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ZTE CORPORATION

中興通訊股份有限公司

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

(Stock Code: 763)

**Announcement on the Commencement of the Second Exercise Period
under the Share Option Incentive Scheme**

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

As announced by ZTE Corporation (the “Company”) on 27 October 2016, the exercise conditions for the second exercise period under the Share Option Incentive Scheme of A shares of the Company (the “Scheme”) has been fulfilled. Following examination by the Shenzhen Stock Exchange and China Securities Depository & Clearing Corporation Limited, Shenzhen Branch, participants under the Scheme may exercise their share options eligible to be exercised in the second exercise period during the second exercise period from 1 November 2016 to 31 October 2017.

I. Arrangements for exercise of share options in the second exercise period under the Scheme

1. Source of underlying shares of the Scheme: additional A shares denominated in RMB placed to participants.
2. Participants entitled to exercise their share options and number of share options exercisable in the second exercise period:

Position	Name	Number of share options exercisable in the second exercise period
		(Unit: in ten thousands)
Director and President	Zhao Xianming	18.0000
Director	Zhang Jianheng	1.0800
Executive Vice	Fan Qingfeng	18.0000

Position	Name	Number of share options exercisable in the second exercise period
		(Unit: in ten thousands)
President		
Executive Vice President	Zeng Xuezhong	16.2000
Executive Vice President	Xu Huijun	12.6000
Executive Vice President	Pang Shengqing	16.2000
Executive Vice President	Zhang Zhenhui	7.0200
Executive Vice President	Chen Jianzhou	16.2000
Secretary to the Board	Cao Wei	2.5200
Other participants	1,341 persons	3,202.3440
Total	1,350 persons	3,310.1640

There shall be 1,350 participants entitled to exercise their share options and 33,101,640 share options exercisable in the second exercise period. The list of entitled participants for the second exercise period has been verified by the Supervisory Committee, Independent Non-executive Directors and Remuneration and Evaluation Committee of the Company, respectively.

3. Exercise price: the exercise price of the share options of A shares of the Company is currently RMB10.97. In the event of any dividend distribution, increase of share capital by way of conversion of capital reserve, issue of bonus shares, share division or consolidation during the exercise period, the exercise price will be adjusted accordingly.

4. Exercise period: dates on which the share options are exercisable during the period from 1 November 2016 to 31 October 2017 (both dates inclusive).

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

6. Participants shall not exercise their share options during the following periods:

(1) The period commencing on the date which is 30 days prior to the publication of a regular report or, in case of delay of the publication of a regular report for specific

reasons, 30 days prior to the originally scheduled date for the publication, and ending on the second trading day after the publication;

(2) The period commencing on the date which is 10 days prior to the preliminary results announcement or express results announcement of the Company and ending on the second trading day after the announcement;

(3) The period during which the decision-making in respect of a substantial transaction or significant event is in process until the second trading day after the announcement of such event;

(4) The period commencing on the date on which other significant events that may affect the share price take place and ending on the second trading day after the announcement of such event;

(5) In case the participant is a Director, the period of 60 days immediately preceding the publication date of the annual results of the Company up to (and including) the publication date of the results, and the period of 30 days immediately preceding the publication date of the interim or quarterly results of the Company up to (and including) the publication date of such results.

Participants who are Directors or members of the senior management should avoid short-term trading, namely, they shall not sell their holdings of shares in the Company within 6 months after exercising any share options, nor shall they exercise the share options within 6 months after selling any of their holdings of shares in the Company.

7. The exercise of share options will not result in the distribution of shareholdings not meeting listing requirements

The 33,101,640 share options currently exercisable account for 0.80% of the total share capital of the Company of 4,159,606,203 shares. The full exercise of share options exercisable in the second exercise period will result in the increase of the Company's share capital to 4,192,707,843 shares, which will not result in the distribution of shareholdings not meeting listing requirements.

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

In accordance with "ASBE 11 – Share-based Payment," services rendered by participants are charged to relevant costs or expenses at the fair value of the share options on the date of grant and the capital reserve is credited accordingly, based on the best estimates of number of exercisable share options by the Company. During the exercise period of the share options, the Company will not adjust recognised costs or expenses. At each balance sheet date, share options exercised are transferred to and recognised in the capital reserve.

The share options shall be exercised by participants on a voluntary basis. The fair value on the date of grant of equity-settled share options granted is estimated by an independent third party engaged by the Company using the Binomial Tree model taking into account the terms and conditions for the grant of share options. The fair value of share options granted in 2013 is RMB524,023,000, while the amounts of share option expenses recognised for 2013, 2014 and 2015 are RMB29,707,000, RMB178,241,000 and RMB166,829,000, respectively. The amounts of share option expenses estimated for 2016 and 2017 are RMB101,102,000 and RMB48,144,000, respectively.

The exercising of share options for the second exercise period in full will result in the increase of the total share capital of the Company by 33,101,640 shares, and the increase of its capital reserve by RMB330,023,351. Based on relevant figures as at the end of 2015, the basic earnings per share for 2015 would have decreased by RMB0.00618, and the fully diluted return on net assets would have decreased by 0.131%. The actual figures of the effect are subject to figures audited by the accountant.

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

By Order of the Board
Zhao Xianming
Chairman

Shenzhen, the PRC
9 November 2016

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