
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Shanghai Pharmaceuticals Holding Co., Ltd.*, you should at once hand this circular and the proxy forms and reply slips to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

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

(Stock Code: 02607)

**Proposed Adoption of the 2019 Share Option Scheme
Assessment Management Measures for the Implementation of
the 2019 Share Option Scheme
and**

**Proposed Authorization to the Board to Deal with Relevant Matters in
Relation to the 2019 Share Option Scheme**

Notices, the proxy forms, independent director's proxy forms and reply slips for the 2019 first extraordinary general meeting and the 2019 second H share class meeting of the Company are enclosed herewith.

1 November 2019

* For identification purpose only

CONTENTS

	<i>Pages</i>
Definitions	1
Letter from the Board	4
Appendix I – Summary of the Share Option Scheme	7
Appendix II – Assessment Management Measures for the Implementation of the Share Option Scheme	35
Appendix III – Proposed Authorization to the Board to Deal With Relevant Matters in Relation to the Scheme	43

DEFINITIONS

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

“A Share(s)”	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“A Share Class Meeting”	the 2019 second class meeting of the A Shareholders of the Company
“Announcement in relation to the Share Option Scheme”	the announcement in relation to the Share Option Scheme of the Company dated 30 September 2019
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Administrative Measures”	the Administrative Measures on Equity Incentives of Listed Companies
“Assessment Measures”	the Assessment Management Measures for the Implementation of the 2019 Share Option Scheme of Shanghai Pharmaceuticals Holding Co., Ltd.*
“Board” or “Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of the Company
“Class Meetings”	the A Share Class Meeting and the H Share Class Meeting
“Company Law”	Company Law of the People’s Republic of China
“CSRC”	The China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“EGM”	the 2019 first extraordinary general meeting of the Company
“Exercise Conditions”	the conditions that must be fulfilled by Participants to exercise the Share Options under the Scheme
“Exercise Date”	the date on which the Participants are entitled to exercise the Share Options, which must be a trading day
“Exercise Period”	period during which the Share Option(s) can be exercised

DEFINITIONS

“Exercise Price”	the price determined by the Scheme, at which the Participants shall purchase the Shares
“General Meeting”	the general meeting of the Company
“Grant Date”	the date on which the Company shall grant Share Option(s) to the Participants, which must be a trading day
“Group”, “Company” or “Shanghai Pharmaceuticals”	Shanghai Pharmaceuticals Holding Co., Ltd.* (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (A shares of which are listed on the Shanghai Stock Exchange with stock code 601607; and H shares of which are listed on the Main Board of the Hong Kong Stock Exchange with stock code 02607)
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“H Share(s)”	overseas listed foreign shares in the Company’s ordinary share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Share Class Meeting”	the 2019 second class meeting of the H Shareholders of the Company
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Director(s)” or “Independent Non-executive Director(s)”	independent non-executive Director(s) of the Company
“Latest Practicable Date”	25 October 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Participant(s)”	person(s) to be granted the Share Option(s) under the Scheme
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this circular only, Hong Kong, Macau Special Administrative Region and Taiwan
“Regulatory Notice”	Notice on Issues Concerning Regulating the Implementation of the Equity Incentive System by the State-Controlled Listed Companies

DEFINITIONS

“Registration and Settlement Company”	China Securities Registration and Settlement Co., Ltd. Shanghai Branch
“Remuneration and Assessment Committee”	the remuneration and assessment committee of the Board
“RMB”	the lawful currency of the PRC. Unless otherwise specified, all financial figures in this circular are denominated in RMB
“Scheme”, “Share Option Scheme” or “2019 Share Option Scheme”	the 2019 Share Option Scheme of Shanghai Pharmaceuticals Holding Co., Ltd.*
“Securities Law”	Securities Law of the People’s Republic of China
“Shanghai SASAC”	Shanghai State-owned Assets Supervision and Administration Commission
“Shanghai Stock Exchange”	the Shanghai Stock Exchange
“Share(s)”	A Share(s) and H Share(s)
“Share Option(s)” or “Option(s)”	the rights to be granted by the Company to the Participants to purchase a certain number of Shares at a predetermined price and conditions within a certain period of time in the future
“Shareholder(s)”	holder(s) of the Shares of the Company
“Subsidiary(ies)”	Same as defined under the Hong Kong Listing Rules
“Supervisor(s)”	supervisor(s) of the Company
“Trial Measures”	Trial Measures for the Implementation of the Equity Incentive System by the State-Controlled Listed Companies (Domestic)
“Validity Period of the Scheme”	the period from the date of registration of the initial grant of the Share Option(s) to the full-exercise or cancellation of the Share Option(s)
“Vesting Period”	the period from the Grant Date to the Exercise Date
“Yuan”	Renminbi, the lawful currency of the PRC

LETTER FROM THE BOARD



上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

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

(Stock Code: 02607)

Executive Directors:

Mr. CHO Man
Mr. LI Yongzhong
Mr. SHEN Bo

Registered Address:

No. 92 Zhangjiang Road
Pilot Free Trade Zone
China (Shanghai)

Non-executive Directors:

Mr. ZHOU Jun
Mr. GE Dawei
Ms. LI An

Principal Place of Business

in Hong Kong:
31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay, Hong Kong

Independent Non-executive Directors:

Mr. CAI Jiangnan
Mr. HONG Liang
Mr. GU Zhaoyang
Mr. Manson FOK

To the Shareholders

Dear Sir or Madam,

**Proposed Adoption of the 2019 Share Option Scheme
Assessment Management Measures for the Implementation of
the 2019 Share Option Scheme**

and

**Proposed Authorization to the Board to Deal with Relevant Matters in
Relation to the 2019 Share Option Scheme**

1. INTRODUCTION

The purpose of this circular is to provide you with all the reasonably necessary information to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the EGM and H Share Class Meeting.

* For identification purpose only

LETTER FROM THE BOARD

2. PROPOSAL REGARDING PROPOSED ADOPTION OF THE 2019 SHARE OPTION SCHEME

Please refer to Appendix I to this circular.

3. PROPOSAL REGARDING THE ASSESSMENT MANAGEMENT MEASURES FOR THE IMPLEMENTATION OF THE 2019 SHARE OPTION SCHEME

Please refer to Appendix II to this circular.

4. PROPOSAL REGARDING PROPOSED AUTHORIZATION TO THE BOARD TO DEAL WITH RELEVANT MATTERS IN RELATION TO THE 2019 SHARE OPTION SCHEME

Please refer to Appendix III to this circular.

5. PROXY

The proxy forms, Independent Director's proxy forms and reply slips for the EGM and the H Share Class Meeting are also enclosed herewith.

If you intend to appoint a proxy to attend the EGM and the H Share Class Meeting, you are required to complete and return the relevant proxy form in accordance with the instructions printed thereon. For holders of H Shares, the relevant proxy form should be returned to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible, in any event served by hand or by post not less than 24 hours before the time stipulated for convening the EGM and the H Share Class Meeting or any adjourned meetings thereof. Completion and return of the relevant proxy form will not preclude you from attending and voting at the EGM or at any adjourned meetings thereof in person if you so wish.

Please note that Mr. HONG Liang, an Independent Non-executive Director, has sent out Independent Director's proxy form according to relevant laws and regulations of the PRC to solicit votes from Shareholders on special resolutions regarding 2019 Share Option Scheme and its related matters at the EGM, A Share Class Meeting and H Share Class Meeting. If you wish appoint Mr. HONG Liang as the proxy to vote on your behalf at the EGM and/or H Share Class Meeting on special resolutions regarding 2019 Share Option Scheme and its related matters, please complete the independent director's proxy form.

6. VOTING BY POLL

According to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the chairman of the EGM will demand a vote by poll in relation to all the proposed resolutions at the EGM in accordance with the requirements of Article 104 of the Articles of Association.

LETTER FROM THE BOARD

If the Company proposes to make further amendments to the Share Option Scheme prior to the consideration of the Scheme by its Shareholders at the EGM, the H Share Class Meeting and the A Share Class Meeting, further announcement and/or supplemental circular, where applicable, on such proposed amendments will be issued and/or dispatched to the Shareholders in due course in accordance with the requirements under the Chapter 17 of the Hong Kong Listing Rules.

7. RECOMMENDATION OF THE BOARD

The Board of Directors (including Independent Non-executive Directors) considers that all resolutions to be proposed at the EGM are in the interests of the Company and its Shareholders as a whole. Accordingly, the Board of Directors recommends that you vote in favor of all the resolutions to be proposed at the EGM.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business in Hong Kong of the Company at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from 9:00 a.m. to 5:00 p.m. on any business day (Saturdays and public holidays excepted) within 14 days before the EGM:

- (a) the Share Option Scheme; and
- (b) the Assessment Management Measures for the Implementation of the Share Option Scheme.

9. RESPONSIBILITY STATEMENT

The circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

By order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.*
ZHOU Jun
Chairman

SUMMARY OF THE 2019 SHARE OPTION SCHEME

1. BACKGROUND AND CONSIDERATIONS FOR THE PROPOSED ADOPTION OF THE SHARE OPTION SCHEME

1.1 Historical Background

We refer to the announcements of the Company dated 11 April 2019 and 10 May 2019, the circular of the Company dated 21 May 2019, and the poll results announcement of the Company dated 28 June 2019 (the “**Previous Disclosures**”). As disclosed in the Previous Disclosures, the Company had convened its 2018 annual general meeting, 2019 first H share class meeting and 2019 first A share class meeting on 27 June 2019 for its shareholders to consider and approve the relevant resolutions in relation to the then proposed A Shares option scheme (the “**Previous Share Option Scheme**”). The relevant resolutions were passed in the 2018 annual general meeting and the 2019 first A share class meeting of the Company but were not approved in the 2019 first H share class meeting of the Company (the “**Previous General Meeting Results**”).

According to the Previous General Meeting Results, it came to the Company’s notice that certain H Shareholders had certain misunderstandings on the avoidance of conflict of interest mechanism of the Previous Share Option Scheme. Therefore, the Company has conducted explanatory works on the corporate governance practices of the Company and the relevant Hong Kong Listing Rules requirements in relation to avoidance of conflict of interest through roadshows, telephone conference and other means in compliance with the applicable laws and rules and the common market practice in the H share market.

The Company has been consistently endeavoring to improve its governance structure and rules of operation, and continues to enhance the effectiveness of its corporate governance. The Company understands that the avoidance of conflicts of interest in the decision making process is a fundamental requirement under relevant laws, rules and regulations, which include but not limited to the PRC laws and regulations, applicable listing rules in which the securities of the Company are listed, and the Articles of Association.

Based on the proper communications work done in the H share market, the Company has amended and improved the content and provisions of the Previous Share Option Scheme and prepared the Share Option Scheme with certain clarification provisions included (the “**Amendments**”). In particular, the Amendments clearly set out that (a) Participants of the Share Option Scheme should abstain from the review, administration and any other matters in relation to the Share Option Scheme, and (b) the Remuneration and Assessment Committee, members of which are not eligible for the Share Option Scheme, is responsible to formulate the Assessment Measures, lead and organize the assessment work of the Participants, and examine and confirm whether the Participants are qualified to exercise and whether the Participants fulfil the Exercise Conditions. On one hand, the Amendments are consistent with the Previous Share Option Scheme in principle, and on the other hand, they also clearly demonstrate the Company’s continuing efforts to clearly address certain H Shareholders’ concern on the avoidance of conflict of interest mechanism under the Previous Share Option Scheme with the hope of obtaining further understanding and supports to the optimisation and development of the corporate governance system of the Company from its Shareholders.

In addition, the Company also (a) updated the performance assessment requirements for the Company and the Participants, in order to establish a sound incentive and restraint mechanism, fully mobilize the enthusiasm and creativity of the Participants, raise the standard of performance targets of the Company under the Share Option Scheme to further demonstrate the Company's confidence in its strategic goals and market position in the future; and (b) revised the scope of the Participants, the allocation of the Share Options between the stages of the initial grant and the reserved grant, the Exercise Price, and the effects of the costs of Share Options on each accounting period, after considering the changes of employees of the Company in the second half of 2019 and the fluctuation of the price of its Shares in the market which is also in line with the CSRC's requirements that the exercise price of share options of a listed company in the A share market shall be re-determined with the reference date being the actual announcement date of the approval by the Board.

1.2 Reasons for and Benefits of Adopting the Proposed Share Option Scheme

Based on the aforementioned background and the factors considered for the Previous Share Option Scheme, and the following reasons that necessitate implementation of the Share Option Scheme, the Company considers that the Share Option Scheme is in the interests of the Company and its Shareholders as a whole.

(i) Normalization of equity incentives in the pharmaceutical industry market

Under the encouragement and guidance of the reform policy of the state-owned enterprises, Shanghai Pharmaceuticals, as a key pharmaceutical enterprise under the supervision of Shanghai SASAC, will further improve its corporate governance and increase the incentive and restraint of personnel selection through the implementation of the Share Option Scheme. With references to market practices that various A-share listed pharmaceutical enterprises and those listed on the Hong Kong Stock Exchange have implemented equity incentive schemes, there is practical significance for Shanghai Pharmaceuticals, the first "A+H share listed" pharmaceutical enterprise in mainland China, in launching the Share Option Scheme to optimize salary structure and improve salary competitiveness.

(ii) Fierce competition for talent in the pharmaceutical industry

Shanghai Pharmaceuticals is part of a highly competitive industry, and the flow of talent that is good in pharmaceutical R&D, sales and operation and management decision-making is highly market-oriented. In a fiercely competitive environment for talent in the industry, whereas the main industrial competitors of the Company have successfully implemented incentive schemes, the Company has encountered great challenges in attracting and retaining core personnel. Currently, establishing a comprehensive and complete incentive mechanism and improving the competitiveness of salaries will firmly strengthen the competitiveness of the Company, so that the Company will maintain the position of the benchmark brand in the market competition.

(iii) Urgent need to establish an incentive mechanism to drive achievement

Through years of management practice, Shanghai Pharmaceuticals has deeply realized the significance of the subjective initiative and creativity of the core employees to the development of enterprises. Fully stimulating the subjective initiative of the core employees can enable the Company to seize more market opportunities and as such more innovative management initiatives will emerge. Therefore, the level of core employees' involvement in the work will have a great impact on the Company's performance. Through the Scheme, Shanghai Pharmaceuticals hopes to closely bond the personal interests of the core employees with the development of enterprise performance to fully stimulate the subjective initiative of core employees.

(iv) Focusing on the long-term goal of strategic development of the Company and guiding the management team to pay more attention to the long-term practice of the Company

Considering that the pharmaceutical industry is a market-oriented industry, changes in the market are fast and complex, which can easily lead to short-term individual profit-seeking behavior, affect the interests of the Shareholders and the healthy long-term development of the Company. On the one hand, the Scheme will better serve the formation of a united community between the management team and the Shareholders of the Company, promote the team to focus on the long-term goals of the strategic development of the Company and operate the Company from the perspective of the Shareholders to increase the interests thereof. On the other hand, the development of the Company is not only the responsibility of the Shareholders, but also an effective way to realize the self-interest of core employees of the Company.

The following summarises all principal terms of the Share Option Scheme:

2. PROPOSED ADOPTION OF THE SHARE OPTION SCHEME

2.1 Purpose of the Share Option Scheme

To further optimize the corporate governance structure of the Company, create long-term incentive and restrictions on the senior management, mid-level management and key technical and business staff of the Company, fully encourage their initiative and creativity, effectively align their interests with the Company's long term development, prevent the loss of talents, and achieve sustainable development of the Company, as proposed by the Remuneration and Assessment Committee, Shanghai Pharmaceuticals formulated the Share Option Scheme in accordance with the relevant laws, regulations and regulatory documents, and the Articles of Association.

2.2 Basis for Determining the Participants and the Scope of the Participants

(1) *Legal Basis for Determining the Participants*

Participants are determined in accordance with the Company Law, the Securities Law, the Administrative Measures, the Trial Measures, Regulatory Notice and other relevant laws, regulations and regulatory documents, as well as provisions of the Articles of Association with reference to the actual situations of the Company.

(2) *Position Basis for Determining the Participants*

In principle, the Participants include the senior management, mid-level management and key technical and business staff of the Company. The Participants do not include non-executive Directors, Independent Non-executive Directors, members of the Remuneration and Assessment Committee, Supervisors, and any substantial Shareholders or actual controller individually or jointly holding more than 5% of the Shares of the Company and their respective spouse, parents and children. All Participants are employed by the Company or its holding subsidiaries and branches, and have entered into labour contracts with and are receiving remuneration from the Company or its holding subsidiaries.

The Participants of the reserved grant will be determined within 12 months after the Scheme is reviewed and approved by the Shareholders at the EGM all at once. Upon the proposal by the Board and after the Independent Non-executive Directors and the Board of Supervisors provide clear opinions and the legal advisors provide professional opinions and legal opinions, the Company shall disclose relevant information of the current Participants on the designated website in a timely and accurately manner. If the Participants are not determined for more than 12 months, the reserved interests will lapse. The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews the grant of reserved Share Options.

(3) *Assessment Basis for Determining the Participants*

In respect of the assessment matters for the Scheme, the Remuneration and Assessment Committee has formulated the Assessment Measures as the assessment basis. According to the Assessment Measures, Participants will be assessed in accordance with the Assessment Measures and will be eligible to be granted the Share Option under the Scheme only if their assessment results are competent or above.

(4) *Scope of Participants*

The Participants of the initial grant under the Scheme are senior management, mid-level management and key technical and business staff of the Company, totaling 211 individuals and accounting for 0.44% of the 47,580 registered employees of the Company as of 31 December 2018.

The criteria for determining the Participants of the reserved grant are to be made with reference to the criteria for the initial grant. Those who have been granted under initial grant and promoted subsequently shall not be allowed to use the reserved Shares to make up the shortfall in number of Shares granted.

In addition, persons are not eligible for the Scheme if he or she:

- (i) is a non-executive Director, an Independent Non-executive Director, a member of the Remuneration and Assessment Committee, or a Supervisor;
- (ii) is the Shareholder or actual controller individually or jointly holding more than 5% of the Shares and their respective spouse, parents and children;
- (iii) has been determined by Shanghai Stock Exchange as an ineligible person in the last 12 months;
- (iv) has been determined by CSRC and its delegated agencies as an ineligible person in the last 12 months;
- (v) has been imposed by the CSRC or its delegated agencies with administrative penalties or measures prohibiting access into the market in the last 12 months due to material non-compliance of laws or regulations;
- (vi) is prohibited from acting as a director or a member of the senior management as required by the Company Law;
- (vii) fails to achieve competent or above in respect of the performance assessment results according to the Company's corresponding performance assessment measures;
- (viii) trades the Shares with aware of insider information, except where the laws, administrative regulations and relevant judicial interpretations stipulate that it is not insider dealing;
- (ix) leaks insider information that leads to insider trading;
- (x) is prohibited from participating in incentive schemes as required by laws and regulations;
- (xi) has commitment other circumstances determined by the CSRC.

Should any of the above circumstances occur to a Participant during the implementation of the Scheme, the Company shall terminate his/her rights to participate in the Scheme in advance.

2.3 Source of Shares and Number of Share Options**(1) Source of Shares**

The source of the underlying Shares of the Scheme shall be ordinary A Shares to be directly issued to the Participants.

(2) Number of Share Options

The number of A Share Options to be granted under the Scheme is 28,420,900 Shares, representing approximately 1.00% of the total issued Shares of the Company as at the date of the Announcement in relation to the Share Option Scheme, i.e. 2,842,089,322 shares. Among them, 25,680,000 Shares shall be granted initially, representing approximately 0.904% of the total issued Shares of the Company as at the date of Announcement in relation to the Share Option Scheme and approximately 90.36% of the total Share Options to be granted under the Scheme; the number reserved is 2,740,900 shares, representing approximately 0.096% of the total issued shares of the Company as at the date of Announcement in relation to the Share Option Scheme and representing approximately 9.64% of the total Share Options granted under the Scheme. Subject to the fulfilment of the Exercise Conditions, each Share Option entitles the Participants to acquire one A Share, which shall enjoy all rights and fulfil all obligations as ordinary Shareholders of the Company at the Exercise Price during the Exercise Period. The total number of Shares to be granted to any Participant under the Scheme which are still in the Validity Period of the Scheme shall not exceed 1% of the Company's total share capital at the time of the approval by the EGM on a cumulative basis.

2.4 Validity Period of the Scheme, Validity Period, Grant Date, Vesting Period, Exercise Date and the Lock-up Requirements of the Share Options**(1) Validity Period of the Scheme**

The Scheme will take effect after it has been considered and approved by the EGM, and will expire on the date on which the Share Options granted under the Scheme have been exercised or cancelled.

(2) Validity Period of the Share Options

The Validity Period of the Share Options granted under the Scheme commences from the registration date of the grant, which shall not exceed 60 months.

(3) Grant Date

The Grant Date shall be determined by the Board upon the consideration and approval of the Scheme by the Shanghai SASAC and the EGM. The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from

voting when the Board reviews and determines the Grant Date. The Company shall grant the Share Options, publish announcements and complete registration within 60 days after the consideration and approval of the Scheme by the EGM.

The Grant Date of reserved Share Options shall be determined separately by the Board, and the announcement and registration procedures for the grant shall be completed within 12 months from the date of consideration and approval of the Scheme by the EGM. The Grant Date must be a trading day. The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews the grant of reserved Share Options.

(4) *Vesting Period*

The Vesting Period shall be the period commencing from the registration date of the grant of Share Options to the first Exercise Date. The Vesting Period for the Scheme shall be 24 months.

(5) *Exercise Period and Exercise Date*

The Share Options granted to the Participants can be exercised after the Vesting Period. The Exercise Date must be a trading day and shall not fall into the following periods:

- (i) the period commencing on 30 days prior to the announcements of periodic reports of the Company, or in the event of postponement in publishing the periodic reports for special reasons, 30 days prior to the original announcement date and end on one day prior to the actual announcement date;
- (ii) the period commencing on 10 days prior to the announcements of results forecast and preliminary results of the Company;
- (iii) the period commencing on the date of the occurrence of material events that may have significant impacts on price of Shares and derivatives of the Company, or the date of entering into the decision-making process, and end on two business days after such events have been lawfully disclosed; and
- (iv) other periods prescribed by the CSRC and Shanghai Stock Exchange.

During the Exercise Period, the Participants are able to exercise according to the following exercising arrangement upon the fulfillment of the Exercise Conditions under the Scheme. The Exercise Period of the Share Options and timetable for each exercise are set out below:

Exercise Period	Time Arrangement	Proportion of Exercisable Share
First Exercise Period	Commencing from the first trading day upon the expiry of 24 months from the Grant Date to the last trading day upon the expiry of 36 months from the Grant Date	33%
Second Exercise Period	Commencing from the first trading day upon the expiry of the 36 months from the Grant Date to the last trading day upon the expiry of 48 months from the Grant Date	33%
Third Exercise Period	Commencing from the first trading day upon the expiry of the 48 months from the Grant Date to the last trading day upon the expiry of 60 months from the Grant Date	34%

The Participants shall exercise the Share Options during the Exercise Period. If the Exercise Conditions are not fulfilled, such Share Options shall not be exercised. If the Exercise Conditions are fulfilled nevertheless not all of the relevant Share Options have been exercised during the above period, such Share Options shall be cancelled by the Company.

(6) Relevant Lock-up Provisions

Lock-up period refers to the period during which there is sale restriction on Shares obtained by the Participants upon the exercise, while the Options granted to the Participants shall not be transferred, be used for guarantee or debt repayment. Lock-up provisions of the Scheme shall be implemented in accordance with the relevant laws, regulations and regulatory documents such as the Company Law and the Securities Law, as well as the Articles of Association, of which details are set out below:

- (i) where a Participant is a Director or a member of the senior management of the Company, the number of Shares that may be transferred each year during his or her terms of office shall not exceed 25% of the total number of Shares held by him or her in the Company. No Shares held may be transferred within half a year upon his or her termination of office;
- (ii) Share Options of not less than 20% of the total Share Options granted to a Director or senior management can only be exercised after such Participant has passed his or her performance assessment at the end of terms of office;
- (iii) where a Participant is a Director or a member of the senior management of the Company and he or she disposes of any Shares within six months after any purchase of Shares from the Company, or if he or she purchases Shares within six months after disposal thereof, all gains deriving therefrom should be vested with the Company and the Board will forfeit all such gains;

- (iv) where, during the Validity Period of the Scheme, there is any change to the requirements regarding the transfer of shares and senior management under applicable laws, regulations and regulatory documents such as the Company Law and the Securities Law, and under the Articles of Association, the transfer by such Participants shall comply with the amended Company Law, Securities Law and other relevant laws, regulations and regulatory documents and requirements under the Articles of Association.

2.5 Exercise Price and Basis of Determination

The Exercise Price of the Share Options under the Scheme is RMB18.41 per A Share for the initial grant, i.e. upon the fulfillment of the Exercise Conditions, the Participants are able to purchase the Shares issued by the Company to the Participants at the price of RMB18.41 per A Share. In cases of capitalisation issue, bonus issue and shares subdivision, share consolidation and rights issue, the Exercise Price shall be adjusted accordingly.

The Exercise Price of the Share Options for the initial grant under the Scheme shall not be less than the nominal value of the A Shares and shall not be lower than the higher of:

- (i) the average trading price of the A Shares on the trading day immediately preceding the date of the Announcement in relation to the Share Option Scheme, being RMB18.20 per A Share;
- (ii) the average trading price of the A Shares for 60 trading days immediately preceding the date of the Announcement in relation to the Share Option Scheme, being RMB18.41 per A Share.

The Share Options for the reserved grant shall be approved by the meetings of the Board before each grant, among whom, the Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting, and of which the Exercise price shall be not be less than the nominal value of the A Shares and determined with reference to the higher of:

- (i) the average trading price of the A Shares on the trading day immediately preceding the date of the Announcement of the Board's resolution of granting the reserved Share Options;
- (ii) the average trading price of the A Shares for 20, 60 or 120 trading days immediately preceding the date of the Announcement of the Board's resolution of granting the reserved Share Options.

2.6 Conditions of the Grant and Exercise Conditions of the Share Options***(1) Conditions of the Grant***

The following conditions must be simultaneously fulfilled before the Share Options granted to the Participants:

- a. There is no occurrence of any of the following in respect of the Company:
 - (i) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
 - (ii) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the Company in its financial report for the most recent accounting year;
 - (iii) violation of laws and regulations, the Articles of Association or any public undertaking in respect of distribution of profits within 36 months;
 - (iv) under applicable laws and regulations, no equity incentive is allowed; or
 - (v) such other circumstances as determined by the CSRC.
- b. There is no occurrence of any of the following in respect of a Participant:
 - (i) he or she has been held by the Shanghai Stock Exchange to be an ineligible person in the last 12 months;
 - (ii) he or she has been held by the CSRC or its delegated agencies as an ineligible person for the last 12 months;
 - (iii) he or she has been imposed by the CSRC or its delegated agencies with administrative penalties or measures prohibiting access into the market for the last 12 months by reason of material violation of laws and regulations;
 - (iv) he or she is prohibited from acting as a Director or a member of the senior management of a company as required by Company Law;
 - (v) he or she is prohibited from participating in equity incentive schemes of listed companies as required by laws and regulations; or
 - (vi) such other circumstances as determined by the CSRC.
- c. Performance assessment of the grant:

Performance conditions at the Company level

- (i) The operating revenue growth rate of the Company for the last financial year prior to the Announcement in relation to the Share Option Scheme shall not be lower than 10.0%;
- (ii) The average weighted rate of return on common Shareholder's equity for the last financial year prior to the Announcement in relation to the Share Option Scheme shall not be lower than 12.0% and no less than 50 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be less than that of the previous year;
- (iii) Research and development expenses for the last financial year prior to the Announcement in relation to the Share Option Scheme shall not be lower than RMB850 million; and
- (iv) Performance composite index of the Company for the last financial year prior to the Announcement in relation to the Share Option Scheme shall not be less than 50 percentile of benchmark enterprises.

Performance targets at the Participants Level

The assessment result of the Participants shall achieve competent or above according to the assessment results of the performance assessment of the Company for the last financial year prior to the Announcement in relation to the Share Option Scheme.

The assessment year and performance conditions for grant for the reserved Share Options shall be the same as those for the initial grant.

(2) *Exercise Conditions of the Share Options*

Share Options granted to the Participants are able to be exercised upon the fulfilment of the following conditions during the Exercise Period:

- a. There is no occurrence of any of the following circumstances in respect of the Company:
 - (i) issue of the auditors' report with qualified opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
 - (ii) issue of the auditors' report with qualified opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the Company in its financial report for the most recent accounting year;

- (iii) violation of laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits within 36 months;
- (iv) under applicable laws and regulations, no equity incentive is allowed; or
- (v) such other circumstances as determined by the CSRC.

In the event any of the circumstances specified above occurs, the Share Options granted to all Participants under the Scheme but not exercised shall be cancelled by the Company.

- b. There is no occurrence of any of the following circumstances in respect of the Participants:
 - (i) he or she has been held by the Shanghai Stock Exchange to be an ineligible person in the last 12 months;
 - (ii) he or she has been determined by the CSRC or its delegated agencies as an ineligible person for the last 12 months;
 - (iii) he or she has been imposed by the CSRC or any of its delegated agencies with administrative penalties or measures prohibiting access into the market in the last 12 months by reason of material violation of laws and regulations;
 - (iv) he or she is prohibited from acting as a Director or a member of the senior management of a company as required by Company Law;
 - (v) he or she is prohibited from participating in equity incentive schemes of listed companies as required by laws and regulations; or
 - (vi) such other circumstances as determined by the CSRC.

In the event any of the circumstances specified above occurs, the Share Options granted to all Participants under the Scheme but not exercised shall be cancelled by the Company.

c. Performance assessment for the Company

- (i) The performance conditions for the exercise of the Share Options are set out below:

Exercise Period	Targets of performance assessment
First Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2020 shall not be lower than 10.0%, as compared to the average operating revenue for the years of 2016 to 2018, and the operating revenue of the Company shall not be less than the RMB175 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2020 shall not be lower than 12.1% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2020 shall not be lower than RMB940 million; and 4) Performance composite index of the Company for the year of 2020 shall not be lower than 75 percentile of benchmark enterprises.
Second Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2021 shall not be lower than 10.0%, as compared to the average operating revenue for the years of 2016 to 2018, and the operating revenue of the Company shall not be lower than the RMB185 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2021 shall not be lower than 12.3% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2021 shall not be lower than RMB1.00 billion; and 4) Performance composite index of the Company for the year of 2021 shall not be lower than 75 percentile of benchmark enterprises.
Third Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2022 shall not be lower than 10.0%, as compared to the average operating revenue for the years of 2016 to 2018, and the operating revenue of the Company shall not be lower than the RMB200 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2022 shall not be lower than 12.5% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2022 shall not be lower than RMB1.06 billion; and 4) Performance composite index of the Company for the year of 2022 shall not be lower than 75 percentile of benchmark enterprises.

Note 1: If the growth rate of Chinese medicine terminal consumption is lower than 5% in the assessment year, and the scale of the Company's operating revenue reaches the 90 percentile of benchmark enterprises; the operating revenue and its growth rate shall be deemed to reach the standard. The growth rate of Chinese medicine terminal consumption is the growth rate of China's drug terminal consumption in the assessment years of each exercise conditions according to the official statistics of the Southern Institute of Pharmaceutical Economics of the State Drug Administration.

Note 2: During the Validity Period of the Scheme, if the Company conducts public or private offerings that affect net assets, the newly added net assets and corresponding net profits will not be included in the calculation of increase of net assets and net profits increase during the Validity Period of the Scheme. The average weighted rate of return on common Shareholder's equity thereof is calculated based on the statistical caliber that research and development expenses are regarded as profits. The average weighted rate of return on common Shareholder's equity = (the net profits attributable to Shareholders + research and development expenses)/the average equity attributable to Shareholders.

Note 3: During the Validity Period of the Scheme, in the event that potential future actions may affect the performance of the Company (such as changes in national accounting policies, fulfillment of important social responsibilities and matters that can be adjusted appropriately in accordance with relevant government regulations, etc.), the Board is authorized to recover the original performance indicators when the relevant performance indicators are incomparable, which shall come into effect upon approval at the General Meetings of the Company. The Directors who are proposed to be the Participants and Directors who are related thereto should abstain from voting when the Board reviews the adjustment of the recovering of the performance indicators.

Note 4: The performance composite index assesses the average weighted rate of return on common Shareholders' equity, industrial sales revenue growth rate, commercial sales revenue and research and development expenses comprehensively. The performance composite index = Σ (each of the Company's segmented competitiveness index \times strategic importance weight), among which, each of the Company's segmented competitiveness index = the percentile of each of the Company's segmented index among benchmark enterprises.

Note 5: The Exercise Conditions shall not be fulfilled unless all the other annual targets set by the Board have been satisfied at the same time.

- (ii) In terms of the performance assessment, a system of the performance composite assessment comprising the average weighted rate of return on common Shareholders' equity, industrial sales revenue growth rate, commercial sales revenue and research and development expenses are built up to assess the comprehensive strength of ability of Shanghai Pharmaceuticals, in accordance with the comprehensive businesses composition and strategic requirements of Shanghai Pharmaceuticals's

various segments such as research and development, manufacturing, segmenting distribution and retail. The specific assessment rules are as follows:

Strategic orientation	Quality	Scale		Innovation
Segmented indexes	Rate of return on common Shareholder's equity	Industrial sales revenue growth rate	Commercial sales revenue	Research and development expense
Strategic importance weight	40	30	10	20

The performance composite index = Σ (each of the Company's segmented competitiveness index \times strategic importance weight), among which, each of the Company's segmented competitiveness index = the percentile of each of the Company's segmented index in benchmark enterprises.

Note 1: Industrial sales revenue, commercial sales revenue, and research and development expenses are all from annual report disclosures; the average weighted return rate of return on common shareholders's equity = (net profits attributable to shareholders of the Company + research and development expense)/average equity attributable to Shareholders.

Note 2: In terms of the granting assessment, the industrial sales revenue growth rate equals to the year-on-year growth rate of the financial year preceding the Announcement in relation to the Share Option Scheme; in terms of the Exercise Conditions assessment, the industrial sales revenue growth rate equals to the compound sales revenue growth rate on the basis of average industrial sales revenue for the years 2016 to 2018.

Note 3: In terms of the benchmark enterprises, the scale weight for pure industrial enterprise is calculated by using 40 as the industrial sales revenue competitiveness index; and the scale weight for pure commercial enterprise is calculated by using 60 as the business sales revenue competitiveness index, excluding the innovation weight.

(iii) The benchmark enterprises of the Scheme are selected and determined after comprehensive consideration of factors such as industry, scale of enterprises and principal businesses:

(1) among A-share listed companies and companies of which shares are listed on the Hong Kong Stock Exchange, in accordance with the dual attributes of pharmaceutical industry and pharmaceutical commerce in terms of the business of the Company, the overall selection samples of benchmark enterprises having been determined by selecting industries of biological product, chemical pharmaceutical, TCM and pharmaceutical commercial under the Shen Yin Wanguo Industry Classification Standard (申銀萬國行業

分類標準) as well as industries of pharmaceutical, biotechnology, life sciences and health care products distributor under the Wind Industry Classification Standard (萬得諮詢行業分類標準);

- (2) companies with a smaller scale in terms of revenue having been excluded; and
- (3) companies of which principal businesses are not relevant or companies affiliated within the same group having been excluded.

After analysis and screening, the following 30 companies will be identified as the benchmark enterprises of the Scheme:

Sequence No.	Stock Code	Stock Name	Sequence No.	Stock Code	Stock Name
1	1099.HK	Sinopharm	16	002758.SZ	Huatong Medicine
2	600276.SH	Hengrui Medicine	17	603456.SH	Jiuzhou Pharmaceutical
3	600196.SH	Fosun Pharma	18	600267.SH	Hisun Pharmaceutical
4	600713.SH	China Health Care	19	000705.SZ	Zhejiang Zhenyuan
5	600090.SH	Ready Health	20	0775.HK	CKLife Sciences
6	3320.HK	Chinarel Pharma	21	600664.SH	Harbin Pharmaceutical
7	000153.SZ	BBCA Pharmaceutical	22	000788.SZ	PKU Healthcare
8	600216.SH	Zhejiang Medicine	23	300110.SZ	Huaren Pharmaceutical
9	600420.SH	Shyndec Pharmaceutical	24	600833.SH	No.1 Pharmacy
10	002872.SZ	Tiansheng Pharmaceutical	25	3933.HK	United Lab
11	300267.SZ	Er-kang Pharmaceutical	26	600812.SH	North China Pharmaceutical
12	300158.SZ	Zhen Dong Pharmaceutical	27	002433.SZ	Taiantang Pharmaceutical
13	000908.SZ	Jingfeng Pharmaceutical	28	002390.SZ	Xinbang Pharmaceutical
14	000597.SZ	Northeast Pharmaceutical	29	000919.SZ	Jinling Pharmaceutical
15	600594.SH	Yibai Pharmaceutical	30	600613.SH	Shenqi Pharmaceutical

In the event of any of the following events regarding the benchmark enterprises during the process of annual assessment, the Board would be authorized to exclude or replace the samples according to the actual

circumstances. The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews the adjustment of the benchmark enterprises:

- (1) material changes in principal business;
- (2) the existence of sample extremes with excessive deviation.

The exercise quota of the individual in the current year shall be determined under the Scheme when the Company performance conditions for the exercise have been fulfilled.

d. Participants' performance assessment requirements:

The Company shall assess the individual performance of the Participants based on the Assessment Measures. The assessment results of the Participants' performance for the previous year are a prerequisite for determining the exercisable part of the Share Options for the current period, and in general, the performance assessment results can be divided into three levels: competent or above, to be improved and fail.

Assessment Result	Competent or above	To be improved	Fail
Individual assessment quota	1.0	0.8	0

The actual exercise quota of the individual for the current year = the individual's exercisable quota for the year × the individual assessment quota for the current year.

Meanwhile, to put emphasis on the significance of the drug safety, as for the Participant who is directly responsible for major quality and safety accidents, the assessment of Exercise Conditions of him or her for the period, as determined by the Board, may be "one-vote veto". The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting during the process of the Board resolution.

To better achieve the dual purposes of incentives and constraints, the Company will further enhance the supporting management system for individual performance assessment. Based on the position setting, the investment effectiveness in research and development, achievements of research milestones and the numbers of patent applications are key indicators for assessing research and development key staffs; and the sales revenue growth rate and key products market shares are indicators for assessing the marketing key staffs.

The assessment year and performance conditions for reserved Share Options are the same as those for the initial granting of Share Options under the Scheme.

If the Company performance assessment or the individual performance assessment fail in reaching the standard, resulting in the failure of the fulfillment of the Exercise Conditions of the Share Options, the corresponding Share Options shall not be exercised or postponed to the next period, and shall be cancelled by the Company.

2.7 Methods of and Procedures for Adjustment

(1) *Adjustment to the number of the Share Options*

In the event of capitalisation issue, bonus issue, share subdivision, rights issue or share consolidation of the Company after the Announcement in relation to the Share Option Scheme and prior to any exercise by the Participants, the number of the Share Options shall be adjusted accordingly. The adjustment methods are as follows:

a. *Capitalisation issue, bonus issue, share subdivision*

$$Q = Q_0 \times (1 + n)$$

Where: Q_0 represents the number of the Share Options prior to the adjustment; n represents the ratio of increase per Share resulting from capitalisation issue, bonus issue or share subdivision (i.e. the number of increased share(s) per share upon capitalisation issue, bonus issue or share subdivision); and Q represents the number of the Share Options after adjustment.

b. *Rights issue*

$$Q = Q_0 \times P_1 \times (1 + n) \div (P_1 + P_2 \times n)$$

Where: Q_0 represents the number of the Share Options prior to adjustment; P_1 represents the closing price of the Share on the registration date; P_2 represents the subscription price in respect of the rights issue; n represents the ratio of the rights issue (i.e. the number of Shares to be issued under the rights issue in proportion to the total share capital of the Company prior to the rights issue); and Q represents the number of Share Options after adjustment.

c. *Share consolidation*

$$Q = Q_0 \times n$$

Where: Q_0 represents the number of the Share Options prior to the adjustment; n represents the ratio of consolidation of Shares (i.e. one Share of the Company be consolidated into n shares); and Q represents the number of the Share Options after the adjustment.

d. Dividend distribution and new shares issuance

In the case of dividend distribution or new Shares issuance by the Company, number of the Share Options shall not be adjusted.

(2) Adjustment methods of the Exercise Price

In the event of capitalisation issue, bonus issue, share subdivision, rights issue or share consolidation of the Company after the Announcement in relation to the Share Option Scheme and prior to any Exercise by the Participants, the Exercise Price should be adjusted accordingly. The adjustment methods are as follows:

a. capitalisation issue, bonus issue, share subdivision

$$P = P_0 \div (1 + n)$$

Where: P_0 represents the Exercise Price of the Share Options prior to the adjustment; n represents the ratio of increase per Share resulting from the capitalisation issue, bonus issue or share subdivision; and P represents the Exercise Price after the adjustment.

b. Rights issue

$$P = P_0 \times (P_1 + P_2 \times n) \div [P_1 \times (1 + n)]$$

Where: P_0 represents the Exercise Price prior to the adjustment; P_1 represents the closing price of the Share on the registration date; P_2 represents the subscription price in respect of the rights issue; n represents the ratio of the rights issue (i.e. the number of Shares to be issued under the rights issue in proportion to the total share capital of the Company prior to the rights issue); and P represents the Exercise Price after the adjustment.

c. Share consolidation

$$P = P_0 \div n$$

Where: P_0 represents the Exercise Price prior to the adjustment; n represents the ratio of share consolidation; and P represents the Exercise Price after the adjustment.

d. New shares issuance

In the event of issue of new Shares by the Company, the Exercise Price shall not be adjusted.

(3) Procedures for adjustment

The General Meeting authorizes the Board to make adjustments to the Exercise Price and number of the Share Options upon occurrence of any of the aforementioned circumstances, among whom, the Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting. The Board shall publish announcements timely upon making adjustments to the numbers of the Share Options and the Exercise Price under abovementioned regulations. The legal advisers shall give professional advice to the Board regarding whether such adjustments are in compliance with the Administrative measures, the Articles of Association and the requirements under the Scheme.

Any other adjustments to the number of Share Options, Exercise Price or other conditions for other reasons shall be proposed by the Board, among whom, the Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting, considered and approved by the General Meeting and approved by Shanghai SASAC.

2.8 Accounting Treatment of the Share Options under the Scheme

(1) Accounting Treatment

According to the requirements of the *Accounting Standards for Business Enterprises No. 11 – Share-based Payments*, the Company will measure and audit the expense of the Scheme in accordance with the following accounting method:

(i) Grant Date

Since the Share Options shall not be exercised on the Grant Date, no relevant accounting treatment is required. The Company shall determine the fair value of the Share Options on the Grant Date.

(ii) Vesting Period

On each balance sheet date during the Vesting Period, the services obtained in the current period shall, based on the best estimate of the number of the exercisable Share Options, be included in cost of the relevant assets or expenses and the other capital reserves in capital reserves at the fair value of the Share Options on the Grant Date.

(iii) Exercise Period

No adjustment shall be made to the relevant costs or expense, and the total amount of the owner's equities, which have been recognized.

(iv) Exercise Date

Share capital and share premium shall be recognized with reference to the actual exercise of the Share Options, and upon which, the amount recognized as "Capital Reserves – Other capital reserves" during the Vesting Period shall be transferred to "Capital Reserves – Capital premium".

(2) Calculation of the Fair Value of the Share Options

According to the relevant requirements on determination of fair value in the *Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, the Company is required to select an appropriate pricing model to calculate the fair value of the Share Options. The Company has selected the Black-Scholes model ("BS Model") to calculate the fair value of the Share Options, and predict the fair value of the Share Options granted under the initial grant on 30 September 2019 as RMB3.40 per A share using this model (the fair value will be measured on the Grant Date) and arrived. Relevant parameters are set out below:

- (i) Price of the underlying Shares: RMB18.20 per share (assuming the Grant Date is 30 September 2019, on which the closing price of the Company was RMB18.20 per share);
- (ii) Exercise Price: RMB18.41 per A share
- (iii) Validity Period: 3.5 years (determined based on the weighted average Validity Period of Exercise)
- (iv) Volatility rate: 27.46% (using the volatility rate of the Company for the last 3.5 years)
- (v) Risk-free interest rate: 2.82% (using the 3.5-year deposit benchmark interest rate of financial institutions formulated by the People's Bank of China)
- (vi) Dividend rate: 2.32% (using the dividend rate of the Company for 2018)

(3) *Estimated Impacts on the Operating Performance of Each of the Period due to Implementation of the Share Options*

The fair value of the Share Options on the Grant Date which is determined in accordance with the relevant valuation method, and the costs of payment of Shares under the Scheme which is determined finally, will be amortized in accordance with the percentage of Share Options exercised during the implementation of the Scheme. The incentive costs incurred from the Scheme will be charged to the recurring profit and loss.

According to the accounting standards of the PRC, the effects of the costs of Share Options under the initial grant of the Scheme on each accounting period are as follows:

Year	2019	2020	2021	2022	2023	Total
Costs to be amortized (RMB 0'000)	8.64	3,152.93	3,148.95	1,695.08	725.61	8,731.20

According to the preliminary evaluation by the Company based on the information available, without taking into account the stimulus effects of the Scheme on the results of the Company, the amortization of the costs of Share Options shall affect the net profit of each year during the Validity Period of the Scheme, although the extent of such impact would not be substantial. Taking into consideration the positive impact of the Scheme on the development of the Company, such as motivating the management team, increasing the operational efficiency, and reducing agent costs, the benefits generated from the improvement in the Company's results due to the Scheme shall far exceed the increase in expenses.

The accounting treatment of the reserved Share Options are the same as the accounting treatment of the Share Options under the initial grant of the Scheme.

Note: This incentive cost is calculated based on the price determined with the date of the Announcement in relation to the Share Option Scheme, i.e. 30 September 2019. The actual share and cost will be adjusted according to the relevant rules based on the Announcement in relation to the Share Option Scheme. Shareholders shall be aware that any calculation of the value of the Share Options as at the Latest Practicable Date is subjective and uncertain, subject to a number of assumptions and determination of the pricing model and the Grant Date.

2.9 Procedures of amendments and termination

(1) *Procedures of amendments*

If the Company proposes to amend the Scheme prior to the consideration of the Scheme at the EGM, such amendments shall be considered and approved by the Board. The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews the amendments of the Scheme.

If the Company proposes to amend the Scheme after the consideration and approval of the Scheme at the EGM, such amendments shall be considered and decided at the General Meeting of the Company, and the circumstances set out below shall not be included:

- (i) that will result in accelerating the exercise; and
- (ii) that will lower the Exercise Price.

(2) *Procedures of termination*

- (i) If the Company proposes to terminate the Scheme prior to the consideration of the Scheme at the EGM, such termination shall be considered and approved by the Board. The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews the termination of the Scheme.
- (ii) If the Company proposes to terminate the Scheme after the consideration and approval of the Scheme at the EGM, such termination shall be considered and approved by the General Meeting.

3. PROPOSED GRANT

The distribution details of the Share Options of each Participant are set out as follows:

Name	Position(s)	Number of the Share Options proposed to be granted (in 10,000 A Shares)	Percentage to total number of the Share Options proposed to be granted (%)	Percentage to total issued share capital of the Company as of the date of the announcement in relation to the Share Option Scheme (%)
CHO Man	Executive Director, President	48.00	1.69%	0.017%
LI Yongzhong	Executive Director, Vice president	39.00	1.37%	0.014%
SHEN Bo	Executive Director, Vice president, chief financial officer	39.00	1.37%	0.014%
ZHAO Yong	Vice president	33.00	1.16%	0.012%
MAO Jianyi	Vice president	33.00	1.16%	0.012%
GU Haoliang	Vice president	33.00	1.16%	0.012%
LIU Dawei	Vice president	33.00	1.16%	0.012%
ZHANG Yaohua	Vice president	33.00	1.16%	0.012%
CHEN Jinzhu	Secretary to the Board, Joint Company Secretary	33.00	1.16%	0.012%
Middle level management and core employees of the Company (202 persons in total)		2,244.00	78.96%	0.790%
Reserved Shares		274.09	9.64%	0.096%
Total		2,842.09	100.00%	1.000%

Note 1: None of the Participants have attended two or more than two equity incentive schemes of listed companies; none of them is a substantial shareholder or an actual controller of the Company who owns or controls more than 5% Shares, or the parents, spouse, children of such substantial shareholder or actual controller.

Note 2: None of the abovementioned Participant will be granted Shares with more than 1% of the Company's total Share capital at the time of the approval by the EGM on a cumulative basis through the Scheme.

Note 3: The Participants of the reserved Shares will be determined within 12 months all at once after the Scheme is reviewed and approved by the Shareholders at the EGM. If the Participants are not determined after 12 months, the reserved interests will expire. The criteria for determining the Participants of the reserved grant is made with reference to the criteria for the initial grant. Those who have been granted at the time of the initial grant and who have been promoted subsequently shall not be allowed to use the reserved grant Shares to make up the shortfall in number of Shares granted.

Note 4: The Executive Directors participating in the Scheme have abstained from the establishment and review of the Share Option Scheme, and shall abstain from the execution, administration and other relevant matters of the Share Option Scheme.

4. MECHANISM FOR SPECIFIC OCCURRENCES TO THE COMPANY OR THE PARTICIPANTS**4.1 Occurrences in respect of the Company**

On occurrence of any of the following circumstances in respect of the Company, the Scheme shall be terminated and the outstanding Share Options granted and not exercised by the Participants shall be cancelled by the Company:

- (i) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
- (ii) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the Company in its financial report for the most recent accounting year;
- (iii) violation of laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits within 36 months;
- (iv) under applicable laws and regulations, no equity incentive is allowed; or
- (v) such other circumstances as determined by the CSRC.

On occurrence of any of the following circumstances in respect of the Company, the Scheme shall proceed as usual:

- (i) change of control of the Company; or
- (ii) merger and spin-off of the Company.

Where false statements, misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with grant conditions or exercise arrangements of the Share Options, all outstanding Share Options shall be cancelled by the Company. In respect of the Share Options already exercised by relevant Participants, all Participants concerned shall return to the Company all interests gained. The Participants who bear no responsibility for the aforementioned matters and incur losses as a result of the return of the interests may seek compensation from the Company or responsible parties in accordance with relevant arrangements under the Scheme.

4.2 Occurrences in respect of the Participants

During the Validity Period of the Scheme, on occurrence of any of the following circumstances in respect of the Participants, the outstanding Share Options granted and not exercised by the relevant Participants shall be cancelled by the Company:

- (i) termination of engagement due to lay-off by the Company;

- (ii) termination of the labor contract or engagement letter with the Company due to expiration; or
- (iii) termination or discharge of the labor contract or engagement letter upon mutual agreement with the Company.

During the Validity Period of the Scheme, on occurrence of any of the following circumstances in respect of the Participants, the outstanding Share Options granted and not exercised by the relevant Participants shall be cancelled by the Company; the Board could request the Participants to compensate for any loss of the Company according to the actual circumstances if the situation is severe, among which, the Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews relevant proposals:

- (i) he or she has been publicly condemned by or determined by Shanghai Stock Exchange as ineligible person in last three years;
- (ii) he or she has been imposed by the CSRC or any of its delegated agencies with administrative penalties or measures prohibiting access into the market due to material violation of laws and regulations;
- (iii) he or she is under the Company Law prohibited from acting as a director or a member of the senior management of a company as required by the Company Law;
- (iv) he or she has received decision in writing from the governmental departments or the Company for the reason of dereliction of duty or misconduct;
- (v) he or she is prohibited from participating in equity incentive schemes of listed companies as required by laws and regulations;
- (vi) such other circumstances as determined by laws and regulations or CSRC;
- (vii) the Participant has not reached mutual agreement with the Company and unilaterally terminate or discharge the labor contract or engagement letter with the Company, including but not limited to resignation for no reason;
- (viii) the Company is entitled to require the Participant to work in accordance with the requirements of its position, and if persons are excluded from the scope of the Participants due to that performance of the Company or the Participants did not achieve the targets; or
- (ix) his or her labor contract is dismissed due to violations of the Company's rules and regulations.

In the event that the Participant discharges or terminates the employment relationship with the Company due to objective reasons such as ordinary job transfer, retirement, death or loss of civil capacity, and the Options are able to meet the time limit and performance assessment conditions for

the exercise at that year, the exercisable part may be exercised within half year since the resignation date and the Options that are not exercised will be invalid after half year and shall be cancelled by the Company. If the granted Options are not able to meet the time limit or performance assessment conditions for the exercise, the Participant can no longer exercise and such Share Options shall be cancelled by the Company. In the event that laws and regulations change, the arrangements of the Share Options held by Participants upon his/her retirement shall be executed by the Board according to the latest relevant regulations, among which, the Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews relevant proposals of the Scheme.

Any occurrence which would lead to the exit of any Participant from the Scheme as a result of the changes in his/her position but is not covered in the list above shall be determined by the Board, and the Board shall further determine whether the outstanding Share Options granted but not exercised by the relevant Participants shall be cancelled. The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews relevant proposals of the Scheme.

5. THE IMPLICATIONS OF THE HONG KONG LISTING RULES

The Scheme constitutes a share option scheme under Chapter 17 of the Hong Kong Listing Rules, which is subject to the announcement and Shareholders' approval requirements. Accordingly, any grant of Share Options under the Share Option Scheme to any Participant who is a connected person of the Company will be exempted from all the reporting, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.92(3)(a) of the Hong Kong Listing Rules. The Company will apply for a waiver from strict compliance with Note 1 to Rule 17.03(9) of the Hong Kong Listing Rules in respect of the Exercise Price of the Share Options that may be granted under the Share Option Scheme.

According to the Scheme, the Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting during the process of the Board resolution, as such, Mr. CHO Man, Mr. LI Yongzhong and Mr. SHEN Bo have abstained from voting on Board resolutions in relation to the Share Option Scheme.

According to Note 1 to Rule 17.03(9) of the Hong Kong Listing Rules, the exercise price of the relevant share options must be at least the higher of (i) the closing price of the securities as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the daily quotations sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the date of grant.

The Company has applied for, and the Hong Kong Stock Exchange has granted a waiver from strict compliance with Note 1 to Rule 17.03(9) of the Hong Kong Listing Rules in respect of the Exercise Price of the Share Options on the basis that, among other things, (i) the Shares to be issued upon the exercise of the Share Options are A Shares traded on the Shanghai Stock Exchange; (ii) the basis of determination of the Exercise Price of the Share Options is required by and in accordance with the relevant laws and regulations in the PRC; and (iii) the proposed adoption of the Share Option Scheme will be subject to the approval of the Shareholders at the EGM and the Class Meetings, whereby the H Shareholders will have the opportunity to fully consider and evaluate the terms of the Share Option Scheme based on its merits and the interest of

the H Shareholders will not be prejudiced. For details of the determination of the Exercise Price under the Share Option Scheme, please refer to the paragraph headed “2.5 Exercise Price and Basis of Determination” in this Appendix I to this circular.

6. INFORMATION ABOUT THE COMPANY

Headquartered in Shanghai, the Company is the only national integrated pharmaceutical company in the PRC that has leading positions in both pharmaceutical production and distribution markets. The Company’s business mainly covers three segments, namely, pharmaceutical production, pharmaceutical distribution and pharmaceutical retail. The A shares and H shares of the Company are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively.

7. EGM AND CLASS MEETINGS

The EGM and Class Meetings will be convened to consider, among other things, (i) the proposed adoption of the Scheme; (ii) the Assessment Measures as set out in Appendix II; and (iii) the proposed authorization to the Board to deal with relevant matters in relation to the Scheme as set out in Appendix III. Such resolutions will be proposed by way of special resolutions.

As at the Latest Practicable Date, two of the Participants, namely, Cho Man and Shen Bo are A Shareholders of the Company. Each of them is entitled to exercise control over the voting rights of the Company in respect of 20,009 A Shares and 71,700 A Shares, respectively. Cho Man and Shen Bo and their associates (to the extent any of them owns any shares of the Company as at the date of the EGM) shall abstain from voting in relation to the resolutions regarding Share Options Scheme at the EGM and A Share Class Meeting, respectively. Save as disclosed herein, to the best knowledge and belief of the Directors, none of the Shareholders would be required to abstain from voting on the proposed resolutions at the EGM and the Class Meetings.

**ASSESSMENT MANAGEMENT MEASURES
FOR THE IMPLEMENTATION OF THE 2019 SHARE OPTION SCHEME**

The Remuneration and Assessment Committee of Shanghai Pharmaceuticals Holding Co., Ltd.* (“**Shanghai Pharmaceuticals**” or the “**Company**”) formulated the Assessment Management Measures for the Implementation of 2019 Share Option Scheme (the “**Assessment Measure**”) in accordance with the relevant requirements and conditions of the Company to facilitate the implementation of the 2019 Share Option Scheme (the “**Share Option Scheme**” or the “**Scheme**”), further optimize the corporate governance structure of the Company, formulate good and balanced value distribution system, fully arouse the enthusiasm of the senior management, mid-level management and key technical and business staff of the Company, enhance the stable improvement of the performance of the Company and ensure the achievement of the development strategy and operation target.

I. ASSESSMENT PURPOSES

To further optimize the corporate governance structure of the Company, create long-term incentive and restrictions, and ensure the implementation of the Share Option Scheme, maximize the role of equity incentives to ensure the Company’s development strategy and business objectives.

II. ASSESSMENT PRINCIPLES

Assessment and evaluation must adhere to the principles of transparency, fairness and impartiality, and evaluate strictly in accordance with the Assessment Measures and the performance of the Participant in order to achieve the solid combination between the Share Option Scheme and the performance and contribution of the assessment object, thus enhancing the management performance, and maximizing the benefits of the Company and all Shareholders as a whole.

III. ASSESSMENT SCOPE

The Assessment Measures apply to the all Participants including the senior management, mid-level management and key technical and business staff of the Company.

IV. ASSESSMENT DEPARTMENT

The Remuneration and Assessment Committee shall be responsible for leading and organizing the assessment work. The Human Resources Department of the Company is responsible for the specific assessment work, and is responsible for the collection and provision of relevant assessment data together with the Finance Department and other relevant departments.

V. PERFORMANCE ASSESSMENT CONDITIONS AND STANDARDS**(I) Performance conditions at the Company level****1. Performance conditions:**

- 1) The operating revenue growth rate of the Company for the last financial year prior to the Announcement of the Share Option Scheme shall not be lower than 10.0%;
- 2) The average weighted rate of return on common Shareholder's equity for the last financial year prior to the Announcement of the Share Option Scheme shall not be lower than 12.0% and no less than 50 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be less than that of the previous year;
- 3) Research and development expenses for the last financial year prior to the Announcement in relation to Share Option Scheme shall not be lower than RMB850 million;
- 4) Performance composite index of the Company for the last financial year prior to the Announcement in relation to the Share Option Scheme shall not be less than 50 percentile of benchmark enterprises.

The assessment year and performance conditions for the reserved Share Options shall be the same as those for the initial grant.

2. *Exercise conditions:*

Exercise Period	Targets of performance assessment
First Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2020 shall not be lower than 10.0%, as compared to the average operating revenue for the years of 2016 to 2018, and the operating revenue of the Company shall not be less than the RMB175 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2020 shall not be lower than 12.1% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be less than that of the previous year; 3) Research and development expenses for the year of 2020 shall not be less than RMB940 million; and 4) Performance composite index of the Company for the year of 2020 shall not be less than 75 percentile of benchmark enterprises.
Second Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2021 shall not be lower than 10.0%, as compared to the average operating revenue for the years of 2016 to 2018, and the operating revenue of the Company shall not be lower than the RMB185 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2021 shall not be lower than 12.3% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2021 shall not be lower than RMB1.00 billion; and 4) Performance composite index of the Company for the year of 2021 shall not be less than 75 percentile of benchmark enterprises.
Third Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2022 shall not be lower than 10.0%, as compared to the average operating revenue for the years of 2016 to 2018, and the operating revenue of the Company shall not be lower than the RMB200 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2022 shall not be lower than 12.5% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2022 shall not be less than RMB1.06 billion; and 4) Performance composite index of the Company for the year of 2022 shall not be less than 75 percentile of benchmark enterprises.

Note 1: If the growth rate of Chinese medicine terminal consumption is lower than 5% in the assessment year, and the scale of the Company's operating revenue reaches the 90 percentile of benchmark enterprises; the operating revenue and its growth rate shall be deemed to reach the

standard. The growth rate of Chinese medicine terminal consumption is the growth rate of China's drug terminal consumption in the assessment years of each exercise conditions according to the official statistics of the Southern Institute of Pharmaceutical Economics of the State Drug Administration.

Note 2: During the Validity Period of the Scheme, if the Company conducts public or private offerings that affect net assets, the newly added net assets and corresponding net profits will not be included in the calculation of increase of net assets and net profits increase during the Validity Period of the Scheme. The average weighted rate of return on common Shareholder's equity thereof is calculated based on the statistical caliber that research and development expenses are regarded as profits. The average weighted rate of return on common Shareholder's equity = (the net profits attributable to Shareholders + research and development expenses)/the average equity attributable to Shareholders.

Note 3: During the Validity Period of the Scheme, in the event that potential future actions may affect the performance of the Company (such as changes in national accounting policies, fulfillment of important social responsibilities and matters that can be adjusted appropriately in accordance with relevant government regulations, etc.), the Board is authorized to recover the original performance indicators when the relevant performance indicators are incomparable, which shall come into effect upon approval at the General Meeting. The Directors who are proposed to be the Participants and Directors who are related thereto should abstain from voting when the Board reviews the adjustment of the recovering of the performance indicators.

Note 4: The performance composite index assesses the average weighted rate of return on common Shareholders' equity, industrial sales revenue growth rate, sales revenue of distribution and research and development expenses comprehensively. The performance composite index = Σ (each of the Company's segmented competitiveness index \times strategic importance weight), among which, each of the Company's segmented competitiveness index = the percentile of each of the Company's segmented index among benchmark enterprises.

Note 5: The Exercise Conditions shall not be fulfilled unless all the other annual targets set by the Board have been satisfied at the same time.

The assessment year and performance conditions for the reserved Share Options shall be the same as those for the initial grant.

3. *The performance composite index:*

In order to evaluate the comprehensive performance ability of the Company, a system of comprehensive index assessment comprising four specific indicators of competitiveness index has been formulated in accordance with the comprehensive businesses composition and

APPENDIX II**ASSESSMENT MANAGEMENT MEASURES FOR THE
IMPLEMENTATION OF THE SHARE OPTION SCHEME**

strategic requirements of Shanghai Pharmaceuticals covering various segments such as research and development, manufacturing, segmenting distribution and retail. The specific assessment rules are as follows:

Strategic orientation	Quality	Scale		Innovation
Segmented indexes	Rate of return on common Shareholder's equity	Industrial sales revenue growth rate	Commercial sales revenue	Research and development expense
Strategic importance weight	40	30	10	20

The performance composite index = The performance composite index = Σ (each of the Company's segmented competitiveness index \times strategic importance weight), among which, each of the Company's segmented competitiveness index = the percentile of each of the Company's segmented index among benchmark enterprises.

Note 1: Industrial sales revenue, sales revenue of distribution, and research and development expenses are all consistent with annual report disclosures; the average weighted return rate of return on common stockholder's equity = (net profits attributable to Shareholders + research and development expense)/average equity attributable to Shareholder.

Note 2: In terms of the granting assessment, the industrial sales revenue growth rate equals to the year-on-year growth rate of the financial year preceding the Announcement; in terms of the Exercise Conditions assessment, the industrial sales revenue growth rate equals to the compound sales revenue growth rate on the basis of average industrial sales revenue for the years 2016 to 2018.

Note 3: In terms of the benchmark enterprises, the scale weight for pure industrial enterprise is calculated by using 40 as the industrial sales revenue competitiveness index; and the scale weight for pure commercial enterprise is calculated by using 60 as the business sales revenue competitiveness index, excluding the innovation weight.

30 comparable A share listed or companies of which shares are listed on Hong Kong Stock Exchange in respect of scale and principle business in pharmaceutical industry and commercial fields have been selected as the benchmark enterprises.

During the annual assessment, if there is any material change in the principal business of the benchmark enterprises or the existence of sample extremes with excessive deviation, the Board is authorized to delete or replace the samples according to actual situation. The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting when the Board reviews the adjustment of the benchmark enterprises.

The exercise quota of the individual in the current year shall be determined under the Scheme when the Company performance conditions for the exercise have been fulfilled.

(II) Performance conditions at the Participants level**4. Participants' performance assessment requirements:**

If Participants' assessed individual performance in the fiscal year prior to the Announcement in relation to the Share Option Scheme is competent or above, he/she is qualified to be a Participant.

5. Exercise Conditions:

The individual assessment results of the Participants' performance for the previous year are a prerequisite for determining the exercisable part of the Share Options, and in general, the performance assessment results can be divided into three levels: competent or above, to be improved and fail.

Assessment Result	Competent or above	To be improved	Fail
Individual assessment quota	1.0	0.8	0

The actual exercise quota of the individual for the current year = the individual's exercisable quota for the year × the individual assessment quota for the current year.

Meanwhile, to put emphasis on the significance of the drug safety, as for the Participant who is directly responsible for major quality and safety accidents, the assessment of Exercise Conditions of him or her for the period, as determined by the Board, may be "one-vote veto". The Directors who are proposed to be the Participants of the Scheme and Directors who are related thereto should abstain from voting during the process of the Board resolution.

To better achieve the dual purpose of incentives and constraints, the Company will further enhance the supporting management system for individual performance assessment. Based on the position setting, the investment effectiveness in research and development, achievements of research milestones and the numbers of patent applications are key indicators for assessing research and development key staffs; and the sales revenue growth rate and key products market shares are indicators for assessing the marketing key staffs.

If the Company performance assessment or the individual performance assessment fail in reaching the standard, resulting in the failure of the fulfillment of the Exercise Conditions of the Share Options, the corresponding Share Options shall not be Exercised or postponed to the next period, and shall be cancelled by the Company.

VI. ASSESSMENT PERIOD AND FREQUENCY**1. Assessment Period**

The assessment year for granting the Share Option Scheme shall be the fiscal year (i.e. the fiscal year 2018) prior to the Announcement in relation to the Share Option Scheme. The three fiscal years (i.e. the three fiscal years of 2020-2022) starting from the day after the registration of the grant of Share Options is completed shall be taken as the examination year for each Exercise Condition.

2. Assessment Frequency

Once a year during the period of implementation of the Share Option Scheme.

VII. ASSESSMENT PROCEDURES

The Human Resources Department shall, under the leadership of the Remuneration and Assessment Committee, be responsible for the specific implementation of the assessment and the preservation of the assessment results, and on this basis, form a performance assessment report and submit it to the Remuneration and Assessment for examination and approval.

VIII. FEEDBACK AND APPLICATION OF ASSESSMENT RESULTS

1. The Participants shall have the right to know their own assessment results, and the Company shall notify the Participates of the assessment results after the assessment;
2. If the Participant has any objection to the result of the assessment, he/she may file a complaint with the Company within five business days after receiving the notice of the assessment results. According to the actual situation, the Company may re-check its assessment results, and revise the assessment results according to the review results;
3. The results of assessment shall be taken as the basis for the whether the Share Options can be exercised.

IX. FILING OF ASSESSMENT RESULTS

1. The Human Resources Department shall keep all performance assessment records after the assessment;
2. In order to guarantee the effectiveness of performance incentives, the performance records shall not be altered, and the parties' signature is needed if it is necessary to modify or re-record them.

X. SUPPLEMENTARY PROVISIONS

1. The Assessment Measures shall be formulated, interpreted and revised by the Remuneration and Assessment Committee.
2. The Assessment Measures shall be implemented after the consideration and approval of the General Meeting and the Share Option Scheme going into effect.

**PROPOSED AUTHORIZATION TO THE BOARD TO DEAL WITH
RELEVANT MATTERS IN RELATION TO THE SCHEME**

To ensure the smooth implementation of the Scheme, it is proposed to the EGM to authorize the Board to deal with all issues in relation to the Scheme at their full discretion, whereas the Directors who are proposed to be the Participants should abstain from the resolution and execution of the mandates below, including but not limited to:

- (i) to determine the Grant Date of the Scheme;
- (ii) on the occurrence of capitalisation issue, bonus issue, share subdivision or share consolidation or right issues, to make corresponding adjustments to the number of the Share Options in accordance with the methods stipulated in the Share Option Scheme considered and approved by the EGM;
- (iii) on the occurrence of capitalisation issue, bonus issue, share subdivision or share consolidation or right issues, to make corresponding adjustments to the Exercise Price in accordance with the methods stipulated in the Share Option Scheme;
- (iv) to grant Share Options to Participants when he/she meets the grant conditions and to deal with all matters required related to such grant, including signing the relevant agreements in relation to the Share Option Scheme with the Participants;
- (v) to examine and confirm whether the Participants are qualified to exercise and whether the Participants fulfill the grant conditions, and to authorize the Board to grant such rights to the Remuneration and Assessment Committee;
- (vi) to determine whether the Participants are able to exercise;
- (vii) to deal with all necessary matters in relation to the exercise, including but not limited to submission of the exercise application to the Shanghai Stock Exchange, application to the Registration and Settlement Company for registration and settlement, amendments to the Articles of Association and registration of changes in the registered capital of the Company;
- (viii) to determine and deal with the matters in relation to the amendments and termination of the Scheme, including but not limited to the cancellation of exercise qualification of the Participants, cancellation of the granted Share Options that are not exercised by the Participants yet, dealing with succession issues in respect to the Share Options that are not exercised by Participants who met the Exercise Conditions but passed away, and the determination of withdrawal the interests of the Participants obtained from the exercise in accordance with the Share Option Scheme;

- (ix) to manage the Scheme, and to formulate or amend the management and implementation requirements of the Scheme in accordance with the terms of the Scheme. However, if the laws, regulations and relevant regulatory authorities require such amendments to be approved by the General Meeting or/and relevant regulatory authorities, the amendments of the Board must be approved accordingly;
- (x) other necessary matters in relation to the execution of the Scheme, except for the rights of the General Meeting clearly stipulated in relevant documents; and
- (xi) procedures for consideration, registration, filling, approval, consent, etc.; signing, implementing, modifying and completing documents submitted to relevant governments, institutions, organizations and individuals; amendments to the Articles of Association, changes of the registered capital of the Company and all actions it considers necessary, appropriate or suitable in relation to the Scheme.

The validity period of the above authorization is consistent with that of the Scheme.