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If you are in any doubt as to any aspect of this circular, or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in **ZTE CORPORATION**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, licensed securities dealers or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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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)

ADOPTION OF SHARE INCENTIVE SCHEME

CONNECTED TRANSACTIONS

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



博大資本國際有限公司

Partners Capital International Limited

A letter from the Board is set out on pages 4 to 21 of this circular. A letter from the Independent Board Committee is set out on pages 22 to 23 of this circular.

A letter from Partners Capital International Limited, the independent financial advisor, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 33 of this circular.

A notice of the first extraordinary general meeting of the Company for 2007 ("EGM") to be held at the Novotel Bauhinia Shenzhen Hotel, Qiaocheng E., Road, Huaqiao City, Shenzhen, Guangdong Province, the People's Republic of China (near the western entrance of Yuanboyuan) at 9:00 a.m. on Tuesday, 13 March 2007 is set out on pages 55 to 62 of this circular. This revised notice provides notice of the matters to be considered at the EGM that are in addition to those previously described in the notice contained in the circular dated 10 November 2006. Shareholders of the Company should read these two notices and the related circulars together.

A revised form of proxy for use at the EGM is enclosed with this circular. **The revised proxy shall supersede and replace the previous proxy form which was sent to you together with the circular dated 10 November 2006.** Whether or not you are able to attend the meeting, please complete and return the enclosed revised form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

Mr. Zhu Wuxiang, an independent director of the Company, has also sent out an Independent Director's Proxy Form in accordance with the relevant regulations of the PRC to solicit proxies from the Shareholders with respect to the vote on the resolutions regarding the Share Incentive Scheme at the EGM. The Independent Director's Proxy Form sent out by Mr. Zhu Wuxiang is also enclosed with this circular.

16 February 2007

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“A Shares”	Ordinary shares of par value RMB1.00 each in the share capital of the Company, which are listed and traded on the Shenzhen Stock Exchange
“associate”	Has the meaning given to it by the Hong Kong Listing Rules
“Board”	The board of directors of the Company
“CASIC”	航天科工深圳集團公司 (CASIC Shenzhen (Group) Company)
“Company”	ZTE Corporation, a joint stock limited company incorporated on 11 November 1997 under the Chinese Company Law in the PRC whose shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Connected Scheme Participants”	Scheme Participants who are connected persons of the Company as defined by the Hong Kong Listing Rules and/or the Shenzhen Listing Rules
“CSRC”	China Securities Regulatory Commission
“CSRC Measures”	Administrative Measures on Share Incentives of Listed Company issued by the CSRC on 31 December 2005
“Directors”	The director(s) of the Company
“EGM”	The first extraordinary general meeting of the Company for 2007 to be held on 13 March 2007
“General Mandate 2006”	The general mandate granted to the Board by a special resolution adopted at the annual general meeting of the Company held on 14 June 2006
“Grant Price”	The price per share at which the Company shall grant to the Scheme Participants the Subject Shares
“Group”	The Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	The committee of independent non-executive Directors consisting of Mr. Zhu Wuxiang, Mr. Chen Shaohua, Mr. Qiao Wenjun, Mr. Mi Zhengkun and Mr. Li Jin formed to advise the Independent Shareholders as to the grant and issue of Subject Shares to the Connected Scheme Participants (as defined by the Hong Kong Listing Rules) pursuant to the Share Incentive Scheme

DEFINITIONS

“Independent Director’s Proxy Form”	The solicitation proxy form sent out by Mr. Zhu Wuxiang, an independent director of the Company, to solicit proxies from the Shareholders with respect to the vote on the resolutions regarding the Share Incentive Scheme at the EGM
“Independent Financial Advisor”	The independent financial advisor to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders other than the Connected Scheme Participants and their associate(s)
“Key Personnel”	Principal staff of the Company and its controlled subsidiaries recognised by the Board as qualified participants in the Share Incentive Scheme
“Latest Practicable Date”	12 February 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Li Shan Microelectronics”	驪山微電子公司 (Li Shan Microelectronics Corporation)
“Lock-up Period”	The period during which the transfer of the Subject Shares granted to Scheme Participants under the Share Incentive Scheme is prohibited, which shall last for two years commencing from the date on which the Share Incentive Scheme is approved by the general meeting of the Company.
“PRC”	The People’s Republic of China
“Reserved Subject Shares”	A total of 4,798,000 shares, representing 10% of the total number of Subject Shares, set aside for employees who make significant contributions to the Company and important personnel required by the Company who are identified after the Share Incentive Scheme has been reviewed and passed at the EGM
“RMB”	Renminbi, the lawful currency of PRC
“Scheme Participants”	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.
“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 of the Company stipulated in the Articles of Association of the Company.
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shenzhen Listing Rules”	Rules Governing the Listing of Securities on Shenzhen Stock Exchange
“Shareholders”	The shareholders of the Company

DEFINITIONS

“Share Incentive Scheme”	Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007), the full text of which was published on 14 February 2007 and is attached to this circular as Appendix 2
“Subject Shares”	A Shares of the Company proposed to be granted and issued to Scheme Participants under the Share Incentive Scheme
“Subscription Cost”	The subscription monies for the Subject Shares (excluding the Subject Shares funded by the conversion of the Deferred Bonus) paid by the Scheme Participants at their own cost pursuant to the Share Incentive Scheme together with interest accrued thereon at bank deposit rates for the period commencing from the date of payment of such subscription monies by the Scheme Participants and ending on the date when the Company returns such subscription monies as a result of non-fulfilment of unlocking conditions
“Supervisory Committee”	The supervisory committee of the Company
“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 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
“Zhongxingxin”	深圳市中興新通訊設備有限公司 (Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited)

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)

Executive Directors:

Yin Yimin
Shi Lirong
He Shiyong

Legal address

ZTE Plaza
Keji Road South
Hi-Tech Industrial Park
Nanshan District
Shenzhen, 518057
The People's Republic of China

Non-executive Directors:

Hou Weigui (*Chairman*)
Wang Zongyin
Xie Weiliang
Zhang Junchao
Li Juping
Dong Lianbo

Place of business in Hong Kong

8/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Independent non-executive Directors:

Zhu Wuxiang
Chen Shaohua
Qiao Wenjun
Mi Zhengkun
Li Jin

16 February 2007

To the Shareholders

Dear Sir or Madam,

ADOPTION OF SHARE INCENTIVE SCHEME

CONNECTED TRANSACTIONS

1. INTRODUCTION

1.1 The Board has approved the Share Incentive Scheme and the grant and issue of Subject Shares to the Connected Scheme Participants

At its nineteenth meeting of the third session held on 25 October 2006, the Board considered and approved, among others, the draft of the Share Incentive Scheme (“**Draft Share Incentive Scheme**”) and the grant and issue of shares to certain Scheme Participants who are connected persons of the Company.

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Reference is made to the Company's following announcements dated 26 October 2006 in relation to the Share Incentive Scheme:

- the resolutions passed by the Board at its nineteenth meeting of the third session;
- a connected transaction announcement in relation to the grant and issue of shares to the Connected Scheme Participants, which also included the text of the Draft Share Incentive Scheme approved by the Board;
- an independent opinion on the Draft Share Incentive Scheme from the independent directors of the Company; and
- the resolutions passed by the Supervisory Committee approving, among others, the Draft Share Incentive Scheme.

1.2 The terms of the Share Incentive Scheme are subject to the CSRC's comment and will be subject to the Shareholders' approval

Pursuant to the CSRC Measures, the terms of the Share Incentive Scheme are subject to the CSRC's comment and approval by the general meeting of the Company. Immediately after publishing the Draft Share Incentive Scheme on 26 October 2006, the Company submitted the Draft Share Incentive Scheme to the CSRC for its comment. Thereafter, the Company engaged in discussions with the CSRC on the Share Incentive Scheme and agreed to revise some terms of the Share Incentive Scheme in accordance with the CSRC's comments.

On 5 February 2007, the CSRC issued a no comment letter with respect to the Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007), the full text of which was published on 14 February 2007 and is set out on pages 41 to 54 of this circular as Appendix 2.

1.3 Subject Shares will be issued pursuant to the general mandates granted/to be granted to the Board

At the annual general meeting of the Company held on 14 June 2006, the Board was granted the General Mandate 2006 to, allot, issue and deal with, separately or concurrently, additional domestic shares and overseas-listed foreign shares of the Company and to make or grant offers, agreements or options in respect of the above. The aggregate nominal amount of domestic shares and H shares authorized to be allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board shall not exceed 20% of the aggregate nominal amount of each of the share capital of the domestic shares and H shares of the Company in issue at the date on which the General Mandate 2006 was granted.

At its twentieth meeting of the third session held on 15 December 2006, the Board passed a resolution to exercise the General Mandate 2006 for the purpose of the grant and issue of the Subject Shares (other than the Reserved Subject Shares).

The Reserved Subject Shares, being 10% of the total number of Subject Shares, will be issued pursuant to the general mandate to be granted to the Board for the period when such Reserved Subject Shares are granted, rather than the General Mandate 2006.

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Pursuant to article 141 of the Articles of Association of the Company, the special voting procedures of the class meeting shall not apply to the grant and issue of shares pursuant to a general mandate.

1.4 The grant and issue of Subject Shares to the Connected Scheme Participants will be subject to independent shareholders' approval

The grant and issue of shares to Scheme Participants who are connected persons (as defined by the Hong Kong Listing Rules and/or the Shenzhen Listing Rules) of the Company constitute connected transactions of the Company and therefore require independent shareholders' approval. The Company will seek the Independent Shareholders' approval on the grant and issue of Subject Shares to the Connected Scheme Participants, separate and in addition to the approval on the adoption of the Share Incentive Scheme as described under section 1.2 of this circular, and will also comply with other applicable requirements under Chapter 14A of the Listing Rules in respect of connected transactions.

2. BASIC TERMS OF THE SHARE INCENTIVE SCHEME

2.1 Objectives of the Share Incentive Scheme

The primary objective of the Share Incentive Scheme 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 the Company'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.

The Subject Shares will be granted to selected Scheme Participants who are regarded as valuable human resources of the Group or who have contributed to the growth and success of the Group based on their performance. The Reserved Subject Shares will be set aside for employees who make significant contributions to the Company and important personnel required by the Company who are identified after the Share Incentive Scheme has been reviewed and passed at the EGM. The Share Incentive Scheme has a term of five years, which includes a two-year Lock-up Period followed by a three-year Unlocking Period. During the Unlocking Period, Scheme Participants can unlock the Subject Shares in three tranches only if all of the unlocking conditions (including but not limited to the

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performance targets) are satisfied. The Directors believe that the terms of the Share Incentive Scheme, in particular the selection of the Scheme Participants and the requirements relating to the Lock-up Period and the performance target, will serve the above objectives.

2.2 Scheme Participants and the basis of determining the 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 of the PRC, the Securities Law of the PRC, the CSRC Measures and the Articles of Association of the Company.

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

- Directors of the Company (excluding independent non-executive Directors);
- Senior Management of the Company;
- Key Personnel of the Company and its controlled subsidiaries;

The Board may make adjustments to the scope of Scheme Participant 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.

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. 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.

2.3 Subject Shares

The quota of Subject Shares proposed to be granted to the Scheme Participants by the Company under the Share Incentive Scheme shall be 47,980,000 Subject Shares of the Company, representing approximately 5% of the Total Share Capital of the Company. The source of Subject Shares under the Share Incentive Scheme shall be new A Shares to be granted to the Scheme Participants by the Company.

All of the Subject Shares, once issued, shall rank *pari passu* in all respects with the other issued A Shares of the Company.

A total quota of 2,060,000 Subject Shares under the Share Incentive Scheme will be allocated to twenty one Directors and the Senior Management under the Share Incentive Scheme, which will not exceed 5% of the total number of Subject Shares. A total quota of 41,122,000 Subject Shares will be allocated to 3,414 Scheme Participants in the capacity of Key Personnel under the Share Incentive Scheme.

A total of 4,798,000 shares, representing 10% of the total number of Subject Shares, will be set aside as the Reserved Subject Shares for employees who make significant contributions to the Company and important personnel required by the Company who are identified after the Share Incentive Scheme has been reviewed and passed at the general meeting.

LETTER FROM THE BOARD

The Supervisory Committee will verify the qualifications of the aforesaid employees. The designation of Directors, Supervisors and Senior Management as Scheme Participants shall be submitted to the general meetings for its approval.

The number of Subject Shares to be allocated to each Scheme Participant shall be approved by the Board of the Company following review by the Remuneration Committee of the Board, provided that no individual Scheme Participant may be allocated Subject Shares representing more than 1% of the Total Share Capital on a cumulative basis unless approved by the general meeting by way of special resolution.

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 the Company or for other reasons.

2.4 Validity period, Lock-up Period and Unlocking Period of the Share Incentive Scheme

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

The Lock-up Period shall last for a period of two years commencing from the date of approval of the Share Incentive Scheme by the general meeting of the Company, during which the Subject Shares granted to the Scheme Participants under the Share Incentive Scheme shall be locked 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 under the Share Incentive Scheme being satisfied, apply for unlocking in three 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; and
- 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 during the Unlocking Period, no application made by the Scheme Participants for unlocking the Subject Shares during such year or in subsequent years will be accepted. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

2.5 Conditions of grant and unlocking

2.5.1 *Conditions of grant*

The grant of Subject Shares by the Company 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 the Company:
 - Issue of financial and accounting report containing a qualified opinion or no opinion for the most recent accounting year by a certified public accountant;
 - The imposition of administrative penalties by the CSRC during the most recent year due to material non-compliance by the Company;
 - Other circumstances determined by the CSRC; and
- (2) None of the following has occurred in relation to a Scheme Participant:
 - Public censure or declaration as an unfit person by the Shenzhen Stock Exchange in the previous three years;
 - The imposition of administrative penalties by the CSRC during the previous three years due to material non-compliance;
 - Circumstances under which the Scheme Participant is prohibited from acting as Director and Senior Management of the Company, as stipulated in the Company Law of the PRC; and
 - Other serious violations of relevant regulations of the Company, as determined by the Board of the Company.
- (3) Scheme Participant accepts the appraisal under the Performance Appraisal System and has passed the appraisal in respect of the previous year.

2.5.2 *Conditions of 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 the Company:
 - Issue of the Company's financial and accounting report containing a qualified opinion or no opinion for the most recent accounting year by a certified public accountant;
 - The imposition of administrative penalties by the CSRC during the recent year due to material non-compliance by the Company;
 - Other circumstances determined by the CSRC; and

LETTER FROM THE BOARD

(2) None of the following has occurred in relation to Scheme Participants:

- Public censure or declaration as an unfit person by the Shenzhen Stock Exchange in the previous three years;
- The imposition of administrative penalties by the CSRC during the past three years due to material non-compliance;
- Circumstances in which the Scheme Participant is prohibited from acting Director and Senior Management of the Company, as stipulated in the Company Law of the PRC; and
- 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 the Company 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 the Company 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.

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.

2.6 Grant Price

The Grant Price for the Subject Shares other than the Reserved Subject Shares is RMB30.05, being the closing price of the Company's 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 approval of the Share Incentive Scheme at the general meeting and within 30 trading days after the conditions for the grant being satisfied, the 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 funded by the conversion of the Deferred Bonus that Scheme Participants would have received prior to their agreement not to participate in the distribution of 2006 Deferred Bonus, calculated as a percentage of the Grant Price.

LETTER FROM THE BOARD

The Grant Price of the Reserved Subject Shares shall be 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 in connection with the grant of the Reserved Subject Shares to the Scheme Participants is convened. The Scheme Participants shall pay the subscription amounts for the Reserved Subject Shares upon the grant of the Reserved Subject Shares on the basis of the purchase of 5.2 Reserved Subject Shares at the Grant Price for every 10 Reserved Subject Shares granted.

The Company 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.

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.

2.7 Alteration and termination of the Share Incentive Scheme

2.7.1 Change of duties or departure of Scheme Participants

Any change of duties, or departure as a result of resignation or lay-off 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:

- a Scheme Participant whose position has changed but who nevertheless remains a Director or a member of the Senior Management of the Company and a Key Personnel of the Company 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.
- 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 the unlocked Subject Shares they held. Their Subject Shares still subject to the lock-up shall not be unlocked. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost and the quota for such Subject Shares shall be cancelled.

2.7.2 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 the Company 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. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

- Issue of the Company’s financial and accounting report containing a qualified opinion or no opinion for the most recent accounting year by a certified public accountant;

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- The imposition of administrative penalties by the CSRC during the most recent year due to material non-compliance by the Company; and
- Other circumstances determined by the CSRC.

2.7.3 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. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

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

2.7.4 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 during such year or in subsequent years will be accepted. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

2.8 Arrangements with respect to the Reserved Subject Shares

The quota for the Reserved Subject Shares shall have a valid period of five years, commencing from the date on which such quota is granted by the Board of the Company to the Scheme Participants.

The Lock-up Period and the Unlocking Period for the Reserved Subject Shares shall be same as those for other Subject Shares under the Share Incentive Scheme, i.e. the Lock-up Period shall last for a period of two years commencing from the date on which the quota for the Reserved Subject Shares is granted to Scheme Participants and the Unlocking Period shall last for three years following expiry of the Lock-up Period.

The Grant Price of the Reserved Subject Shares shall be 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 in connection with the grant of the Reserved Subject Shares to the Scheme

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Participants is convened. The Scheme Participants shall pay the subscription amounts for the Reserved Subject Shares upon the grant of the Reserved Subject Shares on the basis of the purchase of 5.2 Reserved Subject Shares at the Grant Price for every 10 Reserved Subject Shares granted.

Other conditions and procedures of grant and unlocking of the Reserved Subject Shares shall be same as those conditions and procedures of grant and unlocking of other Subject Shares under the Share Incentive Scheme.

3. THE GRANT AND ISSUE OF SUBJECT SHARES TO THE CONNECTED SCHEME PARTICIPANTS

3.1 Connected Scheme Participants

A total quota of 2,060,000 Subject Shares will be allocated to twenty one Directors and the Senior Management under the Share Incentive Scheme as set out in the table below.

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	Fengjianxiong#	Secretary to the Board	100,000	0.208	0.010

* Connected Scheme Participants pursuant to the Hong Kong Listing Rules

Connected Scheme Participants pursuant to the Shenzhen Listing Rules

LETTER FROM THE BOARD

3.2 Voting requirements under the Hong Kong Listing Rules

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the grant and issue of shares to the Scheme Participants who are directors of the Company or its subsidiaries constitute connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules.

Mr. Wang Zongyin, Mr. Xie Weiliang, Mr. Zhang Junchao, Mr. Li Juping and Mr. Dong Lianbo are Directors of the Company. Mr. Xie Daxiong, Ms. Fang Rong, Ms. Chen Jie, Mr. Ding Mingfeng, Mr. Ye Weimin, Mr. Qiu Weizhao, Mr. Zhao Xianming, Mr. Xu Huijun and Mr. Yu Yong are Senior Management of the Company as well as directors of various subsidiaries of the Company. Therefore, as directors of subsidiaries of the Company, they are connected persons of the Company pursuant to the Hong Kong Listing Rules with respect to the grant and issue of Subject Shares to them. In accordance with Chapter 14A of the Hong Kong Listing Rules, these Connected Scheme Participants and their associate(s) (if any) who are shareholders of the Company will not be permitted to vote at the general meeting of the Company with respect to the resolution on the grant and issue of Subject Shares to them.

The following table sets out the Connected Scheme Participants who will abstain from voting at the EGM with respect to the resolution on the grant and issue of Subject Shares to them pursuant to the Hong Kong Listing Rules:

No.	Name of connected Scheme Participants	Number of shares held as at the record date of the EGM and the Latest Practicable Date	
		Proposed allocation of shares (Shares)	the Latest Practicable Date (Shares)
1	Xie Daxiong	100,000	44,839
2	Fang Rong	100,000	41,385
3	Chen Jie	100,000	94,500
4	Ding Mingfeng	100,000	61,756
5	Ye Weimin	100,000	33,804

3.3 Voting requirements under the Shenzhen Listing Rules

Pursuant to the Shenzhen Listing Rules, all of the Directors and the Senior Management listed in the table under section 3.1 are connected persons of the Company. The grant and issue of shares to them are subject to independent shareholders' approval. As a result, the following parties will abstain from voting on the relevant resolutions pursuant to the Shenzhen Listing Rules as they are connected parties of one or more of the Connected Scheme Participants under the Shenzhen Listing Rules as disclosed below:

- Zhongxingxin, which held a 37.41% interest in the Company as at the record date of the EGM and a 36.21% interest in the Company as at the Latest Practicable Date of this circular, will abstain from voting on the resolution regarding the grant and issue of Subject Shares to Mr. Xie Weiliang and Mr. Dong Lianbo because Mr. Xie Weiliang is the vice chairman of Zhongxingxin and Mr. Dong Lianbo is a director of Zhongxingxin;

LETTER FROM THE BOARD

- CASIC, which held a 0.58% interest in the Company as at the record date of the EGM, will abstain from voting on the resolution regarding the grant and issue of Subject Shares to Mr. Xie Weiliang and Mr. Dong Lianbo because Mr. Xie Weiliang and Mr. Dong Lianbo are the general manager and the vice general manager of CASIC respectively; and
- Li Shan Microelectronics, which held a 0.58% interest in the Company as at the record date of the EGM, will abstain from voting on the resolution regarding the grant and issue of Subject Shares to Mr. Zhang Junchao because Mr. Zhang Junchao is the general manager of Li Shan Microelectronics.

The Company will also comply with the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules and the Shenzhen Listing Rules if any of the Reserved Subject Shares is granted and issued to any connected person of the Company.

3.4 Board's approvals on the grant and issue of shares to the Connected Scheme Participants and the exercise of the General Mandate 2006

The grant and issue of shares to the Connected Scheme Participants was approved by the Board at its meeting on 25 October 2006, where Mr. Wang Zongyin, Vice Chairman, Mr. Xie Weiliang, Vice Chairman and Directors Mr. Zhang Junchao, Mr. Li Juping and Mr. Dong Lianbo, being Directors who will be granted Subject Shares, did not participate in the vote in respect of this matter. The remaining Directors (including independent non-executive directors) unanimously approved the grant and issue of shares to the Connected Scheme Participants.

As stated in section 1.3 of this circular, the Board passed a resolution on 15 December 2006 to exercise the General Mandate 2006 for the purpose of the grant and issue of the Subject Shares (other than the Reserved Subject Shares) to the Connected Scheme Participants, where Mr. Wang Zongyin, Vice Chairman, Mr. Xie Weiliang, Vice Chairman and Directors Mr. Zhang Junchao, Mr. Li Juping and Mr. Dong Lianbo, being Directors who will be granted Subject Shares, did not participate in the vote in respect of this matter.

The Directors (other than those who are Connected Scheme Participants), including independent non-executive directors, are of the view that the terms of the Share Incentive Scheme and the grant and issue of shares to the Connected Scheme Participants pursuant to the Share Incentive Scheme are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. EXTRAORDINARY GENERAL MEETING

4.1 Resolutions to be tabled at the EGM

The following resolutions will be tabled at the EGM:

- (1) *Ordinary resolutions with respect to the continuing connected transactions of the Company*

On 10 November 2006, the Company despatched a circular which included a notice to convene the first extraordinary general meeting of the Company for 2006 on 28 December 2006 to consider, and if thought fit, pass certain resolutions regarding continuing connected transactions of the Company. Pursuant to the Board's announcement dated 18 December 2006, "The First Extraordinary General Meeting for 2006" was re-designated as "The First Extraordinary General Meeting for 2007" and the time of the meeting was re-scheduled from 9 a.m., 28 December 2006 to 9 a.m., 30 January 2007. At the twenty first meeting of the third

LETTER FROM THE BOARD

session of the Board held on 24 January 2007, the Board further decided to postpone the EGM to 13 March 2007. Accordingly, the resolutions with respect to the continuing connected transactions of the Company as stated below will be tabled at the EGM.

- (i) The resolution with respect to the proposed connected transaction framework agreements for 2007 (as defined under the Shenzhen Listing Rules):

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 Company, Limited, on the other, in respect of the purchase of cases, cabinets, distribution frames, flexible printed circuit boards and shelters with an annual cap of aggregated transaction amounts estimated at RMB720 million for 2007 be approved.

- (ii) The resolution with respect to the renewal of continuing connected transactions for 2007 to 2009 (as defined under the Hong Kong Listing Rules):

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 shelters with annual cap of aggregated transaction amounts estimated at RMB720 million for 2007, RMB950 million for 2008 and RMB1,200 million for 2009 be approved.

(2) *Special resolutions with respect to the Share Incentive Scheme*

The Articles of Association of the Company provides that shareholder(s) alone or in aggregate holding 3% or more of the total number of the Company's shares shall have the right to propose an *ex tempore* motion ten days prior to the general meeting by furnishing the same to the convener in writing. The convener shall issue a supplemental notice of general meeting within two days after receiving the proposed motion to make public the contents of the *ex tempore* motion.

LETTER FROM THE BOARD

Zhongxingxin, which held a 37.41% interest in the Company as at the record date of the EGM and a 36.21% interest in the Company as at the Latest Practicable Date of this circular, submitted *ex tempore* motions to the Board on 12 February 2007, requesting to table the following resolutions for consideration and approval at the EGM:

- (i) The resolution with respect to the Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007) (excluding the grant and issue of shares to the twenty one Directors and Senior Management of the Company pursuant to the Share Incentive Scheme, which should be voted on separately):

THAT the Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007) be approved.¹ The shareholders of the Company shall vote separately on the resolutions regarding the grant and issue of Subject Shares (including the number of shares) to the Directors and senior management of the Company pursuant to the Share Incentive Scheme.

- (ii) The resolutions regarding the grant and issue of Subject Shares (including the number of shares) to twenty one Scheme Participants who are Directors and Senior Management of the Company pursuant to the Phase I of the Share Incentive Scheme of ZTE Corporation:

- (1) THAT the grant and issue of 10,000 Subject Shares to Scheme Participants, Mr. Xie Weiliang (Vice Chairman) and Mr. Dong Lianbo (Director), respectively, pursuant to the Phase I of the Share Incentive Scheme of ZTE Corporation, be approved;²
- (2) THAT the grant and issue of 10,000 Subject Shares to Scheme Participant, Mr. Zhang Junchao (Director), pursuant to the Phase I of the Share Incentive Scheme of ZTE Corporation, be approved;³ and
- (3) THAT the grant and issue of such number of Subject Shares as stipulated by the Phase I of the Share Incentive Scheme of ZTE Corporation to Directors and Senior Management of the Company other than Mr. Xie Weiliang, Mr. Dong Lianbo and Mr. Zhang Junchao, be approved.⁴

1 All of the shareholders may vote on this resolution.

2 Zhongxingxin and CASIC, being connected parties of Mr. Xie Weiliang and Mr. Donglianbo pursuant to the Shenzhen Listing Rules, will abstain from voting on this resolution.

3 Li Shan Microelectronics, being a connected party of Mr. Zhang Junchao pursuant to the Shenzhen listing Rules, will abstain from voting on this resolution.

4 Mr. Xie Daxiong, Ms. Fang Rong, Ms. Chen Jie, Mr. Ding Mingfeng, and Mr. Ye Weimin, being a party who is interested in this resolution, will abstain from voting on this resolution.

LETTER FROM THE BOARD

- (iii) The resolution regarding requesting the general meeting to authorize the Board to deal with certain matters regarding the Phase I of the Share Incentive Scheme of ZTE Corporation:⁵

THAT the general meeting be requested to authorize the Board to be responsible for the following matters in respect of the implementation of the Phase I of the Share Incentive Scheme of ZTE Corporation:

- (1) To confirm the qualifications and conditions for Scheme Participants' participation in the Share Incentive Scheme, 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 to handle 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 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 from time to time subject to compliance with the terms of the Share Incentive Scheme, provided that such amendments by the Board 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 and other relevant agreements;
- (6) To appoint intermediaries such as receiving bankers, accountants and lawyers for the implementation of the Share Incentive Scheme;
- (7) To conduct other matters necessary for the implementation of the Share Incentive Scheme, save as matters expressly stipulated in relevant documents to be determined by the general meeting of the Company;

THAT the general meeting be requested to authorize the Board 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,

THAT the general meeting be requested to approve that the above authorisations shall be effective for a term concurrent with the effective term of the Phase I of the Share Incentive Scheme of ZTE Corporation.

⁵ All of the shareholders may vote on this resolution.

LETTER FROM THE BOARD

The legal counsels to the Company have confirmed that the above *ex tempore* motions proposed by Zhongxingxin are in compliance with relevant laws and regulations of the PRC, the Shenzhen Listing Rules, the Hong Kong Listing Rules and the Articles of Association of the Company. The above resolutions proposed by Zhongxingxin will be tabled at the EGM together with the resolutions with respect to the continuing connected transactions of the Company as stated under section 4.1(1) above.

4.2 Arrangements with respect to the EGM

The Board has issued a revised notice of general meeting in accordance with the Articles of Association of the Company, which includes all resolutions to be considered by the shareholders at the EGM. Please refer to pages 55 to 62 of this circular for the notice.

Relevant arrangements with respect to the EGM are summarised below for your attention.

(1) *Attendees*

- (a) All ZTE (000063) shareholders registered with China Securities Depository & Clearing Corporation Limited, Shenzhen Office upon the close of trading of its A shares on the Shenzhen Stock Exchange on Monday, 27 November 2006 at 3:00 p.m.;
- (b) All ZTE (763) shareholders registered on the Company's H share register maintained by Computershare Hong Kong Investor Services Limited upon the close of trading of its H shares on The Stock Exchange of Hong Kong Limited on Monday, 27 November 2006 at 4:00 p.m.;
- (c) Directors, supervisors and senior management of the Company; and
- (d) Representatives of intermediaries engaged by the Company and guests invited by the Board.

(2) *Registration*

The registration period of Shareholders is from 4 December to 8 December 2006, from 4 January to 10 January 2007 and from 12 February to 16 February 2007.

(3) *Revised Proxy form*

A Revised Proxy Form for use at the EGM is enclosed with this circular. **The Revised Proxy Form shall supersede and replace the previous proxy form which was sent to the Shareholders together with the circular dated 10 November 2006.** Pursuant to Rule 13.38 of the Hong Kong Listing Rules, the Company has also submitted to the Hong Kong Stock Exchange an electronic version of the Revised Proxy Form for publication on the Hong Kong Stock Exchange's website. Whether or not Shareholders who are able to attend the EGM, they are requested to complete and return the enclosed Revised Proxy Form to the Secretary to the Board at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, 518057, the People's Republic of China as soon as practicable and in any event not less than 24 hours before the time appointed for holding the EGM. Completion and return of the Revised Proxy Form will not preclude you from attending and voting at the EGM should you so wish.

LETTER FROM THE BOARD

(4) *Independent Director's Proxy Form*

Pursuant to the CSRC Measures, independent directors of a company listed on the stock exchanges in the PRC should solicit voting rights publicly from all shareholders of the company if the company is to adopt a share incentive scheme. Mr. Zhu Wuxiang, being an independent director of the Company, has sent out an Independent Director's Proxy Form to solicit voting rights from the Shareholders pursuant to the CSRC Measures and authorization of other independent directors of the Company. Please also refer to Mr. Zhu Wuxiang's announcement dated 14 February 2007 with respect to the Independent Director's Proxy Form.

The Independent Director's Proxy Form is enclosed with this circular. Should you wish to appoint Mr. Zhu Wuxiang as your proxy to vote for you and on your behalf at the EGM on the resolutions with respect to the Share Incentive Scheme, please complete the enclosed Independent Director's Proxy Form in accordance with its instructions.

(5) *Voting by poll*

In accordance with Rule 13.39(4) of the Listing Rules, the chairman of the EGM will demand a poll in relation to the resolutions to be approved at the EGM. The results of the voting will be announced after the EGM.

Under Article 116 of the Articles of Association of the Company, a poll may be demanded by the following persons:

- (a) the chairman of the meeting;
- (b) at least two shareholders (or proxies) who have voting rights; or
- (c) one or more shareholders (including proxies) holding solely or in combination representing not less than ten 10% of the shares carrying voting rights at the meeting.

Please refer to the enclosed notice for the EGM for more detailed arrangements about the EGM.

5. GENERAL INFORMATION

The Company and its subsidiaries are principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets and telecommunications software systems and services.

6. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, which is set out on pages 22 to 23 of this circular. The Independent Board Committee considers that the grant and issue of Subject Shares to the Connected Scheme Participants are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Independent Board Committee recommends that the Independent Shareholders should vote **in favour of the resolutions regarding the grant and issue of Subject Shares to Connected Scheme Participants at the EGM.**

LETTER FROM THE BOARD

The advice of Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 33 of this circular. The Independent Financial Adviser is of the view that the grant and issue of Subject Shares to the Connected Scheme Participants are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

7. ADDITIONAL INFORMATION

Your attention is drawn to the general information set out in the Appendix to this circular.

Yours faithfully
ZTE CORPORATION
Hou Weigui
Chairman

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)

16 February 2007

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS

We refer to the circular dated 16 February 2007 (the ***Circular***) issued by ZTE Corporation (the ***Company***), of which this letter forms a part. Terms defined in the Circular shall have the same meanings herein.

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the grant and issue of shares to the Scheme Participants who are directors of the Company or its subsidiaries constitute connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules.

We have been appointed to constitute the Independent Board Committee to make a recommendation to the Independent Shareholders as to whether, in our view, the grant and issue of Subject Shares to the Connected Scheme Participants (as defined by the Hong Kong Listing Rules) pursuant to the terms of the Share Incentive Scheme, are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Partners Capital International Limited has been appointed as an independent financial adviser to advise us and the Independent Shareholders as to whether the grant and issue of Subject Shares to the Connected Scheme Participants (as defined by the Hong Kong Listing Rules) pursuant to the terms of the Share Incentive Scheme, are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Having considered the information set out in the letter from the Board, and the principal factors, reasons and recommendation set out in the letter from Partners Capital International Limited, we are of the opinion that grant and issue of Subject Shares to the Connected Scheme Participants pursuant to the terms of the Share Incentive Scheme, are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend that the Independent Shareholder **vote in favour** of the resolutions to approve the grant and issue of Subject Shares to the Connected Scheme Participants pursuant to the Share Incentive Scheme at the EGM.

Yours faithfully
For and on behalf of the
Independent Board Committee

Zhu Wuxiang
Independent Non-executive Director

Chen Shaohua
Independent Non-executive Director

Qiao Wenjun
Independent Non-executive Director

Mi Zhengkun
Independent Non-executive Director

Li Jin
Independent Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice dated 16 February 2007 received from Partners Capital International Limited which has been prepared for incorporation into this circular:



博大資本國際有限公司

Partners Capital International Limited

Partners Capital International Limited
Unit 3906, 39/F, COSCO Tower
183 Queen's Road Central
Hong Kong

16 February 2007

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders of ZTE Corporation ("ZTE" or the "Company") in respect of the terms of the grant and issue of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries, particulars of which are set out in the circular (the "Circular") of the Company dated 16 February 2007 and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular.

As set out in the letter from the Board (the "Letter from the Board"), ZTE convened a meeting of the Board on 25 October 2006 during which the Board considered and approved the adoption of the Share Incentive Scheme. Pursuant to Chapter 14A of the Listing Rules, the grant and issue of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries will constitute connected transactions of ZTE, and are hence subject to Independent Shareholders' approval.

Partners Capital International Limited is not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates and is independent pursuant to Rule 13.84 of the Hong Kong Listing Rules and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Partners Capital International Limited will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the Directors were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Directors regarding the Group and the grant of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors respectively in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been

omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and their respective associates, nor have we carried out any independent verification of the information supplied to us.

PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE GRANT OF SUBJECT SHARES TO CERTAIN SCHEME PARTICIPANTS WHO ARE DIRECTORS OF ZTE OR ITS SUBSIDIARIES

In arriving at our opinion regarding the terms of the grant of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries, we have considered the following principal factors and reasons:

1. Background of and reasons for the grant and issue of Subject Shares to certain Scheme Participants who are the directors of ZTE or its subsidiaries

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets and telecommunications software systems and services.

As set out in the Letter from the Board, the Share Incentive Scheme is formulated in accordance with relevant provisions of the Company Law, the Securities Law, the Administrative Measures on Share Incentives of the CSRC, the Articles of Association of ZTE, other relevant laws and regulations and regulatory documents. 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 operations. In particular, it aims at:

- (i) 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;
- (ii) closely linking the interests of shareholders and the interests of the Scheme Participants through the Share Incentive Scheme to maximise shareholders' value; and
- (iii) 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.

As part of our due diligence enquiry, we have enquired whether the Board has considered other alternatives to the Share Incentive Scheme to remunerate the Directors/management, such as increasing the size or scope of the Deferred Bonus scheme, which is another incentive regime currently adopted by ZTE under which cash Deferred Bonuses are distributed by ZTE to its staff based

on corporate performance and individual performance on an annual basis over a subsequent period of five years. In line with the policy direction as promulgated under the Administrative Measures on Share Incentives of Listed Company issued by the CSRC, which is particularly targeted for A-share listed companies having already completed their shareholding structure reform (such as in the case of the Company), the Board considers it in the better interests of the Company to optimise its overall remuneration structure by way of issuing new Shares to the Directors/management as bonus in lieu of cash pursuant to the Share Incentive Scheme.

We are aware that according to the contemporary perspective of human resources management, ordinary share capital and/or its derivative instruments are one of the elements in the compensation package to reward staff performance. We understand that Subject Shares can serve to motivate staff to create and focus on shareholders' value (in terms of upside movement of share price to be driven by sustainable and growing corporate profitability) of a company, thereby aligning what are originally two separate objectives of staff (ie. compensation-oriented) and shareholders (ie. equity-oriented) to form a common platform with coherent focal point. Given that the staff who are granted ordinary share capital and/or its derivative instruments can benefit personally from the upside potential of share price movement (in a way identical to shareholders), share incentive scheme can essentially help to maintain staff loyalty and boost staff morale to work for the best interests of shareholders.

We agree that the Share Incentive Scheme has a two-way benefit of creating an incentive for Directors and key management and yet conserving the cash resources of the Group. Further, we consider that the launch of the Share Incentive Scheme, which shall be implemented upon approval by the general meeting of the Company 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, is in line with the recent policy direction as promulgated by the CSRC. On 5 February 2007, the CSRC issued a no comment letter with respect to the Share Incentive Scheme.

2. Key terms of the grant of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries

(i) *Scheme Participants*

As set out in the Letter from the Board, ZTE shall implement the Share Incentive Scheme by way of the grant of new A Shares of ZTE.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the data set out in the Letter from the Board, we summarise the allocation of Subject Shares to Scheme Participants in the following table (with the identification of the names and the positions of the connected persons of ZTE):

			Proposed allocation of shares (Shares) (A)	As a percentage of total quota of Subject Shares (%) (B) = (A)/(C) (approximate)	As a percentage of Total Share Capital (%) (D) = (A)/ 959,521,650 (approximate)
Number	Name	Position			
5 Directors of the Company	Wang Zongyin	Vice Chairman (Director)	10,000	0.02084	0.0010
	Xie Weiliang	Vice Chairman (Director)	10,000	0.02084	0.0010
	Zhang Junchao	Director	10,000	0.02084	0.0010
	Li Juping	Director	10,000	0.02084	0.0010
	Dong Lianbo	Director	10,000	0.02084	0.0010
9 Senior Management who are directors of the Company's subsidiaries	Xie Daxiong	Senior Vice President	100,000	0.2084	0.0104
	Fang Rong	Vice President	100,000	0.2084	0.0104
	Chen Jie	Vice President	100,000	0.2084	0.0104
	Ding Mingfeng	Vice President	100,000	0.2084	0.0104
	Ye Weimin	Vice President	100,000	0.2084	0.0104
	Qiu Weizhao	Vice President	100,000	0.2084	0.0104
	Zhao Xianming	Vice President	180,000	0.3752	0.0188
	Xu Huijun	Vice President	180,000	0.3752	0.0188
	Yu Yong	Vice President	150,000	0.3126	0.0156
Sub-Total of connected persons of ZTE			1,160,000	2.4177	0.1206
7 Senior Management	Non-connected persons of ZTE pursuant to the Hong Kong Listing Rules		900,000	1.8758	0.0938
3,414 other Key Personnel	Non-connected persons of ZTE pursuant to the Hong Kong Listing Rules		41,122,000	85.707	4.2856
To be identified	To be identified		4,798,000	10.000	0.5000
Total: 3,435 (Note)			47,980,000 (C)	100.000	5.0000

Note: yet to include the grants to those to be identified under the 10% pool set-aside for employees who make significant contributions to the Company and important personnel required by the Company after the Share Incentive Scheme has been reviewed and passed at the general meeting (the "Reserved Subject Shares")

As illustrated in the above table, ZTE will grant to Scheme Participants a total quota of 47,980,000 Subject Shares (representing approximately 5% of the Total Share Capital of ZTE) on an one-off basis. However, only 1,160,000 of the Subject Shares will be granted to only 14 Scheme Participants who are ZTE's connected persons (without accounting for (if any) those future employees to be identified for the grant of the Reserved Subject Shares), representing approximately 0.1% and approximately 2.4% of the current total share capital of ZTE and the total quota of Subject Shares, respectively. On such basis, Independent Shareholders are subject to a dilution of existing shareholding interests of approximately 0.1% arising solely from the proposed grant of Subject Shares to the Scheme Participants who are ZTE's connected persons. Given such low magnitude of shareholding dilution, and given further that such Subject Shares

are subject to (and hence are spread over) a Lock-up Period of two years and an Unlocking Period of three years, we consider that the issue size of Subject Shares to be granted to the Scheme Participants who are ZTE's connected persons is not excessive.

As set out in the Letter from the Board, out of the total quota of Subject Shares under Share Incentive Scheme, 10% or 4,798,000 shares will be set aside for employees who make significant contributions to the Company and important personnel required by the Company who are 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 of the Company for its approval. For the Share Incentive Scheme as a whole, we understand that the quota of Subject Shares to be allocated to each Scheme Participant shall be 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 a cumulative basis unless approved by the general meeting by way of special resolution. As discussed with the Directors, the potential grant of shares which are set aside may or may not constitute connected transaction depending on whether the potential scheme participant is a connected person of the Company. In this connection, we understand from the Directors that the Company will comply with the relevant disclosure, reporting and/or shareholders' approval requirements under the Listing Rules as and when applicable. This revision is poised to further enhance the mechanism for profit-sharing and check-and-balance between the shareholders and the key personnel of the Company, while the arrangement to set aside some shares for future grant underlies the Company's commitment to its long-term development and reflects more adequately the value and appeal of the Scheme.

(ii) *Grant Price*

After the Share Incentive Scheme has been approved by the general meeting of the Company and the grant conditions have been fulfilled, the Directors shall grant the Subject Shares to the Scheme Participants, upon which the 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 funded by the conversion of the Deferred Bonus that Scheme Participants would otherwise have received prior to their agreement not to participate 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 Grant Price is RMB30.05 per Share, being the closing price of ZTE's 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 was convened for the first time. Without accounting for the 1.4 Subject Shares as funded by the conversion of the Deferred Bonus that Scheme Participants would otherwise have received prior to their agreement not to participate in the distribution of 2006 Deferred Bonus, and after discussion with the auditors of the Company, the Company has confirmed that the effective monetary benefit (approximating fair value) attributable to each Subject Share entitled by the Scheme Participants under the Share Incentive Scheme is approximately RMB14.424 per Share (being RMB30.05 per Share x 4.8 / 10), assuming that the market price per Share stays at the Grant Price level.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the same assumption, the Company has confirmed that the effective annual monetary benefit (before salary tax) attributable to each of a total of five Directors entitling to the Share Incentive Scheme would be approximately RMB28,848, RMB50,484 and RMB64,908 for the third, fourth and five year after commencement of the Share Incentive Scheme respectively (subject to satisfaction of unlocking conditions which are based on both corporate performance and individual performance to be elaborated in the next section). According to the annual report of the Company and as advised by the Company, the total annual remuneration of each of a total of five Directors was fixed at RMB60,000 for the year ended 31 December 2005. On such basis, we note that each of the said effective annual monetary benefit for the third, fourth and five year after commencement of the Share Incentive Scheme accounts for approximately 32.5%, 45.7% and 52.0% of the existing total annual remuneration package of the five Directors concerned (assuming that (i) the basic annual remuneration remains at 2005 level and (ii) the market price per Share stays at the Grant Price level). Subject to the limitation of the said assumptions, we consider such proportions to be acceptable after taking into account of the growing market trend of assigning greater significance of variable or long-term incentive portion into the total remuneration package of any given personnel.

On the same assumption, the Company has confirmed that the effective annual monetary benefit (before salary tax) attributable to each of a total of nine senior management who are connected persons of the Company entitling to the Share Incentive Scheme would be approximately RMB288,480 to RMB519,264, RMB504,840 to RMB908,712 and RMB649,080 to RMB1,168,344 for the third, fourth and five year after commencement of the Share Incentive Scheme respectively (subject to satisfaction of unlocking conditions which are based on both corporate performance and individual performance to be elaborated in the next section). According to the annual report of the Company and as advised by the Company, the average total annual remuneration of each of the eight out of a total of nine senior management of the Group who are connected persons of the Company entitling to the Share Incentive Scheme was around RMB812,363 for the year ended 31 December 2005 (without accounting for the remaining one out of a total of nine because that one person was then not a member of senior management in 2005). On such basis, we note that each of the said effective annual monetary benefit for the third, fourth and five year after commencement of the Share Incentive Scheme accounts for not more than approximately 26.2%, 52.8% and 59.0% of the total annual remuneration package of the eight senior management concerned (assuming (i) the non-long term incentive portion of the annual remuneration remains at 2005 level and (ii) the market price per Share stays at the Grant Price level). Subject to the limitation of the said assumptions, we consider such proportions to be acceptable after taking into account of the growing market trend of assigning greater significance of variable or long-term incentive portion into the total remuneration package of any given personnel.

On the above basis, we consider that the Grant Price of Subject Shares to be granted to the Scheme Participants who are ZTE's connected persons is acceptable. Upon enquiry, we were further advised by the Company that each of the nine senior management concerned was department heads of key operational units of the Group (namely, sales and marketing, product and market research and development, logistics, and treasury) and their continued services to the Group are vital to the Group's ongoing growth and development.

(iii) *Validity Period, Lock-up Period and Unlocking Period*

The Share Incentive Scheme shall be in force for a term of five years, comprising a Lock-up Period of two years commencing from 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 quota 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 quota 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 the remaining outstanding Subject Shares. (Upon enquiry, we understand from the Company that such tranche of Subject Shares to be unlocked should be not less than 45% of the aggregate quota of the Subject Shares.)

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. ZTE shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

We consider that the imposition of a Lock-up Period of the initial two years together with the conditional Unlocking Period of subsequent three years in tranches would serve to smoothen the Company's burden of incurring the reward compensation on a phase-by-phase basis. The requirement to wait for five years before which 100% of Subject Shares can be fully unlocked would further help to retain the dedicated and loyal service of Scheme Participants in the medium term.

Upon our due diligence review, we further note that the term of five years of the Share Incentive Scheme is exactly in line with that of the Deferred Bonuses scheme. As set out in the Letter from the Board, Scheme Participants who have participated in the Share Incentive Scheme shall not participate in ZTE's distribution of cash Deferred Bonus in 2006. Employees not participating in the Share Incentive Scheme will not be entitled to receive the portion of the 2006 Deferred Bonus which will be converted for Scheme Shares and which would otherwise be distributed to the Scheme Participants if they did not participate in the Share Incentive Scheme. We consider the above arrangements as a safeguard against excessive remuneration burden shouldered on the part of the Company.

(iv) *Conditions for unlocking*

Pursuant to the Share Incentive Scheme, Scheme Participants may apply to unlock the granted Subject Shares on an annual basis upon the fulfilment of the unlocking conditions, some of which are summarised below:

- *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 (based on PRC GAAP) shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

- *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.

Upon enquiry, we understand from the Company that the benchmark of rates of return on net assets of not be less than 10% is determined with reference to (i) the technology-intensive nature of the Group's business operations under which a relatively high proportion of equity to debt is common; and (ii) the average achieved rate of return on net assets of the Group for the two years ended 31 December 2005 of 11.4% (based on PRC GAAP). For (i), we understand from the Company that bank debt financing is relatively less significant for the Group's industry given the fast and ever changing technology environment. On such basis, return on net assets rather than return on total assets would be more relevant. For (ii), we note that the rate of return on net assets for the two years ended 31 December 2005 of the Group was about 11.0% and 11.8% based on PRC GAAP, respectively, and hence the Company explains that the benchmark of 10% already represented a justifiable level of challenge for reward purpose, after accounting for (i) the forthcoming impact of additional staff costs to be charged to the consolidated income statement of the Group arising from the Share Incentive Scheme and (ii) the relatively high volatility of return on net assets commonly found in technology-based companies (such as in the case of the Company).

We further consider that passing the appraisals of the Performance Appraisal System as conditions for unlocking the granted Subject Shares on an annual basis is necessary for the purpose of facilitating the grant of the right remuneration to the right contributor to the Group.

3. Financial effect of the grant of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries

Upon enquiry, we understand from the auditors of the Company that the Company will recognize and expense annually the fair value of the aggregate Subject Shares to be issued under the Share Incentive Scheme as staff costs in its consolidated income statement in compliance with the requirements of HKFRS2. On such basis, we envisage that the proposed grant of Subject Shares to the Scheme Participants who are ZTE's connected persons would have a negative impact on the profit and loss position of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have enquired and obtained the estimated breakdown of the time scale of financial impact of the staff costs to be charged to the consolidated income statement of the Group arising from the Share Incentive Scheme:

	20% of Subject Shares	35% of Subject Shares	45% of Subject Shares
1st 12 months	12/24	12/36	12/48
2nd 12 months	12/24	12/36	12/48
3rd 12 months	Nil	12/36	12/48
4th 12 months	Nil	Nil	12/48

As discussed with the auditors of the Company, on the assumption that the fair value attributable to each Subject Share granted to the Scheme Participants is approximately RMB14.424 per Share (being RMB30.05 per Share x 4.8 /10) without accounting for the 1.4 Subject Shares as converted by the Deferred Bonus not received by Scheme Participants as a result of their non-participation in the distribution of 2006 Deferred Bonus, the Company has calculated the total exposure of the Group's staff costs attributable to the proposed grant of Subject Shares to the Scheme Participants who are ZTE's connected persons (without accounting for (if any) those future employees to be identified for the grant of the Reserved Subject Shares, the Grant Price of which shall be 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 in connection with the grant of the Reserved Subject Shares to the Scheme Participants is convened) at around RMB16.7 million (being RMB14.424 per Share x 1,160,000 Shares). Upon comparison, we note that such exposure merely represented approximately 0.08%, 0.64% and 0.16% of the turnover, the staff costs (including director's and supervisors' remuneration) and the shareholder's equity of the Group for the year ended/as at 31 December 2005 of approximately RMB21,575.9 million, RMB2,601.8 million and RMB10,250.5 million respectively (based on Hong Kong GAAP).

On the above basis, the financial effect to the Company as a result of the proposed grant of Subject Shares to the Scheme Participants who are ZTE's connected persons under the Share Incentive Scheme should not be considered as significant and should not have material adverse impact on the financial position of the Company.

In addition, as the Scheme Participants will not be entitled to the distribution of the Deferred Bonus for 2006, we understand from the Directors that such amount of Deferred Bonus will not be included in the corresponding accounting cost of the Company for 2006.

RECOMMENDATION FOR THE GRANT OF SUBJECT SHARES TO CERTAIN SCHEME PARTICIPANTS WHO ARE DIRECTORS OF ZTE OR ITS SUBSIDIARIES

Having considered the above factors, in particular,

- (i) the objective of the Share Incentive Scheme, which 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 and sustainable growth of ZTE's operation;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the terms of the Share Incentive Scheme, which are formulated in accordance with relevant provisions of the Company Law, the Securities Law, the Administrative Measures on Share Incentives of the CSRC, the Articles of Association of ZTE, other relevant laws and regulations and regulatory documents. On 5 February 2007, the CSRC issued a no comment letter with respect to the Share Incentive Scheme;
- (iii) the dilution of existing shareholding interests of Independent Shareholders of only approximately 0.1% arising solely from the proposed grant of Subject Shares to the Scheme Participants who are ZTE's connected persons (without accounting for (if any) those future employees to be identified for the grant of the Reserved Subject Shares);
- (iv) the proportion of the effective annual monetary benefit of the Share Incentive Scheme relative to the total annual remuneration package of the ZTE's connected persons concerned, amidst the growing market trend of assigning greater significance of variable or long-term incentive portion into the total remuneration package of any given personnel;
- (v) the imposition of a Lock-up Period of the initial two years together with the conditional Unlocking Period of subsequent three years in tranches would serve to smoothen the Company's burden of incurring the reward compensation on a phase-by-phase basis and help to retain the dedicated and loyal service of Scheme Participants in the medium term;
- (vi) the imposition of (a) the benchmark of rates of return on net assets of not be less than 10% and (b) the appraisals of Scheme Participants in accordance with the Performance Appraisal System as conditions for unlocking the granted Subject Shares on an annual basis under the Share Incentive Scheme; and
- (vii) the financial effect to the Company as a result of the proposed grant of Subject Shares to the Scheme Participants who are ZTE's connected persons under the Share Incentive Scheme should not be considered as significant and should not have material adverse impact on the financial position of the Company,

we consider that the terms of the grant of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and also recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to approve the grant of Subject Shares to certain Scheme Participants who are directors of ZTE or its subsidiaries.

Yours faithfully,

For and on behalf of

Partners Capital International Limited

Alan Fung

Managing Director

Harry Yu

Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Hong Kong Listing Rules for the purposes of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's business) which competes or is likely to compete either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules if each of them were a controlling shareholder).

As at the Latest Practicable Date, the interests and short position of the Directors, Supervisors and the President of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

Name	Position	Number of shares held	Shares/Class
<i>Directors</i>			
Hou Weigui	Chairman of the Board of Directors	219,600	A Shares of the Company
Wang Zhongyin	Vice Chairman of the Board of Directors	—	—
Xie Weiliang	Vice Chairman of the Board of Directors	—	—
Zhang Junchao	Director	—	—
Li Juping	Director	—	—
Dong Lianbo	Director	—	—
Yin Yimin	Director, President	121,680	A Shares of the Company
Shi Lirong	Director, Senior Vice President	95,760	A Shares of the Company
He Shiyu	Director, Senior Vice President	91,007	A Shares of the Company
Zhu Wuxiang	Independent Non-executive Director	—	—
Chen Shaohua	Independent Non-executive Director	—	—
Qiao Wenjun	Independent Non-executive Director	—	—
Mi Zhengkun	Independent Non-executive Director	—	—
Li Jin	Independent Non-executive Director	—	—
<i>Supervisors</i>			
Zhang Taifeng	Chairman of the Supervisory Committee	121,680	A Shares of the Company
Wang Wangxi	Supervisor	—	—
He Xuemei	Supervisor	—	—
Qu Deqian	Supervisor	10,020	A Shares of the Company
Wang Yan	Supervisor	—	—

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors and the President had any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the SFO), or which were required to be recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Hong Kong Listing Rules.

As at the Latest Practicable Date, none of the Directors and their respective spouses and children under 18 years of age had been granted by the Company or had exercised any right to subscribe for shares or debentures of the Company or any of its associated corporations.

As at the Latest Practicable Date, the following Directors or proposed Directors of the Company were the directors or employees of companies which have interests or short positions in the shares or underlying shares of the Company that is required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 under Part XV of the SFO:

Name of Directors	Name of Shareholders	Position in the Shareholder
Mr. Hou Weigui	Zhongxingxin	Vice Chairman
Mr. Xie Weiliang	Zhongxingxin CASIC Shenzhen (Group) Company, Limited	Vice Chairman General Manager
Mr. Zhang Junchao	Lishan Microelectronics Corporation	General Manger
Mr. Dong Lianbo	Zhongxingxin CASIC Shenzhen (Group) Company, Limited	Director Vice General Manager
Mr. Yin Yiming	Zhongxingxin	Director
Mr. Shi Lirong	Zhongxingxin	Director

As at the Latest Practicable Date, the interests and short positions of substantial shareholders (being persons who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company) and other persons who have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as set out in the tables below:

(L) — long position; (S) — short position; (P) — lending pool

Name	Number of shares held	Approximate shareholding as a percentage (%) of:	
		Total share capital	The relevant class of shares
深圳市中興新通訊設備有限公司 (Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited)	347,469,741 A Shares (L)	36.21 (L)	43.47 (L)
深圳市中興維先通設備有限公司 (Shenzhen Zhongxing WXT Equipment Company, Ltd.)	347,469,741 A Shares (L)	36.21 (L)	43.47 (L)
西安微電子技術研究所 (Xi'an Microelectronics Technology Research Institute)	347,469,741 A Shares (L)	36.21 (L)	43.47 (L)
中國航天時代電子公司 (China Aerospace Times Electronics Corporation)	347,469,741 A Shares (L)	36.21 (L)	43.47 (L)
中國航天科技集團公司 (China Aerospace Science and Technology Corporation)	347,469,741 A Shares (L)	36.21 (L)	43.47 (L)
Fidelity International Limited	16,394,500 (L)	1.71 (L)	10.24 (L)
Goldman Sachs (Asia) L L C	11,622,000(L)	1.21(L)	7.26(L)
Goldman Sachs (Cayman) Holding Company	11,622,000(L)	1.21(L)	7.26(L)
Deutsche Bank Aktiengesellschaft	11,712,100 (L)	1.22 (L)	7.31 (L)
	6,395,200 (S)	0.67 (S)	3.99 (S)
Allianz SE	11,215,700(L)	1.17(L)	7.00(L)
Aranda Investments (Mauritius) Pte Ltd	11,141,800(L)	1.16(L))	6.96(L)
Halbis Capital Management (Hong Kong) Limited	10,690,000((L)	1.11(L)	6.67 (L)
T. Rowe Price Associates, Inc. and its affiliates	9,077,500(L)	0.95(L)	5.67(L)
Massachusetts Financial Services Company (“MFS”)	8,428,100(L)	0.88(L)	5.26(L)
Sun Life Financial, Inc.	8,428,100(L)	0.88(L)	5.26(L)
The Capital Group Companies, Inc.	8,207,900(L)	0.86(L)	5.13(L)

Name of shareholder	Name of Group member	Approximate percentage of shareholding (%)
浪潮齊魯軟件產業有限公司 (Langchao Qilu Software Industry Limited)	安徽皖通郵電股份有限公司 (Anhui Wantong Posts and Telecommunications Company, Limited)	12.43
安徽省科技產業投資有限公司 (Anhui Scientific and Technical Industry Investment Limited)	安徽皖通郵電股份有限公司 (Anhui Wantong Posts and Telecommunications Company, Limited)	11.62
施向光 (Shi Xiangguang)	安徽皖通郵電股份有限公司 (Anhui Wantong Posts and Telecommunications Company, Limited)	10.10
魏玉 (Wei Yu)	無錫市中興光電子技術有限公司 (Wuxi Zhongxing Optoelectronics Technologies Company, Limited)	13
吳培春 (Wu Peichun)	無錫市中興光電子技術有限公司 (Wuxi Zhongxing Optoelectronics Technologies Company, Limited)	22
REDCOMM LIMITED	ZTE (UK) Limited	23.3
SERVICESVIAZCOMPLECT	Closed Joint Stock Company TK Mobile	49
Suncast Group Limited	Telrise (Cayman) Telecom Ltd	29.31
Com-Tel Technologies Limited	Telrise (Cayman) Telecom Ltd	10
Government of the Democratic Republic of Congo	Congo-Chine Telecom S.A.R.L.	49
深圳市聚賢投資有限公司 (Shenzhen Juxian Investment Limited)	深圳市中興微電子技術服務有限公司 (ZTE Microelectronics Technology Co., Ltd.)	23
深圳市聚賢投資有限公司 (Shenzhen Juxian Investment Limited)	深圳市中興康訊電子有限公司 (ZTE Kangxun Telecom Company Limited)	10
南京創碼科技有限責任公司 (Nanjing Chuangma Science & Technology Co., Ltd.)	深圳市中興特種設備有限公司 (Shenzhen Zhongxing Special Equipment Company, Limited)	38.5
王養西 (Wang Yangxi)	西安中興精誠通訊有限公司 (Xian Zhongxing Jingcheng Telecommunication Company,Ltd.)	30
深圳市群賢科技有限公司 (Shenzhen Qunxian Science & Technology Company, Ltd.)	深圳市中興力維技術有限公司 (Shenzhen Zhongxing Liwei Technology Company, Ltd.)	20
蔣代衛 (Jiang Daiwei)	上海中興通訊技術有限責任公司 (Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited)	17.2

Name of shareholder	Name of Group member	Approximate percentage of shareholding (%)
徐光 (Xu Guang)	上海中興通訊技術有限責任公司 (Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited)	24.5
深圳市中興康訊電子有限公司 (ZTE Kangxun Telecom Company Limited)	深圳市中興通訊技術服務有限責任公司 (Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited)	10
陳峰 (Chen Feng)	上海興飛科技有限公司 (Shanghai Xingfei Technology Company, Limited)	20
陳峰 (Chen Feng)	深圳市興飛科技有限公司 (Shenzhen Xingfei Technology Company, Limited)	20
陳偉 (Chen Feng)	深圳市弘德電池有限公司 (Shenzhen Hongde Battery Company, Limited)	10
魏興民 (Wei Yumin)	深圳市立德通訊器材有限公司 (Shenzhen Lead Communications Company, Limited)	15
深圳市中興新通訊設備有限公司 (Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited)	深圳市立德通訊器材有限公司 (Shenzhen Lead Communications Company, Limited)	22.5
深圳市中興維先通設備有限公司 (Shenzhen Zhongxing WXT Equipment Company, Ltd.)	深圳市康銓機電有限公司 (Shenzhen Kangquan Electromechanical Company, Limited)	27.5
深圳市中興新地通信器材有限公司 (Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited)	深圳市睿德電子實業有限公司 (Shenzhen Ruide Electronic Industrial Company, Limited)	23
馮錫章 (Feng Xizhang)	深圳市睿德電子實業有限公司 (Shenzhen Ruide Electronic Industrial Company, Limited)	13.8
ZHISONG CHEN	深圳中興集訊通信有限公司 (ZTE Integration Telecom Ltd.)	15
深圳市中興康訊電子有限公司 (ZTE Kangxun Telecom Company Limited)	深圳市國鑫電子發展有限公司 (Shenzhen Guoxing Electronics Development Company, Limited)	10
南京創碼科技有限責任公司 (Nanjing Chuangma Science & Technology company, Ltd.)	南京中興軟創科技有限責任公司 (ZTE Soft Technology Co., Limited)	14
Beaumont Development Centre Holdings Ltd	南京中興軟創科技有限責任公司 (ZTE Soft Technology Co., Limited)	10

Name of shareholder	Name of Group member	Approximate percentage of shareholding (%)
董文平 (Dong Wenping)	廣州南方電信系統軟體有限公司 (Guangzhou Nanfang Telecommunications System Software Co., Ltd.)	12
北京鴻基聯興科技開發有限公司 (Beijing Hongji Lianxing Science and Technology Development Limited)	揚州中興移動通訊設備有限公司 (Yangzhou Zhongxing Mobile Telecom Equipment Company, Limited)	20

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors and the President of the Company are aware, no person (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 under Part XV of the SFO, or, who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meeting of any other member of the Company.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the date of this circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

3. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in litigation or arbitration of material importance and there is no litigation or claim of material importance pending or threatened against the Company or any of its subsidiaries

4. EXPERT’S QUALIFICATION, DISCLOSURE OF INTERESTS AND CONSENTS

Partners Capital International Limited is a corporation licensed to carry out regulated activities type 1 (dealing in securities) and type 6 (advising on corporate finance) under the SFO.

As at the Latest Practicable Date, Partners Capital International Limited did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, Partners Capital International Limited did not have any direct or indirect interests in any assets which had since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Partners Capital International Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and references to its name in the form and context in which they appear.

5. SERVICE CONTRACTS

At the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

There has been no material adverse change in the financial or trading position of the Company since 31 December 2005, the date to which the latest published audited accounts of the Company have been made up.

7. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Mr. Feng Jianxiong and Ms. Suen Pui Yee Samantha.
- (b) The registered office of the Company is ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, 518057, The People's Republic of China.
- (c) The share registrar and transfer office for the Company's H shares is Computershare Hong Kong Investor Services Limited, Room 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company, ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, 518057, The People's Republic of China, and at the offices of Freshfields Bruckhaus Deringer, 11th Floor, Two Exchange Square, Central, Hong Kong, from the date of this circular up to and including 2 March 2007:

- (a) Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007);
- (b) the letter of consent from the Independent Financial Adviser dated 16 February 2007;
- (c) the letter from Independent Financial Adviser to the Independent Board Committee dated 16 February 2007, the text of which is set out on pages 24 to 33 of this Circular; and
- (d) the letter from the Independent Board Committee dated 16 February 2007;
- (e) the resolutions of the Board dated 25 October 2006 and 15 December 2006; and
- (f) the no comment letter from the CSRC dated 5 February 2007.

Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated on 5 February 2007)**SPECIAL NOTE**

1. 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" or the "Company"), other relevant laws and regulations and regulatory documents.
2. ZTE shall implement the Share Incentive Scheme by way of the grant of new shares. Specifically, ZTE shall grant to Scheme Participants a quota of 47,980,000 Subject 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 quota of Subject Shares shall be cancelled if the unlocking conditions are not satisfied.
3. 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:
 - (1) The Lock-up Period shall last for a period of two years commencing from 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;
 - (2) 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. ZTE shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled if the unlocking conditions are not satisfied.
4. 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. Employees not participating in the Share Incentive Scheme will not be entitled to receive the portion of the 2006 Deferred Bonus which will be converted for Scheme Shares and which would otherwise be distributed to the Scheme Participants if they did not participate in the Share Incentive Scheme.

5. Out of the total number of Subject Shares under Share Incentive Scheme, 10% or 4,798,000 shares will be set aside for employees who make significant contributions to the Company and important personnel required by the Company who are 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.
6. 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).
7. After the Share Incentive Scheme has been approved by the general meeting and the grant conditions have been fulfilled, the Scheme Participants shall pay the subscription amounts for the Subject Shares to get the quota for the Subject Shares.
8. The price per share at which ZTE shall grant to the Scheme Participants the Subject Shares shall be the Grant Price, which, unless otherwise stipulated in the Share Incentive Scheme, shall represent the closing price of ZTE A Shares as quoted on the 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 funded by the conversion of the Deferred Bonus that Scheme Participants would have received prior to their agreement not to participate in the distribution of 2006 Deferred Bonus, calculated as a percentage of the Grant Price.
9. ZTE shall not provide loans or other financial assistance in any form to the Scheme Participants, including guarantees for loans.
10. 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. Definitions

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 granted to Scheme Participants under the Share Incentive Scheme is prohibited, which shall last for two years commencing from 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 (excluding the Subject Shares funded by the conversion of the Deferred Bonus) paid by the Scheme Participants at their own cost pursuant to the Share Incentive Scheme together with interest accrued thereon at bank deposit rates for the period commencing from the date of payment of such subscription monies by the Scheme Participants and ending on the date when ZTE returns such subscription monies as a result of non-fulfillment of unlocking conditions.

“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 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:

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 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; and
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 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 quota of Subject Shares proposed to be granted to the Scheme Participants by ZTE under the Share Incentive Scheme shall be 47,980,000 shares, representing approximately 5% of the Total Share Capital of ZTE.

(IV) Allocation

1. A total quota 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 Jianxiong	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 quota 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 (hereinafter referred to as the “**Reserved Subject Shares**”) will be set aside for employees who make significant contributions to the Company and important personnel required by the Company who are 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 be 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 a cumulative 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 from 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 from 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 shall be locked up and shall not be transferable.

3. *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. ZTE shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

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 the Company's financial and accounting report containing a qualified opinion or no opinion 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; and
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; and
 - (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 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. With respect to the Reserved

Subject Shares, the Grant Price shall be the closing price of ZTE A Shares as quoted on the Stock Exchange on the trading day immediately preceding the date on which the Board meeting in connection with the grant of the Reserved Subject Shares to the Scheme Participants 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, 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 within 30 trading days after conditions for the grant being satisfied, the Scheme Participants shall pay the subscription amounts for Subject Shares to get the quota for the Subject Shares, provided that such date shall not fall within 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 from 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 funded by the conversion of the Deferred Bonus that Scheme Participants would have received prior to their agreement not to participate 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.

(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 the Company's financial and accounting report containing a qualified opinion or no opinion 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; and
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; and
 - (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. Reserved Subject Shares

(I) *Validity Period, Lock-up Period and Unlocking Period of the Reserved Subject Shares*

1. The quota for the Reserved Subject Shares shall have a valid period of five years as well, commencing from the date on which such quota is granted by the Board of Directors of the Company to the Scheme Participants.
2. The Lock-up Period and the Unlocking Period for the Reserved Subject Shares shall be same as the Lock-up Period and the Unlocking Period for other Subject Shares under the Share Incentive Scheme, i.e. the Lock-up Period shall last for a period of two years commencing from the date on which the quota for the Reserved Subject Shares is granted to Scheme Participants and the Unlocking Period shall last for three years following expiry of the Lock-up Period.

(II) *Procedures of Grant and Unlocking of the Reserved Subject Shares*

1. The conditions of grant of the Reserved Subject Shares shall be same as the conditions of grant of other Subject Shares under the Share Incentive Scheme.
2. The Grant Price of the Reserved Subject Shares shall be the closing price of ZTE A Shares as quoted on the Stock Exchange on the trading day immediately preceding the date on which the Board meeting in connection with the grant of the Reserved Subject Shares to the Scheme Participants is convened.
3. The procedures of the grant of the Reserved Subject Shares shall be same as the procedures of the grant of other Subject Shares under the Share Incentive Scheme. The Scheme Participants shall pay the subscription amounts for the Reserved Subject Shares on the basis of the purchase of 5.2 Reserved Subject Shares at the Grant Price for every 10 Reserved Subject Shares granted.
4. The conditions of unlocking of the Reserved Subject Shares shall be same as the conditions of unlocking of other Subject Shares under the Share Incentive Scheme.
5. The procedures of the unlocking of the Reserved Subject Shares shall be same as the procedures of unlocking of other Subject Shares under the Share Incentive Scheme.

IX. Alteration and Termination of the Share Incentive Scheme**(I) *Change of duties or departure of Scheme Participants***

Any change of duties, or departure as a result of resignation or lay-off 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.
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 the unlocked Subject Shares they held. Their Subject Shares still subject to the lock-up shall not be unlocked. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost and the quota for such Subject Shares shall be cancelled.

(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. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

1. Issue of the Company's financial and accounting report containing a qualified opinion or no opinion 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; and
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. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

- (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. The Company shall return the Scheme Participants the Subscription Cost for the Subject Shares still subject to the lock-up purchased by the Scheme Participants at their own cost. The quota for such Subject Shares shall be cancelled.

X. 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

14 February 2007

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyong; 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.

ZTE中兴

ZTE CORPORATION

中兴通讯股份有限公司

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

(Stock Code: 763)

**NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING
FOR 2007 (REVISED VERSION)**

ZTE Corporation (the “Company”) and all the members of the Board of Directors (the “Board”) confirm that all 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.

Unless otherwise defined herein, capitalized terms used in this announcement should have the same meaning as defined by the Phase I of the Share Incentive Scheme of ZTE Corporation.

I. BACKGROUND

1.1 Rescheduling of the extraordinary general meeting of the Company

At the nineteenth meeting of the third session of the Board held on 25 October 2006, the Board decided to convene the first extraordinary general meeting of the Company for 2006 on 28 December 2006. The Phase I of the Share Incentive Scheme of ZTE Corporation was reviewed by the relevant authorities of the state and could only be tabled at the general meeting of the Company once the final approvals from the authorities are received. In order to avoid undue burden for the shareholders that would be caused by convening a series of general meetings in succession, at the twentieth meeting of the third session of the Board held on 15 December 2006, the Board decided that the first extraordinary general meeting of the Company for 2006 should be postponed from 28 December 2006 to 30 January 2007 and be re-designated as the first extraordinary general meeting of the Company for 2007. At the twenty first meeting of the third session of the Board held on 24 January 2007, the Board further decided to postpone the first extraordinary general meeting of the Company for 2007 (“EGM”) to 13 March 2007.

1.2 Ex tempore motions proposed by Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited (“Zhongxingxin”)

Zhongxingxin, the controlling shareholder of the Company, submitted ex tempore motions to the Company on 12 February 2007, requesting to table the following resolutions (details of which are set out in sections 3.3 to 3.5 of this notice) for consideration and approval at the EGM:

- The resolution with respect to the Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007) (excluding the grant and issue of shares (including the number of shares) to the twenty one Scheme Participants who are Directors and Senior Management of the Company pursuant to the Share Incentive Scheme, which should be voted on separately);

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING FOR 2007

- The resolutions regarding the grant and issue of Subject Shares (including the number of shares) to twenty one Scheme Participants who are Directors and Senior Management of the Company pursuant to the Phase I of the Share Incentive Scheme of ZTE Corporation; and
- The resolution regarding requesting the general meeting of ZTE Corporation to authorize the Board to deal with certain matters regarding the Phase I of the Share Incentive Scheme.

After due examination of the above ex tempore motions, All Directors of the Company took the view that Zhongxingxin is qualified to propose the ex tempore motions and the contents of such ex tempore motions falls within the terms of reference of the general meeting in that they have a clear subject matter and are apparently specific. Therefore, the Board of Directors of the Company agreed to table these resolutions at the EGM for shareholders' consideration and approval and to issue this notice in accordance with the Regulatory Opinion on General Meetings of Listed Companies.

II. INFORMATION REGARDING THE EGM

Details of the EGM are set out below:

2.1 Date and time of meeting

The EGM will commence at 9: 00 a.m. on 13 March 2007.

Domestic shareholders of the Company can vote on-line during the following time from 12 March to 13 March 2007:

Online voting through the trading system of Shenzhen Stock Exchange:	any time during the period from 9:30 to 11:30 and from 13:00 to 15:00 on 13 March 2007
Online voting on the Internet voting system:	at any time during the period from 15:00 on 12 March 2007 to 15:00 on 13 March 2007

2.2 Venue

The EGM will be held at the Novotel Bauhinia Shenzhen Hotel.

Address: Qiaocheng E., Road, Huaqiao City, Shenzhen, Guangdong Province, the People's Republic of China (hereinafter referred to as the "PRC") (near the western entrance of Yuanboyuan)

Tel: +86 755 82829966

2.3 Convener

The EGM will be convened by the Board.

2.4 Voting methods

Domestic shareholders may vote by:

- on-site voting, including attending in person or authorizing others to attend and vote by completing and returning the relevant proxy form;

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING FOR 2007

- authorizing the relevant independent director to vote on resolutions regarding the Phase I of the Share Incentive Scheme of ZTE Corporation; or
- online voting. Online voting will be available to domestic shareholders through the trading system of Shenzhen Stock Exchange and the Internet voting system during the relevant time as specified in this notice.

H shareholders may vote by:

- on-site voting, including attending in person or authorizing others to attend and vote by completing and returning the relevant proxy form; or
- authorizing the relevant independent director to vote on resolutions regarding the Phase I of the Share Incentive Scheme of ZTE Corporation.

Pursuant to the Articles of Association of the Company, the same right to vote can only be exercised by electing one of the above applicable methods. If the same right to vote has been exercised twice, the result of the first voting shall prevail. In the event that the timing of the votes cannot be determined, the following rules shall apply:

- (i) In case of any inconsistency regarding the same resolution between votes cast by way of other methods and votes cast by way of authorising independent director to vote, the latter shall prevail;
- (ii) Subject to (i) above, where a shareholder attends the meeting and votes in person, votes cast by way of on-site voting shall prevail in case of any inconsistency regarding the same resolution between votes cast by way of other methods and on-site voting; and
- (iii) In case of any inconsistency regarding the same resolution between votes cast by way of proxy and by way of online voting, the votes cast by way of proxy shall prevail.

2.5 Attendees

- (a) Domestic shareholders: All ZTE (000063) shareholders registered with China Securities Depository & Clearing Corporation Limited, Shenzhen Office upon the close of trading of its A shares on the Shenzhen Stock Exchange on Monday, 27 November 2006 at 3:00 p.m.;
- (b) H shareholders: All ZTE (763) shareholders registered on the Company's H share register maintained by Computershare Hong Kong Investor Services Limited upon the close of trading of its H shares on The Stock Exchange of Hong Kong Limited on Monday, 27 November 2006 at 4:00 p.m.;
- (c) Directors, supervisors and senior management of the Company; and
- (d) Representatives of intermediaries engaged by the Company and guests invited by the Board of Directors.

2.6 Period of closure of H share register

The Company has closed its H share register from Saturday, 10 February to Monday, 12 March 2007 (inclusive).

III. MATTERS TO BE CONSIDERED AT THE EGM

To consider and, if thought fit, pass the following resolutions at the EGM as follows:

Ordinary Resolutions

- 3.1 *The resolution with respect to the proposed connected transaction framework agreements for 2007 (as defined under the Rules Governing the Listing of Securities on Shenzhen Stock Exchange):*

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 Company, Limited, on the other, in respect of the purchase of cases, cabinets, distribution frames, flexible printed circuit boards and shelters with an annual cap of aggregated transaction amounts estimated at RMB720 million for 2007 be approved.

- 3.2 *The resolution with respect to the renewal of continuing connected transactions for 2007 to 2009 (as defined under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited):*

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 shelters with annual cap of aggregated transaction amounts estimated at RMB720 million for 2007, RMB950 million for 2008 and RMB1,200 million for 2009 be approved.

Special Resolutions

- 3.3 *The resolution with respect to the Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007) (excluding the grant and issue of shares to the twenty one Directors and Senior Management of the Company pursuant to the Share Incentive Scheme, which should be voted on separately):*

THAT the Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007) be approved. The shareholders of the Company shall vote separately on the resolutions regarding the grant and issue of shares to the Directors and senior management of the Company pursuant to the Share Incentive Scheme.

3.4 *The resolutions regarding the grant and issue of Subject Shares (including the number of shares) to twenty one Scheme Participants who are Directors and Senior Management of the Company pursuant to the Share Incentive Scheme:*

- (1) **THAT** the grant and issue of 10,000 Subject Shares to Scheme Participants, Mr. Xie Weiliang (Vice Chairman) and Mr. Dong Lianbo (Director), respectively, pursuant to the Phase I of the Share Incentive Scheme of ZTE Corporation, be approved;
- (2) **THAT** the grant and issue of 10,000 Subject Shares to Scheme Participant, Mr. Zhang Junchao (Director) pursuant to the Phase I of the Share Incentive Scheme of ZTE Corporation, be approved; and
- (3) **THAT** the grant and issue of such number of Subject Shares as stipulated by the Phase I of the Share Incentive Scheme of ZTE Corporation to Directors and Senior Management other than Mr. Xie Weiliang, Mr. Dong Lianbo and Mr. Zhang Junchao, be approved (Please refer to Phase I of the Share Scheme of ZTE Corporation (Version Dated 5 February 2007) for details).

3.5 *The resolution regarding requesting the general meeting of ZTE Corporation to authorize the Board to deal with certain matters regarding the Phase I of Share Incentive Scheme:*

The general meeting is requested to authorise the Board to handle matters relevant to Phase I of the Share Incentive Scheme as follows, for the purpose of implementing the Phase I of the Share Incentive Scheme of ZTE Corporation.

- (1) **THAT** the general meeting be requested to authorize the Board to be responsible for the following matters in respect of the implementation of the Phase I of the Share Incentive Scheme of ZTE Corporation:
 - (i) To confirm the qualifications and conditions for Scheme Participants' participation in Phase I of the Share Incentive Scheme, to confirm the name list of Scheme Participants other 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;
 - (ii) To grant shares to the Scheme Participants upon their fulfillment of the required conditions and to handle all matters necessary for the grant and unlocking of shares;
 - (iii) To adjust the number of Subject Shares in accordance with principles and methods stipulated in Phase I of the Share Incentive Scheme if such adjustment becomes necessary as a result of the issue of new shares, ex-right and ex-dividend arrangements or otherwise;
 - (iv) To formulate or amend the administrative and implementation rules of Phase I of the Share Incentive Scheme from time to time subject to compliance with the terms of the Share Incentive Scheme, provided that such amendments by the Board 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;
 - (v) To sign, execute, amend or terminate any agreements related to the Phase I of Share Incentive Scheme and other relevant agreements;

- (vi) To appoint intermediaries such as receiving bankers, accountants and lawyers for the implementation of Phase I of the Share Incentive Scheme;
- (vii) To conduct other matters necessary for the implementation of Phase I of the Share Incentive Scheme, save as matters expressly stipulated in relevant documents to be determined by the general meeting;
- (2) **THAT** the general meeting be requested to authorize the Board 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 Phase I of the Share Incentive Scheme; and
- (3) **THAT** the general meeting be requested to approve that the above authorisations shall be effective for a term concurrent with the effective term of the Phase I of the Share Incentive Scheme.

IV. REGISTRATION AT THE EGM

4.1 Registration of attendance

- (a) Any legal person shareholder (including but not limited to corporate shareholders) entitled to attend the EGM shall produce to the register with a duplicate of its corporate business licence, a duly signed power of attorney and the identity card of the attendee.
- (b) Any individual shareholder entitled to attend the EGM shall produce for registration his own identity card, stock account card and evidence of shareholding.
- (c) Any shareholder intending to attend the EGM shall deliver the confirmation slip to the EGM registry by courier, registered mail or fax.

4.2 Time of registration

The registration period of Shareholders is from 4 December to 8 December 2006, from 4 January to 10 January 2007 and from 12 February to 16 February 2007.

4.3 Address for registration

Registration for the EGM was conducted at: 6/F, Block A, ZTE Building, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, PRC 518057.

4.4 Requirements when registering and voting by way of proxy

- (a) Given that new motions are proposed to be tabled at the EGM, **the proxy form for use at the EGM shall supersede and replace the previous proxy form which was sent to you for the general meeting originally scheduled for 28 December 2006.** All the shareholders of the Company who have signed and/or returned the proxy form for the general meeting originally scheduled on 28 December 2006 must re-sign the proxy form

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING FOR 2007

for use at the 2007 EGM and return it to the Company in accordance with the instruction printed thereon. The proxy form for the general meeting originally scheduled for 28 December 2006 should be invalid from the date of this notice.

- (b) Any shareholder entitled to attend and vote at the meeting may entrust one or more person (whether or not a shareholder) as his proxy(ies) to attend and vote at the meeting on his behalf. For a shareholder who entrusts two or more proxies, the voting rights to be exercised by such proxies in aggregate shall not exceed the total number of votes the shareholder is entitled to exercise at the meeting, and any one share may not be voted by different proxies.
- (c) A shareholder shall appoint a proxy in writing by using the proxy form, which shall be signed by the authorising shareholder or his duly authorised attorney. The proxy form shall be notarized if it is to be signed by any person other than by the authorising shareholder himself. The proxy form is valid only if it is deposited not less than 24 hours at the registered address of the Company before the EGM.
- (d) If a shareholder entrusts his proxy(ies) to attend and vote at the meeting on behalf of him, such proxy(ies) shall produce for registration his own identity card, the duly signed proxy form, the stock account card of shareholder and evidence of shareholding.

V. INDEPENDENT DIRECTOR'S PROXY FORM

Pursuant to the Administrative Measures on Share Incentives of Listed Company issued by China Securities Regulatory Commission, independent directors of a company listed on the Shenzhen Stock Exchange should solicit voting rights publicly from all shareholders of the company if the company is to adopt a share incentive scheme. Mr. Zhu Wuxiang, being an independent director of the Company, has sent out a solicitation proxy form ("**Independent Director's Proxy Form**") to solicit voting rights from the Shareholders pursuant to the measures and authorization of other independent directors of the Company. Please also refer to Mr. Zhu Wuxiang's announcement dated 14 February 2007 with respect to the Independent Director's Proxy Form.

Should you wish to appoint Mr. Zhu Wuxiang as your proxy to vote for you and on your behalf at the EGM on the resolutions with respect to the Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007) as stated in section 3.3, 3.4 and 3.5 of this notice, please complete the Independent Director's Proxy Form as soon as practicable and in any event not less than 24 hours before the time appointed for holding the EGM.

VI. MISCELLANEOUS

- 5.1 It is expected that the EGM will take less than one day; all accommodation, travel and expenses relating to attending the meeting shall be borne by the attendees.
- 5.2 EGM Contact: Li Liuhong
- 5.3 Contact telephone number: + 86 755 26770285
- 5.4 Contact fax number: + 86 755 26770286

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING FOR 2007

VII. REFERENCE

The full text of the Phase I of the Share Incentive Scheme of ZTE Corporation (Version Dated 5 February 2007).

By Order of the Board of Directors
Hou Weigui
Chairman

Shenzhen, the PRC
16 February 2007

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyong; 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.