

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 REGARDING CONNECTED TRANSACTIONS AND THE GRANT OF SHARES PURSUANT TO A SHARE INCENTIVE SCHEME

SUMMARY

On 25 October, 2006, ZTE convened a meeting of the Board (the "Meeting"), during which the Board considered and approved the adoption of the Share Incentive Scheme (Phase I, Draft). Capitalised terms used herein shall have the meanings defined in the Share Incentive Scheme. The key terms of the Share Incentive Scheme are summarised as follows:

- the Scheme Participants will be certain Directors of ZTE (excluding independent non-executive Directors of ZTE), selected members of senior management of ZTE, and other key personnel of ZTE and its controlled subsidiaries;
 - the Subject Shares to be granted to the Scheme Participants under the Share Incentive Scheme shall be new shares of ZTE, the total number of which shall be 47,980,000 A shares, representing approximately 5% of the current total share capital of ZTE. The Subject Shares to be granted to the Scheme Participants who are ZTE's connected persons shall be 1,160,000, representing approximately 0.1% and approximately 2.4% of the current total share capital of ZTE and the total number of Subject Shares, respectively. The name and entitlement of each Scheme Participant who is a connected person of ZTE are indicated in the text of the Share Incentive Scheme set out below;
 - the Share Incentive Scheme shall be in force for a term of five years, comprising a Lock-up Period of two years commencing on the date of approval of the Share Incentive Scheme by ZTE's general meeting (during which the Subject Shares shall not be transferable), and an Unlocking Period of three years following expiry of the Lock-up Period. During the Unlocking Period, subject to satisfaction of unlocking conditions stipulated by the Share Incentive Scheme:
 - the first unlocking period shall be the first year following expiry of the Lock-up Period and the Subject Shares to be unlocked shall not exceed 20% of the aggregate number of the Subject Shares;
 - the second unlocking period shall be the second year following expiry of the Lock-up Period and the Subject Shares to be unlocked shall not exceed 35% of the aggregate number of the Subject Shares; and
 - the third unlocking period shall be the third year following expiry of the Lock-up Period and the Subject 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 that year shall lapse; and
- for every three Subject Shares granted to a Scheme Participant, the Scheme Participant will have to pay for one Subject Share at RMB30.05, the Grant Price, being the closing price of ZTE's A Shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Meeting to review the Share Incentive Scheme.

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the grant of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries will constitute connected transactions of ZTE. ZTE intends to comply with all applicable requirements under Chapter 14A of the Listing Rules with respect to obtaining shareholders' approval of the Share Incentive Scheme, including the publication of a shareholder circular, and the convening of an extraordinary general meeting for independent shareholders of ZTE to adopt the Share Incentive Scheme and to approve the grant of Subject Shares to connected persons of ZTE. In addition, ZTE has appointed an independent financial adviser to advise the independent board committee and independent shareholders of ZTE in connection with the grant of Subject Shares to Scheme Participants who are connected persons of ZTE.

The Share Incentive Scheme will be submitted to ZTE's shareholders in general meeting for their approval. A shareholder circular containing details of the extraordinary general meeting will be despatched to ZTE's shareholders as soon as practicable.

ZTE and the Stock Exchange are in discussions as to whether the adoption of the Share Incentive Scheme in ZTE's general meeting will be subject to approval at class meetings of ZTE.

The Share Incentive Scheme is subject to approval by the CSRC.

The Share Incentive Scheme may be a share option scheme under Chapter 17 of the Listing Rules. In the event the Share Incentive Scheme is such a share option scheme, ZTE may need to amend the terms or to decide to take other appropriate action. ZTE will issue an announcement in this regard if appropriate.

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.

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 CSRC, the Articles of Association of 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 5 years, comprising a Lock-up Period of 2 years and an Unlocking Period of 3 years:
 - The Lock-up Period shall last for a period of 2 years commencing on the date of approval of the Share Incentive Scheme by the general meeting of ZTE, during which the Subject Shares (including Subject Shares purchased by the Scheme Participants at their own cost) 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 3 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 (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.
- 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.
- The weighted average rates of return on net assets of ZTE 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).
- 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 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.
- The Scheme Participants shall subscribe for relevant Subject Shares at their own cost. ZTE shall not provide loans or other financial assistance in any form, including guarantees for their loans, to the Scheme Participants.

- Proceeds from the subscription of Subject Shares by Scheme Participants as a result of the implementation of the Share Incentive Scheme by ZTE shall be applied as additional working capital for the Company.

- The Share Incentive Scheme shall be formulated by the Remuneration and Appraisal Committee (the "Remuneration Committee") under 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 CSRC.

I. Definition

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

"CSRC"	The 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 5 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 2 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 of ZTE and Key Personnel.
"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.
"Shenzhen Stock Exchange"	The Shenzhen Stock Exchange.
"Subject Shares"	A Shares of ZTE proposed to be granted to Scheme Participants under the Share Incentive Scheme.
"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.

“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 3 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:

1. 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 of the Company’s long-term strategic goals.
2. Closely linking the interests of shareholders and the interests of the Scheme Participants through the Share Incentive Scheme to maximise shareholders’ value;
3. 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

1. 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.
2. 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 interest 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. In the event of loss of qualification as a Scheme Participant under the Share Incentive Scheme, change of position, departure, death or significant contributions on the part of the Scheme Participants and the Company’s need to recruit important personnel, the Board may make adjustments to the scope of Scheme Participants.

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 issued to the Scheme Participants by ZTE.

(III) Quantity

The number of Subject Shares proposed to be granted to the Scheme Participants by ZTE under the Share Incentive Scheme (including 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

No.	Name	Position	Proposed allocation of shares (Shares)	As a percentage of total number of Subject Shares (%)	As a percentage of Total Share Capital (%)
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 Jianxiong	Secretary to the Board	100,000	0.208	0.010

* Connected persons of the Company

2. A total of 45,920,000 Subject Shares will be allocated to 3,414 Scheme Participants in the capacity of Key Personnel under the Share Incentive Scheme.
3. 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 unless approved by the general meeting by way of special resolution.
4. 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 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 5 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 2 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 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 3 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 (including the Subject Shares purchased by the Scheme Participants at their own cost);
- (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 (including the Subject Shares purchased by the Scheme Participants at their own cost);
- (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 outstanding Subject Shares following the previous two tranches of unlocking.

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.

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 an audit report by a certificated public accountant in which it presents its disapproved opinion or refused to present its opinion on the Company’s financial and accounting report for the most recent accounting year;
 - (2) The imposition of administrative penalties by CSRC during the recent year due to material non-compliance by the Company;
 - (3) Other situations determined by 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 Shenzhen Stock Exchange in the past 3 years;
 - (2) The imposition of administrative penalties by CSRC during the past 3 years due to material non-compliance;
 - (3) Situations in 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 provisions 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 is convened.

(III) Procedure of Grant

1. The Board of the Company shall review the Share Incentive Scheme and confirm the list of Scheme Participants, quantity of allocation and Grant Price of the Subject Shares.
2. Upon due examination and approval of the Share Incentive Plan by CSRC 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 regular reports;
 - (2) In the event of significant transactions or significant matters of the Company, the period during which decisions in respect of the same are being made and up to 2nd 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 2nd 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.

(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 an audit report by a certificated public accountant in which it presents its disapproved opinion or refused to present its opinion on the Company's financial and accounting report for the most recent accounting year;
 - (2) The imposition of administrative penalties by CSRC during the recent year due to material non-compliance by the Company;
 - (3) Other situations determined by CSRC.
2. None of the following has occurred in relation to Scheme Participants:
 - (1) Public censure or declaration as an unfit person by the Shenzhen Stock Exchange in the past 3 years;
 - (2) The imposition of administrative penalties by CSRC during the past 3 years due to material non-compliance;
 - (3) Situations 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 provisions 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 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)

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. Such appraisals must be passed.

(V) *Procedure of Unlocking*

1. When the conditions for unlocking are met during the Unlocking Period, Scheme Participants must submit an "Application for Unlocking Subject Shares" and pay the relevant amounts on the basis of the purchase of 1 Share at the Grant Price for every 3 Shares granted. The Scheme Participants shall subscribe for relevant Subject Shares at their own cost. ZTE shall not provide loans or other financial assistance in any form, including guarantees for their loans, to the Scheme Participants. Proceeds from the subscription of Subject Shares by Scheme Participants shall be applied as additional working capital for 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 Subject Shares in a centralised manner.
3. Where the conditions for unlocking have not been satisfied for any one year within 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.
4. Scheme Participants may transfer its unlocked Subject Shares, provided that any transfer of shares held by Scheme Participants such as the Directors and Senior Management shall be in compliance with relevant provisions of the laws and regulations such as the Company Law and the Securities Law, regulatory documents and the Article of Association of ZTE.

VIII. *Alteration and Termination of the Share Incentive Scheme*(I) *Change in controlling interests, merger or demerger of the Company*

1. In the event of a change in control, merger or demerger of the Company, a Scheme Participant shall have the right to request the Company to unlock on a one-off basis all shares granted under the Share Incentive Scheme.
2. A change in controlling interests shall mean any of the following:
 - (1) A change in the largest shareholder of the Company as registered with the securities registration and clearing house, or
 - (2) The replacement of half of the members of the Board as approved by shareholders by way of voting at the general meeting prior to the expiry of the term of office of the Board.

(II) *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 or 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, non-ethical behaviour, leakage of confidential information of the Company, negligence duties or gross misconduct, the Board may determine that no unlocking shall be available to any Subject Shares granted to such Scheme Participants under the Share Incentive Scheme that remain under a lock-up.
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 no unlocking shall be available to Subject Shares that remain under a lock-up.
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.

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 successor or successor by law 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 remain under a lock-up at its discretion based on specific circumstances relating to such Scheme Participant.

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

During any year within 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, Subject Shares that would otherwise be unlocked by the Scheme Participants in that year shall lapse:

1. Issue of an audit report by a certificated public account in which it present its disapproval opinion or refuses to present its opinion on the Company's financial and accounting report for the most recent accounting year;
2. The imposition of administrative penalties by CSRC during the recent year due to material non-compliance by the Company;
3. Other situations determined by CSRC.

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

During any year within 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, Subject Shares that would otherwise be unlocked in that year by the Scheme Participants shall lapse:

- (1) Public censure or declaration as an unfit person by the Shenzhen Stock Exchange in the past 3 years;
- (2) The imposition of administrative penalties by CSRC during the past 3 years due to material non-compliance;
- (3) Situations 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 provisions of the Company, as determined by the Board of the Company.

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

Where the conditions for unlocking have not been satisfied for any one year within the Unlocking Period, the Subject Shares of the year concerned shall lapse; and also no application for unlocking of such Subject Shares for subsequent years shall be made by the Scheme Participants.

(VI) *Force majeure having a material impact on the normal implementation of the Share Incentive Scheme*

In the event of any political and policy risks, serious natural calamities and other force majeure during the Lock-up Period and the Unlock Period, the occurrence of which is beyond the control of the Company's management, the Board may request the general meeting to terminate the Share Incentive Scheme.

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 potential 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 amount 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: _____ 2006

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
25 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.