share Incentive Scheme is prohibited, which shall last for two years commencing on the date on which the Share Incentive Scheme is approved by the general meeting of the Company.

"Performance Appraisal System"

The Performance Appraisal System for Phase I of the Share Incentive Scheme of ZTE Corporation.

"Scheme Participant(s)"

Staff entitled to the Subject Shares under the Share Incentive Scheme, including the Directors (other than the independent non-executive Directors), Senior Management and Key Personnel of ZTE.

"Senior Management"

The President, Senior Vice Presidents, Vice Presidents, Chief Financial Officer, Secretary to the Board of the Company and other members of the senior management stipulated in the Articles of Association of ZTE.

"Share Incentive Scheme"

Phase I of the Share Incentive Scheme of ZTE Corporation.

"Stock Exchange"

The Shenzhen Stock Exchange.

"Subject Shares"

A Shares of ZTE proposed to be granted to Scheme Participants under the Share Incentive Scheme.

"Subscription Cost"

The subscription monies for the Subject Shares paid by the Scheme Participants pursuant to the Share Incentive Scheme together with interest accrued thereon at bank deposit rates for the period commencing on the date of payment of such subscription monies by the Scheme Participants and ending on the date of repurchase by ZTE of Subject Shares not unlocked.

"Total Share Capital"

The total share capital of the Company in issue as at the date on which the Share Incentive Scheme is approved by the general meeting of the Company.

"Total Subject Shares Granted"

The total number of Subject Shares granted to each Scheme Participant pursuant to the Share Incentive Scheme.

"Unlocking Period"

The period during which the Subject Shares (including the Subject Shares purchased by the Scheme Participants at their own cost) granted to Scheme Participants under the Share Incentive Scheme may be conditionally transferred, which shall last for three years commencing upon the expiry of the Lock-up Period.

"ZTE" or the "Company"

ZTE Corporation.

II. Objectives of the Share Incentive Scheme

The primary objective of the Share Incentive Scheme formulated by ZTE is to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of ZTE's operation. In particular, it aims at:

- establishing a long-term incentive mechanism that links the remuneration of the Directors, Senior Management and Key Personnel with the Company's business results to ensure that Scheme Participants are acting in tandem with the strategic goals so as to contribute to the realisation the Company's long-term strategic goals;
- closely linking the interests of shareholders and the interests of the Scheme Participants through the Share Incentive Scheme to maximise shareholders' value; and
- complementing the existing incentive regime of the Company with the Share Incentive Scheme to ensure competitiveness of the remuneration package offered by the Company in the domestic head-hunt market, so as to attract, retain and encourage the Senior Management and Key Personnel required for the fulfilment of the Company's strategic goals; optimising the staff remuneration structure, contributing to the realisation of the Company's long-term strategic goals and enhancing corporate solidarity by substituting part of the Scheme Participants' cash remuneration with share incentives.

III. Administrative Body of the Share Incentive Scheme

- As the supreme authority of the Company, the general meeting of ZTE shall be responsible for consideration and approval of the implementation, alteration and termination of the Share Incentive Scheme.
- The ZTE Board shall act as the executive and administrative body for the Share Incentive Scheme, under which the Remuneration Committee shall be responsible for drafting and revising the Share Incentive Scheme, submitting the scheme for approval by the general meeting of the Company and submitting the same to competent authorities for examination, and handling matters relating to the Share Incentive Scheme within its scope of authority delegated by the general meeting of the Company.

3. The Supervisory Committee of ZTE shall act as the supervisory authority for the Share Incentive Scheme and shall be responsible for verifying the list of Scheme Participants and supervising the implementation of the Share Incentive Scheme as to whether it is in compliance with relevant laws, administrative regulations, departmental rules and operational rules of the Shenzhen Stock Exchange.
4. The Independent Directors of ZTE shall provide independent opinion as to whether the plan is beneficial to the Company's sustainable development or is significantly detrimental to the interests of the Company and the shareholders as a whole, and shall solicit voting rights by proxy from all shareholders in respect of the Share Incentive Scheme.

IV. Scheme Participants for the Share Incentive Scheme

(I) Basis for Determining Scheme Participants

Scheme Participants for the Share Incentive Scheme shall be determined in accordance with the relevant provisions of related laws, regulations and regulatory documents such as the Company Law, the Securities Law, the Administrative Measures on Share Incentives and the Articles of Association of ZTE.

(II) Scope of Scheme Participants

In accordance with the basis for determining Scheme Participants stated above, Scheme Participants proposed to participate in the Share Incentive Scheme shall include:

1. Directors of ZTE (excluding independent non-executive Directors);
2. Senior Management of ZTE;
3. Key Personnel of ZTE and its controlled subsidiaries;
4. The Board may make adjustments to the scope of Scheme Participants in the event of an existing Scheme Participant's loss of qualification, change of position, departure, death or significant contribution by a Scheme Participant, or if the Company need to recruit important personnel.

Scheme Participants who have participated in the Share Incentive Scheme shall not participate in ZTE's distribution of Deferred Bonus in 2006.

(III) Verification of Scheme Participants

1. The list of Scheme Participants shall be verified by the Supervisory Committee of the Company after review and approval by the Board. The Supervisory Committee shall report the results of such verification at the Company's general meeting held for the purpose of approving the Share Incentive Scheme.
2. Any adjustments to the lists of Scheme Participants made by the Board shall also be subject to verification by the Supervisory Committee of the Company.

V. Class, Source, Quantity and Allocation of Subject Shares

(I) Class

The Subject Shares proposed to be granted to Scheme Participants under the Share Incentive Scheme shall be A Shares of ZTE.

(II) Source

The source of Subject Shares under the Share Incentive Scheme shall be new shares granted to the Scheme Participants by ZTE.

(III) Number

The number of Subject Shares proposed to be granted to the Scheme Participants by ZTE under the Share Incentive Scheme (including the Subject Shares purchased by the Scheme Participants at their own cost) shall be 47,980,000 shares, representing approximately 5% of the Total Share Capital of ZTE.

(IV) Allocation

1. A total of 2,060,000 Subject Shares will be allocated to 21 Directors and the Senior Management under the Share Incentive Scheme, which will not exceed 5% of the total number of Subject Shares. Details of the allocation are as follows:

No.	Name	Position	Proposed allocation of shares (Shares)	As a percentage of total number of Subject Shares (%)	As a percentage of Total Share Capital (%)
1.	Wang Zongyin	Vice Chairman	10,000	0.021	0.001
2.	Xie Weiliang	Vice Chairman	10,000	0.021	0.001
3.	Zhang Junchao	Director	10,000	0.021	0.001
4.	Li Juping	Director	10,000	0.021	0.001
5.	Dong Lianbo	Director	10,000	0.021	0.001
6.	Xie Daxiong	Senior Vice President	100,000	0.208	0.010
7.	Tian Wenguo	Senior Vice President	100,000	0.208	0.010
8.	Fang Rong	Vice President	100,000	0.208	0.010
9.	Chen Jie	Vice President	100,000	0.208	0.010
10.	Ding Mingfeng	Vice President	100,000	0.208	0.010
11.	Ye Weimin	Vice President	100,000	0.208	0.010
12.	Qiu Weizhao	Vice President	100,000	0.208	0.010
13.	Ni Qin	Vice President	100,000	0.208	0.010
14.	Zhao Xianming	Vice President	180,000	0.375	0.019
15.	Xu Huijun	Vice President	180,000	0.375	0.019
16.	Pang Shengqing	Vice President	150,000	0.313	0.016
17.	Zhong Hong	Vice President	150,000	0.313	0.016
18.	Fan Qingfeng	Vice President	150,000	0.313	0.016
19.	Yu Yong	Vice President	150,000	0.313	0.016
20.	Zeng Xuezhong	Vice President	150,000	0.313	0.016
21.	Feng Jianxiang	Secretary to the Board	100,000	0.208	0.010

* Scheme Participants who are Directors shall subscribe for the Subject Shares converted by the Deferred Bonus under the Share Incentive Scheme at their own cost.

2. A total of 41,122,000 Subject Shares under the Share Incentive Scheme will be allocated to 3,414 Scheme Participants in the capacity of Key Personnel under the Share Incentive Scheme.
3. Out of the total number of Subject Shares under Share Incentive Scheme, 10% or 4,798,000 shares will be set aside for employees making significant contributions to the Company and important personnel required by the Company identified after the Share Incentive Scheme has been reviewed and passed at the general meeting. The Supervisory Committee will verify the qualifications of the aforesaid employees. The admission of Directors, Supervisors and Senior Management as Scheme Participants shall be submitted to the general meetings for its approval.

4. The number of Subject Shares to be allocated to each Scheme Participant shall approved by the Board of the Company following review by the Remuneration Committee, provided that no individual Scheme Participant may be allocated Subject Shares representing more than 1% of the Total Share Capital on an accumulative basis unless approved by the general meeting by way of special resolution.
5. The Board of the Company may adjust the number and allocation of Subject Shares pursuant to the mandate of the general meeting if such adjustment becomes necessary as a result of the issue of new shares, ex-right and ex-dividend arrangements by ZTE or for other reasons.

VI. Validity Period, Lock-up Period and Unlocking Period of the Share Incentive Scheme

1. Validity Period

The Share Incentive Scheme shall be in force for a period of five years commencing on the date of approval of the Share Incentive Scheme by the general meeting of ZTE.

2. Lock-up Period

The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by the general meeting of ZTE, during which the Subject Shares granted to the Scheme Participants under the Share Incentive Scheme (including the Subject Shares purchased by the Scheme Participants at their own cost) shall be locked up and shall not be transferable.

3. The Unlocking Period

The Unlocking Period shall last for three years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated under the Share Incentive Scheme being satisfied, apply for unlocking in 3 tranches:

- (1) 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;
- (2) 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;
- (3) 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 the remaining outstanding Subject Shares following the previous two tranches of unlocking.

If the unlocking conditions are not satisfied in any one year, no application made by the Scheme Participants for unlocking the Subject Shares during such year or in subsequent years will be accepted. All such unlocked Subject Shares shall be repurchased at the Subscription Cost and cancelled by ZTE.

VII. Procedures of Grant and of Unlocking of Subject Shares

(I) Conditions of Grant

The grant of Subject Shares by ZTE to the Scheme Participants shall be conditional upon the fulfilment of all of the following:

1. None of the following has occurred in relation to ZTE:
 - (1) Issue of a qualified audit opinion or a disclaimer of audit opinion of the Company's financial and accounting report for the most recent accounting year by a certified public accountant;
 - (2) The imposition of administrative penalties by the CSRC during the most recent year due to material non-compliance by the Company;
 - (3) Other circumstances determined by the CSRC.
2. None of the following has occurred in relation to a Scheme Participant:
 - (1) Public censure or declaration as an unfit person by the Stock Exchange in the previous three years;
 - (2) The imposition of administrative penalties by the CSRC during the previous three years due to material non-compliance;
 - (3) Circumstances under which the Scheme Participant is prohibited from acting as Director and Senior Management of the Company, as stipulated in the Company Law;
 - (4) Other serious violations of relevant regulations of the Company, as determined by the Board of the Company.
3. The Scheme Participant accepts the appraisal under the Performance Appraisal System and has passed the appraisal in respect of the previous year.

(II) Grant Price

The price per share at which ZTE shall grant to the Scheme Participants the Subject Shares shall be the Grant Price, which shall represent the closing price of ZTE A Shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date on which the Board meeting for reviewing the Share Incentive Scheme for the first time was convened.

(III) Procedure of Grant

1. The Board of the Company shall review the Share Incentive Scheme and confirm the list of Scheme Participants, number to be allocated and the Grant Price of the Subject Shares.
2. Upon the approval of the Share Incentive Scheme at the general meeting and the conditions for the grant being satisfied, the Subject Shares shall be granted to the Scheme Participants by the Board of the Company, provided that no Subject Shares shall be granted to the Scheme Participants by the Board of the Company during any of the following periods:
 - (1) The 30-day period prior to the announcement of the Company's periodic reports;
 - (2) In the event of significant transactions or matters of the Company, the period during which decisions in respect of the same are being made and ending on the second trading day after the announcement of such matters; and
 - (3) In respect of other price-sensitive significant events, the period commencing on the date when such events occur and ending on the second trading day after the announcement of the same.

3. Scheme Participants verified and approved by the Supervisory Committee shall be required to sign the "Undertaking and Authorization Letter" set out in Annex I of the Share Incentive Scheme. The grant, registration, settlement and lock-up of Subject Shares shall be handled by the Remuneration Committee in a centralised manner after the Subject Shares have been granted to the Scheme Participants.
4. Upon the grant of Subject Shares to the Scheme Participants by the Company, Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares at the Grant Price for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 Subject Shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be converted by the Deferred Bonus not received by Scheme Participants as a result of their non-participation in the distribution of 2006 Deferred Bonus, calculated as a percentage of the Grant Price. ZTE shall not provide loans or other financial assistance in any form to the Scheme Participants including guarantees for loans, in respect of subscription amounts for Subject Shares to be funded by the Scheme Participants at their own cost.
5. Subject Shares granted to Scheme Participants who leave the Company because of loss of civil ability owing to mental disorder shall be held by his/her guardian on his/her behalf, and shall be subject to such procedures and timetables as stipulated in the Share Incentive Scheme prior to such loss of civil ability.
6. In case of the death of a Scheme Participant, Subject Shares granted to him/her shall be passed to his/her appointed beneficiaries or legal representatives and shall be subject to such procedures and timetables as stipulated in the Share Incentive Scheme prior to his/her death.
7. Notwithstanding the foregoing, the Board of the Company shall have the right to dispose of Subject Shares of a Scheme Participant that are still subject to the lock-up at its discretion based on specific circumstances relating to such Scheme Participant.

(II) *Loss of qualification of the Company for the Share Incentive Scheme*

During any year in the Unlocking Period, if any of the following has occurred in relation to ZTE so that it is no longer qualified to implement the Share Incentive Scheme, no application made by the Scheme Participants for the unlocking of the Subject Shares during such year will be accepted. Subject Shares still subject to the lock-up shall be repurchased at the Subscription Cost and cancelled by the Company.

1. Issue of a qualified audit opinion or a disclaimer of audit opinion of the Company's financial and accounting report for the most recent accounting year by a certified public accountant;
2. The imposition of administrative penalties by the CSRC during the most recent year due to material non-compliance by the Company;
3. Other circumstances determined by the CSRC.

(III) *Loss of qualification of Scheme Participants to participate in the Share Incentive Scheme*

During any year in the Unlocking Period, if any of the following has occurred in relation to a Scheme Participant so that he/she is no longer qualified to participate in the Share Incentive Scheme, no application made by the Scheme Participants for the unlocking of the Subject Shares during such year will be accepted. Subject Shares still subject to the lock-up shall be repurchased at the Subscription Cost and cancelled by the Company.

- (1) Public censure or declaration as an unfit person by the Stock Exchange in the past three years;
- (2) The imposition of administrative penalties by the CSRC during the past three years due to material non-compliance;
- (3) Circumstances in which the Scheme Participant is prohibited from acting Director and Senior Management of the Company, as stipulated in the Company Law;
- (4) Other serious violations of relevant regulations of the Company, as determined by the Board of the Company.

(IV) *Conditions for unlocking the Subject Shares not being met*

Where the conditions for unlocking have not been satisfied for any one year in the Unlocking Period, no application made by the Scheme Participants for the unlocking of the Subject Shares in that year during such year or in subsequent years will be accepted. Subject Shares still be subject to the lock-up shall be repurchased at the Subscription Cost and cancelled by the Company.

IX. Supplemental Provisions

1. For the purpose of the Share Incentive Scheme, references to any figure "not exceeding" a certain figure shall include that figure.
2. Scheme Participants shall be entitled to such rights and undertake such obligations as stipulated under the Share Incentive Scheme.
3. Annex to the Share Incentive Scheme shall constitute an integral part to the Share Incentive Scheme.
4. The Board shall have discretion in the interpretation of the Share Incentive Scheme.

ANNEX I UNDERTAKING AND AUTHORIZATION LETTER

Pursuant to relevant provisions of the Share Incentive Scheme (Phase I) of ZTE Corporation (the "Share Incentive Scheme") formulated by ZTE Corporation ("ZTE"), I am a prospective Scheme Participant of the Share Incentive Scheme entitled to the grant of Subject Shares.

As a pre-requisite to participation in the Share Incentive Scheme, I hereby voluntarily make the following undertakings and authorization:

1. I undertake to conscientiously comply with relevant provisions of the Share Incentive Scheme and rules and regulations formulated by ZTE for the purpose of implementing the Share Incentive Scheme, to sign this Undertaking and Authorization Letter and other relevant documents as requested by ZTE, and to purchase the Subject Shares granted to me and pay the relevant subscription amounts in accordance with the Share Incentive Scheme.
2. I undertake not to request ZTE to unlock any of the Subject Shares granted to me prior to the fulfilment of the conditions for unlocking stipulated in the Share Incentive Scheme and not to claim any interests on the Subject Shares other than those agreed under the Share Incentive Scheme.
3. I undertake to accept ZTE's appraisal of my performance and agree that the Board of ZTE and its Remuneration Committee shall, based on the results of the performance appraisal, determine whether I am qualified as a Scheme Participant and adjust the number of Subject Shares I am entitled to.
4. I hereby authorise ZTE to handle all procedures relating to the grant, unlocking and transfer of the Subject Shares and undertake to pay all related tax amounts in a conscientious manner.
5. I undertake to conscientiously comply with provisions on the lock-up and restricted trading of the Subject Shares after being granted the same.
6. This Undertaking and Authorization Letter is irrevocable and shall be effective upon my execution.

Above Undertakings and Authorization are given by:

(Signature)
Date:

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
15 December, 2006

As at the date of this announcement, the Board 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

(IV) *Conditions for Unlocking*

Application by Scheme Participants to unlock Subject Shares granted under the Share Incentive Scheme during the Unlocking Period shall be conditional upon the fulfilment of all of the following:

1. None of the following has occurred in relation to ZTE:
 - (1) Issue of a qualified audit opinion or a disclaimer of audit opinion of the Company's financial and accounting report for the most recent accounting year by a certified public accountant;
 - (2) The imposition of administrative penalties by the CSRC during the most recent year due to material non-compliance by the Company;
 - (3) Other circumstances determined by the CSRC.
2. None of the following has occurred in relation to Scheme Participants:
 - (1) Public censure or declaration as an unfit person by the Stock Exchange in the past three years;
 - (2) The imposition of administrative penalties by the CSRC during the previous three years due to material non-compliance;
 - (3) Circumstances in which the Scheme Participant is prohibited from acting Director and Senior Management of the Company, as stipulated in the Company Law;
 - (4) Other serious violations of relevant regulations of the Company, as determined by the Board of the Company.

3. *Conditions for Results Appraisal*

The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal 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 or after extraordinary income/loss items, whichever is lower)

4. *Conditions for Performance Appraisal*

The appraisals of Scheme Participants by ZTE for the years 2007, 2008 and 2009 in accordance with the Performance Appraisal System shall constitute the performance appraisal conditions to Scheme Participants' application for unlocking the Subject Shares in the first, second and third tranche, respectively. The Scheme Participants must pass such appraisals.

(V) *Procedure of Unlocking*

1. When the conditions for unlocking are met during the Unlocking Period, Scheme Participants must first submit an "Application for Unlocking Subject Shares", to the Company.
2. Upon endorsement by the Board of the Company of a Scheme Participant's application for unlocking, the Remuneration Committee shall handle the unlocking of qualified Subjects Shares in a centralised manner.
3. Where the conditions for unlocking are not satisfied for any one year within the Unlocking Period, no application made by the Scheme Participants for unlocking of the Subject Shares during such year or in subsequent years will be accepted.

VIII. Alteration and Termination of the Share Incentive Scheme

(I) *Change of duties, departure or death of Scheme Participants*

Any change of duties, departure or death of Scheme Participants prior to the conclusion of the validity period of the Share Incentive Scheme shall be dealt with in accordance with the following provisions:

1. A Scheme Participant whose position has changed but who nevertheless remains a Director and a member of the Senior Management of ZTE or a Key Personnel of ZTE and any of its controlled subsidiaries, the Subject Shares granted to such Scheme Participant shall be subject to such procedures and timetables as stipulated in the Share Incentive Scheme prior to the change of duties. Subject Shares granted to a Director-Scheme Participant who no longer holds the Director's office or any other position with the Company following an election of Directors shall be subject to such procedures and timetables as stipulated in the Share Incentive Scheme prior to the election of Directors, however, in the case of Scheme Participants whose position has changed as a result of acts that are seriously detrimental to the Company's interests or reputation such as incompetence in performing their duties, failure in appraisal, violation of laws, unethical behaviour, leak of confidential information of the Company, negligence duties or gross misconduct, the Board may determine that the Subject Shares granted to such Scheme Participants under the Share Incentive Scheme shall still be subject to the lock-up and the Subject Shares shall be repurchased at the Subscription Cost and cancelled by the Company.
2. Scheme Participants who leave the Company as a result of resignation or lay-off by the Company may exercise their normal rights in respect of Unlocked Subject Shares held, while their Subject Shares still subject to the lock-up shall be repurchased at the Subscription Cost and cancelled by the Company.
3. Subject Shares granted to Scheme Participants who leave the Company in retirement shall be subject to such procedures and timetables as stipulated in the Share Incentive Scheme prior to their retirement.
4. Subject Shares granted to Scheme Participants who leave the Company because of loss of ability to work shall be subject to such procedures and timetables as stipulated in the Share Incentive Scheme prior to such loss of ability to work.