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Shandong Xinhua Pharmaceutical Company Limited

山東新華製藥股份有限公司

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

(Stock Code: 0719)

PROPOSED ADOPTION OF SHARE OPTION SCHEME AND GRANT THEREUNDER

The Company hereby announces that the Board has approved the proposed Share Option Scheme as well as the proposed Grant thereunder. The Share Option Scheme shall be filed with SASAC and will become effective upon obtaining approval of Shareholders (including approval of HHC) at the EGM and the Class Meetings. The Share Option Scheme may be amended upon the request of the SASAC.

I. PROPOSED ADOPTION OF THE SHARE OPTION SCHEME

1. Purpose of the Share Option Scheme

The objective of the Share Option Scheme is to further establish and enhance the long-term incentive mechanisms of the Company with a view to attract and retain talent, incentivise Directors, members of senior and mid-level management as well as other core staff of the Company, effectively align interests of the Shareholders with those responsible for the business and operation of the Company with a view of encouraging the relevant persons to focus on the long-term development and prospects of the Company.

2. Eligible Participants and basis for determining Participants

(1) *Basis for determining Participants*

The criteria adopted concerning eligibility of Participants to the Share Option Scheme were determined in compliance with requirements of applicable laws, regulations and authoritative documents (including the Company Law, the Securities Law, the Incentive Measures and the Articles of Association) with reference to the actual conditions of the Company.

(2) *Eligible Participants*

Eligible Participants of the Share Option Scheme include Directors, members of senior management and mid-level management as well as other core staff of the Company.

Directors and members of senior management concerning the abovementioned eligible Participants must have been elected in a duly convened Shareholders' meeting or otherwise appointed by the Board. Eligible Participants exclude any independent non-executive Directors, supervisors or external directors who are not a controlling Shareholder of the Company and Shareholders or actual controllers (together with their respective spouse, parents and children) individually or collectively holding more than 5% of the Shares. Participants must be employed (and have entered into a labor contract or employment contract) with the Company or its subsidiaries at the times of the Grant under the Share Option Scheme and during evaluation of their achievement of applicable performance targets.

All Participants of the Share Option Scheme are prohibited from participating in any equity incentive scheme of other listed companies concurrently, and persons who are participants of such other incentive schemes are prohibited from participating in the Share Option Scheme.

Participants of the Reserved Grant will be determined within 12 months after the Share Option Scheme has been reviewed and approved by Shareholders at the EGM and Class Meetings. Details of Participants of the Reserved Grant shall be disclosed in a timely and accurate manner in compliance with requirements of applicable regulations following nomination by the Board, taking into account the views of independent non-executive Directors, the board of supervisors and having received the professional advice and legal opinions of PRC legal advisors. If the Participants have not been determined after lapse of the 12 months period, the relevant Reserved Grant shall lapse. Directors and related persons who are proposed to be Participants of the Share Option Scheme must abstain from voting on resolutions of the Board concerning approval of Grant of Options in respect of the Reserved Grant.

3. Issuance and number of Shares involved under the Share Option Scheme

(1) *The underlying Shares of the Share Option Scheme*

The Shares which may be issued to Participants by the Company in accordance with relevant terms and provisions of the Share Option Scheme shall be ordinary A Shares.

The Company shall not provide any loan or any other form of financial assistance (including provision of any guarantee) to Participants in respect of any exercise of Options under the Share Option Scheme. Participants do not have to pay any amount to the Company on acceptance of any Option.

(2) *Number of the underlying Shares*

The Share Option Scheme contemplates the Grant of up to 24,900,000 Options to eligible Participants and the maximum number of RMB-dominated ordinary A Shares which may be issued upon the exercise of the Options represent approximately 3.97% of the total issued Shares of the Company (being 627,367,447 Shares as at the date of this announcement). 23,150,000 Options shall be granted under the Initial Grant, representing approximately 92.97% of total Options that may be granted under the Share Option Scheme (relating to underlying Shares representing approximately 3.69% of the total issued shares capital of the Company as at the date of this announcement). 1,750,000 Options shall be granted under the Reserved Grant, representing approximately 7.03% of total Options that may be granted under the Share Option Scheme (relating to underlying Shares representing approximately 0.28% of the total issued shares capital of the Company as at the date of this announcement).

Upon satisfaction of the Exercise Conditions, each Option shall provide its holder a right to purchase one A Share at an exercise price during the Validity Period.

The Options granted to Participants shall not be transferred, pledged or used for repayment of debts.

Unless an Option has been exercised in accordance with the Share Option Scheme, the holder of the Options shall not be entitled to any voting, dividend, transfer and other rights (including rights arising on a liquidation of the Company) attached to the underlying A Shares.

Save for the proposed Share Option Scheme and the A share option scheme adopted in the Shareholders' meeting held on 28 December 2018, the Company has not adopted any other share option scheme as at the date of this announcement.

4. Validity Period, Grant Date, vesting schedule, Exercise Date, Exercise Period and the relevant lock-up requirements

(1) *Validity Period*

The Share Option Scheme shall commence on the Grant Date and end on the date on which all the Options have been exercised or cancelled, provided that such period shall not exceed 72 months.

(2) *Grant Date*

Please see the section headed "II. Proposed Grant Under the Share Option Scheme — 2. Grant Date" below for further information on the Grant Date of the Share Option Scheme.

(3) *Vesting schedule*

According to the vesting schedule prescribed under the Share Option Scheme, Options that are granted under the Share Option Scheme shall be exercised in three tranches, each of which shall vest on each date falling 24 months, 36 months and 48 months from the Grant Date (each, a "**Vesting Date**").

(4) *Exercise Date*

Following adoption of the Share Option Scheme, Options that are granted shall become exercisable once they are vested on a Vesting Date. The Exercise Date of an Option must be a day on which the Shenzhen Stock Exchange is open for trading and shall not fall within any of the following periods:

- (i) the period commencing 30 calendar days prior to the announcement of periodic financial reports of the Company (or in the event of delay in publishing the reports due to special reasons, the period commencing 30 calendar days prior to the original date of publication and ending on day immediately preceding the publication date);
- (ii) the period commencing 10 calendar days prior to the announcements of any results forecast or preliminary results of the Company;
- (iii) the period commencing on the date of the occurrence of any material event that may

have significant impacts on price of securities (including Shares and derivatives) of the Company (or during the period when such material event is in the process of being approved) and ending on the second trading days following the making of relevant disclosures to the market in accordance with applicable laws; and

- (iv) any other periods as may be stipulated by the CSRC or the Shenzhen Stock Exchange.

The above transactions or other material events shall be disclosed by the Company in accordance with the Shenzhen Listing Rules

(5) ***Exercise Period***

Upon satisfaction of the Exercise Conditions, Participants may exercise Options that are granted to them in three tranches over a period of 36 months from the first date on which they become vested (i.e. from the first Vesting Date).

The Exercise Period of Options granted under the Share Option Scheme are as follows:

| Exercise arrangement | Exercise period | Proportion of Options granted which may be exercised |
|-----------------------------|--|---|
| First Exercise Period | Commencing from the first trading day after the expiry of the 24 th month from the Grant Date, and ending on the last trading day of the 36 th month from the Grant Date | 34% |
| Second Exercise Period | Commencing from the first trading day after the expiry of the 36 th month from the Grant Date, and ending on the last trading day of the 48 th month from the Grant Date | 33% |
| Third Exercise Period | Commencing from the first trading day after the expiry of the 48 th month period from the Grant Date, and ending on the last trading day of the 60 th month period from the Grant Date | 33% |

Participants may exercise the Options granted to them that are vested during the relevant Exercise Period. Where the Exercise Conditions are not fulfilled, the relevant Options may no longer be exercised. Options which have not been exercised by the Participants notwithstanding fulfilment of the Exercise Conditions will be cancelled by the Company upon expiry of the relevant Exercise Period.

(6) ***Lock-up arrangements***

Lock-up provisions in the Share Option Scheme shall be implemented in accordance with requirements under applicable laws, regulations and authoritative documents (including the Company Law, the Securities Law, the Shenzhen Listing Rules and the Articles of Association). Under these requirements:

- (i) where a Participant is a Director or a member of the senior management of the Company:
 - (a) he must not transfer or dispose more than 25% of all Shares held by him in each year during his term of office;
 - (b) he must not transfer or dispose any Shares held by him within six months from the last day of his termination of all office with the Company and/or its subsidiaries;
 - (c) any gains derived from any disposal of any Shares within six months from its acquisition, or any subsequent acquisition of Shares within six months of any disposal, shall vest with the Company and be recoverable by the Board;
- (ii) where, during the Validity Period, there is any change to the requirements regarding the transfer of Shares previously held by a Director and senior management under applicable laws, regulations and regulatory documents (including the Company Law, the Securities Law and/or the Articles of Association), the transfer of the Company's Shares held by such Participant shall comply with the amended laws, regulations, regulatory documents and/or the Articles of Association at the time of the transfer; and
- (iii) a Director and/or a member of senior management of the Company to whom Options are granted shall, after exercising the Option, hold no less than 20% of the aggregate amount of Shares issued to him, and can only sell his Shares after passing the performance assessment during the term of office and after the lock-up has expired.

5. Exercise price and basis of determination

Please see the sub-sections headed "3. Exercise price for the Initial Grant of Options and basis of determination" and "4. Exercise price for the Reserved Grant of Options and basis of determination" under the section headed "II. Proposed Grant Under the Share Option Scheme" below for further information on the exercise price of the Options and its basis of determination.

6. Conditions of Grant and Exercise Conditions

(1) *Conditions of Grant*

The Grant of Options shall be conditional upon there being no occurrence of any of the following in respect of the Company:

- (i) where a certified public account issues an auditor's report with a qualified opinion or otherwise indicates that it is unable give an opinion with respect to the financial report of the Company for its most recent financial year;
- (ii) where a certified public account issues an auditor's report with a qualified opinion or otherwise indicates that it is unable give an opinion with respect to the internal controls of the Company in its financial report for its most recent financial year;
- (iii) violation of applicable laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits in the 36 months after listing of the securities on a stock exchange;

- (iv) under applicable laws and regulations, no equity incentive is allowed; and
- (v) other events or circumstances as may be determined by the CSRC.

The Grant of Options to a Participant shall be conditional upon there being no occurrence of any of the following in respect of the Participant:

- (i) he has been held to be an inappropriate candidate by a stock exchange in the last 12 months;
- (ii) he has been held to be an inappropriate candidate by the CSRC or ancillary agencies in the last 12 months;
- (iii) the imposition by the CSRC or ancillary agencies of administrative penalties or measures which prohibits or restricts his access to financial markets by reason of any material violation of laws and regulations in the last 12 months;
- (iv) he is prohibited from acting as a director or a member of the senior management of a company under the Company Law;
- (v) he is not allowed to participate in an equity incentive scheme of a listed company under applicable laws and regulations; and
- (vi) other events and circumstances as may be determined by the CSRC.

In the event that any of the above events should occur, all relevant outstanding Options granted shall lapse accordingly and shall be cancelled by the Company.

The Grant of Options shall be conditional of fulfilment of the following performance-related indicators by the Company:

- (i) net profit of the Company for the 2020 financial year shall not be less than RMB280 million;
- (ii) year-on-year growth of dividend per Share between the 2019 and 2020 financial years shall not be less than 20%; and
- (iii) the above indicators not being lower than the industry average.

Notes:

1. *“Net profit” refers to the net profit attributable to the Shareholders after deducting non-recurring gains and losses.*
2. *For the purpose of calculating industry average, all A-Share listed companies in the chemical pharmaceutical manufacturing industry of the medicine/ biological sector are selected in accordance with the “Shenyin Wanguo industry classification standard” (“**Market Comparables**”). Material changes in the business structure, or outliers (i.e. those with excessive deviances or extreme values) of the samples used in same industry may be removed or substituted with other samples by the Board during the assessment.*

(2) **Exercise Conditions**

Further and subject to the satisfaction of the abovementioned conditions, any Options granted are only exercisable upon satisfaction of the following Exercise Conditions:

(i) *Performance conditions relevant to the Company*

Options granted pursuant to the Initial Grant and Reserved Grant under the Share Option Scheme are subject to annual performance assessment over the financial years from 2022 to 2024. The annual performance assessment conditions are set out below:

| Exercise Period | Performance assessment conditions |
|------------------------|--|
| First Exercise Period | <ol style="list-style-type: none"> 1. The net profit of the Company in the 2022 financial year shall not be less than (i) RMB340 million (which must represent an increase in percentile level when compared to Market Comparables values); and (ii) the industry average net profits of Market Comparables, from the time of the Grant. 2. The growth rate of the dividend per Share in the 2022 financial years shall not be less than (i) 50% of the average dividend per Share over the 2018 to 2020 financial years (such growth rate must represent an increase in percentile level when compared to Market Comparables values); and (ii) the industry average dividend per share of Market Comparables, from the time of the Grant. |
| Second Exercise Period | <ol style="list-style-type: none"> 1. The net profit of the Company in the 2023 financial year shall not be less than (i) RMB375 million (which must represent an increase in percentile level when compared to Market Comparables values); and (ii) the industry average net profits of Market Comparables, from the time of the Grant. 2. The growth rate of the dividend per Share in the 2023 financial years shall not be less than (i) 60% of the average dividend per Share over the 2018 to 2020 financial years (such growth rate must represent an increase in percentile level when compared to Market Comparables values); and (ii) the industry average dividend per share of Market Comparables, from the time of the Grant. |
| Third Exercise Period | <ol style="list-style-type: none"> 1. The net profit of the Company in the 2024 financial year shall not be less than (i) RMB410 million (which must represent an increase in percentile level when compared to Market Comparables values); and (ii) the industry average net profits of Market Comparables, from the time of the Grant. 2. The growth rate of the dividend per Share in the 2024 financial years shall not be less than (i) 70% of the average dividend per Share over the 2018 to 2020 financial years (such growth rate must represent an increase in percentile level when compared to Market Comparables values); and (ii) the industry average dividend per share of Market |

Comparables, from the time of the Grant.

Notes:

1. The above “net profit” refers to the net profit attributable to the Shareholders after deducting non-recurring gains and losses.
2. For the purpose of calculating industry average, the Market Comparables are used. Material changes in the business structure, or outliers (i.e. those with excessive deviances or extreme values) of the samples used in same industry may be removed or substituted with other samples by the Board during the assessment.

If the Exercise Conditions are fulfilled, Participants may exercise the Option granted in accordance with the Share Option Scheme. On the contrary, if any of the Exercise Conditions is not satisfied, the Company will cancel the Options granted to the Participants in accordance with the Share Option Scheme.

(ii) *Performance conditions relevant to Participants*

Participants shall be assessed annually in accordance with the Company's *Assessment Management Methods in Respect of the Implementation of the 2021 Share Option Scheme* (《2021年股票期權激勵計劃實施考核管理辦法》), and the assessment results shall be determined according to individual performance assessment indicators, as extracted below:

| Assessment results | Excellent (A) | Good (B) | Passed (C) | Failed (D) |
|-----------------------|---------------|----------|------------|------------|
| Standard co-efficient | 1.0 | 1.0 | 0.8 | 0 |

Actual individual exercisable limit of the current assessment year = standard coefficient × individual exercisable limit of the current year

If a Participant fails to pass the assessment, the Company will cancel the Options granted but not exercised during the corresponding Exercise Period according to the provisions of the Share Option Scheme.

7. Methods of and procedures for adjustments

(1) *Adjustment of the number of Options*

In the event of a capitalisation issue, bonus issue, rights issue, share subdivision or share consolidation of the Company prior to any exercise of Options, the number of Options which are and/or may be granted will be adjusted as follows:

(i) *Capitalisation issue, bonus issue and share subdivision*

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

Where: Q_0 represents the number of the Options prior to 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)

Q represents the number of the Options after adjustment

(ii) *Rights issue*

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

Where: Q_0 represents the number of the Options prior to adjustment

P_1 represents the closing price of Shares on the record date

P_2 represents the subscription price in respect of the rights issue

n represents the basis 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)

Q represents the number of Options after adjustment

(iii) *Share consolidation*

$$Q = Q_0 \times n$$

Where: Q_0 represents the number of 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)

Q represents the number of Options subsequent to the adjustment

(2) ***Adjustment of the exercise price***

In the event of a dividend distribution, capitalisation issue, bonus issue, rights issue, share subdivision or share consolidation of the Company prior to any exercise of Options, the exercise price of the Options will be adjusted as follows:

(i) *Capitalisation issue, bonus issue and Share subdivision*

$$P = P_0 / (1 + n)$$

Where: P_0 represents the exercise price of the Options prior to the adjustment

n represents the ratio of increase per Share resulting from the issue of Shares under the capitalisation issue, bonus issue or Share subdivision

P represents the adjusted exercise price of the Options

(ii) *Rights issue*

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

Where: P_0 represents the exercise price of the Options prior to the adjustment

P_1 represents the closing price of Shares as at the record date

P_2 represents the subscription in respect price 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)

P represents the adjusted exercise price of the Options

(iii) *Share consolidation*

$$P = P_0/n$$

Where: P_0 represents the exercise price of the Options prior to the adjustment

n represents the ratio of Share consolidation (i.e. one Share of the Company beconsolidated into n Shares)

P represents the adjusted exercise price of the Options

(iv) *Dividend distribution*

$$P = P_0 - V$$

Where: P_0 represents the exercise price of the Options prior to the adjustment

V represents the dividend per Share

P represents the adjusted exercise price of the Options. After the dividend adjustment, P must still be a positive number

(3) ***Issuance of new Shares***

Save as disclosed above, an issuance of new Shares will not result in the adjustment of the number or exercise price of the Options.

(4) ***Procedures for adjustments***

The Shareholders' meeting authorises the Board to adjust the exercise price and/or the number of Options in the event of the abovementioned circumstances. Legal advisers will be engaged to advise the Board as to whether the relevant adjustment is in compliance with the provision of the Incentive Measures, the Articles of Association and the Share Option Scheme. If it is necessary to make adjustments to the number of Options and exercise price due to matters other than any of the aforementioned circumstances, the Board shall propose a resolution and obtain approval from the Shareholders at a duly convened meeting of the Company.

8. Amendments to or termination of the Share Option Scheme

The Company will disclose any proposed amendments to the Share Option Scheme which are made prior to obtaining approval of Shareholders at the EGM and the Class Meetings following a Board decision concerning the relevant amendment.

Any proposed amendments to, or termination of, the Share Option Scheme following the obtaining Shareholders approval for its adoption at the EGM and the Class Meetings may be tabled for consideration and approval at further EGM and Class Meetings, provided that any amendment must not:

- (1) result in Options becoming exercisable at an earlier date; or
- (2) the lowering of the exercise price of Options.

Where the Share Option Scheme is terminated, no other equity incentive scheme may be submitted by the Company to Shareholders for approval or adoption within three months from the date of announcement of the resolution for its termination.

The PRC legal advisers to the Company shall give professional opinions on whether the termination of the Share Option Scheme conforms to the Incentive Measures and relevant laws and regulations, and whether the Company and the interests of all Shareholders are prejudiced. After the termination of the Share Option Scheme, the Company shall apply to the Shenzhen Stock Exchange and the registration and clearing company for cancellation of the granted Options in a timely manner after performing the relevant procedures.

9. Management agency

- (1) The Share Option Scheme was formulated by the Remuneration and Examination Committee of the Board and approved by the Board and will become effective from the date of approval at the EGM and Class Meetings.
- (2) If approved by the Shareholders, the Board shall be authorised to implement, manage and construe the Share Option Scheme in accordance with the terms and provisions of the Share Option Scheme and in compliance with the applicable laws, rules and regulations, including without limitation to the Listing Rules and the Shenzhen Listing Rules.

The proposed plan in respect of the Share Option Scheme (including but not limited to the Initial Grant and the Reserved Grant) has been approved by the Remuneration and Examination Committee of the Board and has been made available for the review and opinion of the independent non-executive Directors and the Supervisory Committee of the Board. The Initial Grant to Directors has been approved by the independent non-executive Directors in accordance with rule 17.04(1) of the Listing Rules.

II. PROPOSED GRANT UNDER THE SHARE OPTION SCHEME

Key terms of the proposed Grant of Options (which complies with the terms and provisions of the Share Option Scheme) are set out in detail in this section.

1. Options proposed to be granted under the Initial Grant pursuant to the Share Option Scheme

It is proposed that the Options will be granted to a total number of 196 Participants (representing 2.99% of the total number of the staff of the Company as at 30 September 2021) under the Initial Grant, and the Participants shall comprise Directors, members of senior management and mid-level management and core staff of the Company. Details of the Grant is set out below:

| Name | Position | Number of Options to be granted (in 10,000) | Percentage to total number of Options under the Grant (%) | Percentage to total share capital of the Company as of the date of this announcement (%) |
|------------------------------|----------------------------------|---|---|--|
| Zhang Daiming (張代銘) | Chairman | 40 | 1.61 | 0.064 |
| Du Deping (杜德平) | Director, General Manager | 36 | 1.45 | 0.057 |
| Xu Lie (徐列) | Director | 32 | 1.29 | 0.051 |
| Wang Xiaolong (王小龍) | Deputy General Manager | 32 | 1.29 | 0.051 |
| Du Deqing (杜德清) | Deputy General Manager | 32 | 1.29 | 0.051 |
| He Tongqing (賀同慶) | Director, Deputy General Manager | 32 | 1.29 | 0.051 |
| Hou Ning (侯寧) | Financial Controller | 32 | 1.29 | 0.051 |
| Zheng Zhonghui (鄭忠輝) | Deputy General Manager | 32 | 1.29 | 0.051 |
| Wei Changsheng (魏長生) | Deputy General Manager | 32 | 1.29 | 0.051 |
| Xu Wenhui (徐文輝) | Deputy General Manager | 32 | 1.29 | 0.051 |
| Cao Changqiu (曹長求) | Secretary to the Board | 20 | 0.80 | 0.032 |
| Other staff (185 persons) | | 1,963 | 78.84 | 3.13 |
| Total Initial Grant | | 2,315 | 92.97 | 3.69 |
| Reserved Grant | | 175 | 7.03 | 0.28 |
| Total | | 2,490 | 100 | 3.97 |

Notes:

1. *None of the Participants of the Share Option Scheme are participants of two or more equity incentive schemes of the Company and/or other listed companies.*
2. *None of the abovementioned Participant will be/has been granted Options convertible into Shares representing over 1% of the total issued capital of the Company on a cumulative basis through all valid share option schemes of the Company. The aggregate amount of underlying Shares involved in all valid share option schemes of the Company shall not exceed 10% of the total issued capital of the Company at the time the Share Option Scheme is submitted for approval and adoption at the EGM and Class Meetings.*
3. *The equity value of Shares that may be issued pursuant to Options (“**Underlying Shares**”) that may be granted for Directors and members of senior management shall be no more than 40% of the total level of remuneration of the relevant persons at the time of Grant (inclusive of the equity value of the Underlying Shares). The equity value of the Underlying Shares for the other Participants (including management, technical and business core staff) shall be reasonably determined by the Board.*
4. *Participants of the Reserved Grant shall be determined within 12 months after the Share Option Scheme has been approved at the EGM and Class Meetings.*
5. *The limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other equity incentive schemes of the Company must not exceed 30% of the relevant class of securities of the Company (or any subsidiary) in issue from time to time. No options may be granted under any schemes of the Company (or any subsidiary) if this will result in the limit being exceeded.*

2. Grant Date

The Grant Date shall be determined by the Board after the Share Option Scheme has been approved by HHC and filed with SASAC, and approved at the EGM and Class Meetings. The Grant Date shall be a day on which the Shenzhen Stock Exchange and the Hong Kong Stock Exchange are open for trading. The Company shall grant the Options to Participants, publish an announcement and carry out relevant filings and registrations within 60 days from the date of obtaining approval at the EGM and the Class Meetings (excluding any period(s) during which Options must not be granted according to applicable laws and regulations) (the “**60-day period**”). If the Company fails to complete the above matters within the 60-day period, the Company shall promptly disclose the reasons for failure to do so and announce the termination of the Share Option Scheme. Any Options that have not been granted will lapse accordingly. The Grant Date of the Reserved Grant shall be the date of announcement of the Board decision for approving the Reserved Grant.

The Grant Date in respect of both the Initial Grant and the Reserved Grant must be a trading day and shall not fall within any of the following periods:

- (i) the period commencing 60 calendar days prior to the announcement of annual report of the Company (or in the event of delay in publishing the annual report due to special reasons, the period commencing 60 calendar days prior to the original date of publication and ending on the publication date);

- (ii) the period commencing 30 calendar days prior to the announcement of half-year report or quarterly report of the Company (or in the event of delay in publishing the reports due to special reasons, the period commencing 30 calendar days prior to the original date of publication and ending on the publication date);
- (iii) the period commencing 10 calendar days prior to the announcement of any results forecast or preliminary results of the Company;
- (iv) the period commencing on the date of the occurrence of any material event that may have significant impacts on price of securities (including Shares and derivatives) of the Company (or during the period when such material event is in the process of being approved) and ending on the second trading days following the making of relevant disclosures to the market in accordance with applicable laws; and
- (v) any other periods as may be stipulated by the CSRC, the Shenzhen Stock Exchange and/or the Hong Kong Stock Exchange.

For the avoidance of doubt, the abovementioned periods during which the Company must not Grant Options is not included in the 60-day period.

3. Exercise price for the Initial Grant of Options and basis of determination

The exercise price of the Options for the Initial Grant shall be RMB7.96 per A Share. Such exercise price may be adjusted in the event of any capitalisation issue, bonus issue, shares subdivision, share consolidation, right issues and/or dividend payment from the date of this announcement to the completion of exercise of any Options by Participants.

The exercise price of the Options for the Initial Grant shall not be less than the nominal value of the Shares and shall not be less than the higher of the following:

- (i) the average trading price of the A Shares quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of this announcement, being RMB7.36 per A Share;
- (ii) the average trading price of the A Shares quoted on the Shenzhen Stock Exchange for the last 20 trading days, 60 trading days or 120 trading days immediately preceding the date of this announcement, being RMB7.85 per A Share (representing the average of the trading prices of the A Shares quoted on the Shenzhen Stock Exchange for the last 20 trading days immediately preceding the date of this announcement);
- (iii) the closing trading price of the A Shares quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of this announcement, being RMB7.37 per A Share;
- (iv) the average closing price of the A Shares quoted on the Shenzhen Stock Exchange for the last 30 trading days immediately preceding the date of this announcement, being RMB7.96 per A Share; and
- (v) the most recent audited net assets for the financial year ended 2020 per A Share preceding the date of the Initial Grant, being RMB5.45 per A Share.

4. Exercise price for the Reserved Grant of Options and basis of determination

Any Reserved Grant shall require the prior approve by the Board and a summary of the Grant shall be announced by the Company. The exercise price of Options under the Reserved Grant shall not be lower than the fair market price of the A Shares, which shall be no less than the higher of the following prices:

- (i) the average trading price of the A Shares quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the announcement of the Board's resolution of Granting the Reserved Grant;
- (ii) the average trading price of the A Shares quoted on the Shenzhen Stock Exchange for the last 20 trading days, 60 trading days or 120 trading days immediately preceding the date of the announcement of the Board's resolution of Granting the Reserved Grant;
- (iii) the closing trading price of the A Shares quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the announcement of the Board's resolution of Granting the Reserved Grant;
- (iv) the average closing price of the A Shares quoted on the Shenzhen Stock Exchange for the last 30 trading days immediately preceding the date of this announcement of the Board's resolution of Granting the Reserved Grant; and
- (v) the most recent audited net assets per A Share preceding the date of the Reserved Grant.

III. MECHANISM FOR DEALING WITH SPECIFIC CIRCUMSTANCES CONCERNING THE COMPANY OR PARTICIPANTS UNDER THE SHARE OPTION SCHEME

(1) Changes to or events involving Participants

- (i) If a Participant has changed his position or duties with the Group but still held a position in the Group (including its branches or its subsidiaries), the Options granted to him continue to be governed by the Share Option Scheme prior to the change of position or duties.
- (ii) If a Participant becomes an independent non-executive Director, supervisor or other person who cannot hold the Shares of the Company or be granted Options in accordance with applicable laws and regulations, and the said granted Options are capable of meeting the Exercise Conditions (including performance related assessment conditions for the exercise), the relevant granted Options which are exercisable may be exercised within 6 months from the resignation date, following which all relevant rights and interests in the granted Options shall become invalid. If the granted Options are not able to meet the Exercise Conditions (including performance related assessment conditions for the exercise), such Options shall be cancelled by the Company.
- (iii) If a Participant:
 - (a) contravenes any national laws, regulations, provisions of the Articles of Association or internal management rules and regulations of the Company, or is involved in dereliction of duty as stipulated in the employment contract which prejudice the interests and reputation of the Company, thereby resulting in direct or indirect losses to the Company;
 - (b) is dismissed due to violation of the Company's rules and regulation to a severe extent according to relevant provisions of the Company's reward and

punishment;

- (c) was sufficiently proven by the Company to have been involved, during his term of office, in a violation of laws or disciplinary proceedings involving bribery, solicitation of bribes, corruption, theft, divulgence of confidential operational and technological information of the Company or carrying out related party transactions which prejudice the interests and reputation of the Company and/or results in a significant negative impact to the Company, thereby resulting in direct or indirect losses to the Company;
- (d) is being held criminally liable for any criminal acts in accordance with applicable laws;
- (e) has been placed on probation or removed from any office or position in the Communist Party;
- (f) has direct leadership responsibility at the Communist Party but fails to accomplish specific designated tasks concerning reform and development, as determined by the higher level of the Communist Party committee,

then the outstanding Options granted to the Participant under the Share Option Scheme but not yet exercised shall be cancelled by the Company. The Company may require the Participant to return any gains derived from any Options which he has exercised.

- (iv) In the event that a Participant discharges or terminates the employment relationship with the Company due to objective reasons such as being transferred out of the Company and ceases to hold office in the Company due to reorganisation, retirement upon reaching the statutory retirement age, death (to be exercised by his/her lawful successor as stipulated) or loss of civil capacity, and the granted Options are able to meet the applicable Exercise Conditions (including performance related assessment conditions for the exercise) at that year, the relevant granted Options which are exercisable may be exercised within 6 months from the resignation date and therefrom the Options that has not been exercised will become invalid and shall be cancelled by the Company. Any granted Options which are not able to meet the Exercise Conditions (including any performance related assessment conditions shall not be exercised), such Options shall be cancelled by the Company.
- (v) In the event that a Participant resigns or is discharged from employment relationship with the Group, all outstanding Options granted to the Participant shall be cancelled by the Company.
- (vi) All outstanding Options granted to a Participant shall be cancelled by the Company as of the date of occurrence of any of the following events:
 - (a) he has been held by the Shenzhen Stock Exchange to be a person unsuitable to hold the relevant position or office held by him in the Group in the last 12 months;
 - (b) he has been held by the CSRC or ancillary agencies as a person unsuitable to hold the relevant position or office held by him in the Group in the last 12 months;

- (c) the imposition by the CSRC or ancillary agencies of administrative penalties and/or measures which prohibits or restricts his access to financial markets by reason of any material violation of laws and regulations in the last 12 months;
 - (d) he is prohibited from acting as a director or a member of the senior management of a company under the Company Law;
 - (e) he is not allowed to participate in an equity incentive scheme of a listed company under applicable laws and regulations; and
 - (f) other events and circumstances as may be determined by the CSRC.
- (vii) Other circumstances concerning Participants not specified above as well as the methods or mechanisms in dealing with such circumstances shall be determined by the Board.

(2) Changes to or events involving in relation to the Company

On the occurrence of any of the following event in respect of the Company:

- (i) where a certified public account issues an auditor's report with a qualified opinion or otherwise indicates that it is unable give an opinion with respect to the financial report of the Company for its most recent financial year;
- (ii) where a certified public account issues an auditor's report with a qualified opinion or otherwise indicates that it is unable give an opinion with respect to the internal controls of the Company in its financial report for its most recent financial year
- (iii) violation of applicable laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits in the 36 months after listing of the securities on a stock exchange;
- (iv) under applicable laws and regulations, no equity incentive is allowed; and
- (v) other events or circumstances as may be determined by the CSRC,

the Share Option Scheme shall be terminated and all outstanding Options granted but yet to be exercised by Participants shall be cancelled by the Company.

Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with the conditions of Grant of Options or exercise arrangements, outstanding Options shall be uniformly cancelled by the Company. If Options granted to the Participants have been exercised, all Participants shall return to the Company all rights and interests gained therefrom. If a Participant who is not responsible for the above matters suffers from losses due to the return of rights and interests, such Participant can recover such losses from the Company or the responsible targets in accordance with the relevant arrangements under the Share Option Scheme. The Board shall recover the proceeds from the Participants in accordance with the preceding paragraph and the relevant arrangements under the Share Option Scheme.

For the avoidance of doubt, any merger, spinoff or change of control of the Company will

not on its own cause any change to the Share Option Scheme.

IV. IMPLICATIONS UNDER THE LISTING RULES

The Share Option Scheme constitutes a Share Option Scheme under Chapter 17 of the Listing Rules and pursuant to rule 14A.92(3)(a) of the Listing Rules any Grant to a connected person of the Company is fully exempted from the requirements of approval by the Shareholders, annual review and reporting and announcement and circular under Chapter 14A of the Listing Rules.

The Company will apply to the Hong Kong Stock Exchange for an exemption from the strict compliance with Note 1 of rule 17.03(9) of the Listing Rules on the exercise price of Options that may be granted under the Share Option Scheme.

The Directors who are subject to the proposed Share Option Scheme (i.e. Mr. Zhang Daiming, Mr. Du Deping, Mr. He Tongqing and Mr. Xu Lie) have abstained from voting the proposed Grants in respect of the proposed Share Option Scheme.

V. INFORMATION OF THE GROUP AND REASONS FOR AND BENEFITS OF THE ADOPTION OF THE SHARE OPTION SCHEME AND THE GRANT

The Group is principally engaged in the development, manufacture and sale of bulk pharmaceuticals, preparations and chemical products.

The objective of the Share Option Scheme is to further establish and enhance the long-term incentive mechanisms of the Company with a view to attract and retain talent, incentivise Directors, members of senior and mid-level management as well as other core staff of the Company, effectively align interests of the Shareholders with those responsible for the business and operation of the Company, with a view of encouraging the relevant persons to focus on the long-term development and prospects of the Company.

The Board is of the view that the adoption of the Share Option Scheme serves to enable the Company to move towards reaping the abovementioned benefits, and that the terms and conditions of the Share Option Scheme are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

VI. SHAREHOLDERS' MEETING

The Share Option Scheme shall be filed with SASAC and will become effective upon obtaining the approval of Shareholders (including HHC) at the EGM and the Class Meetings. The Share Option Scheme may be amended upon the request of the SASAC. A circular containing, *inter alia*, the terms and provisions of the Share Option Scheme and the details of the Grant will be dispatched to the Shareholders in due course.

DEFINITIONS

In this announcement, a reference to one gender includes a reference to other genders, and the following expressions shall have the meanings set out below unless the context otherwise requires:

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| “A Share” | the domestic Shares of the Company which are listed on Shenzhen Stock Exchange and traded and denominated in RMB, with a nominal value of RMB1.00 each |
| “Articles of Association” | the articles of association of the Company, as amended from time to time |

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| “Board” | the board of Directors of the Company |
| “Class Meetings” | the class meeting of the Shareholders of A Shares and the class meeting of the Shareholders of H Shares of the Company |
| “Company” | Shandong Xinhua Pharmaceutical Company Limited, a joint stock limited company incorporated in the PRC, the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange (stock code: 0719) and the Shenzhen Stock Exchange (stock code: 000756) respectively |
| “Company Law” | the Company Law of the PRC, as may be amended, supplemented or otherwise modified from time to time |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “CSRC” | China Securities Regulatory Commission |
| “Director(s)” | director(s) of the Company |
| “EGM” | the 2021 second extraordinary general meeting of the Shareholders or any adjournment thereof to approve, among others, the proposed adoption of the Share Option Scheme and relevant authorization in relation to the Share Option Scheme |
| “Exercise Conditions” | the conditions that must be met by the Company and the Participants in respect of an exercise of the Options as described in the section “I. Proposed Share Option Scheme – 6. Conditions of Grant and Exercise Conditions |
| “Exercise Date” | the date on which the Participants is entitled to exercise the Options under the Share Option Scheme, which must be a trading day of the Shenzhen Stock Exchange |
| “Exercise Period” | the period during which the Participants may exercise the Options |
| “Grant” | the proposed Grant of Options to Participants pursuant to the Share Option Scheme of up to a total of 24,900,000 Options, and unless the context should otherwise requires, the word “Grant” should be construed accordingly |
| “Grant Date” | the proposed Grant Date of the Share Option Scheme |
| “Group” | the Company and its subsidiaries from time to time |
| “HHC” | Hualu Holdings Co. Ltd. (華魯控股集團有限公司), a company incorporated in the PRC and currently holding approximately 32.65% of the total number of Shares of the Company in issue as at the date of this announcement |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC |
| “H Share” | H shares of the Company which are listed on Hong Kong Stock Exchange and traded and denominated in Hong Kong dollar, with a nominal value of RMB1.00 each |

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| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Incentive Measures” | Measures for the Administration of Equity Share Incentives of Listed Companies (2018) issued by the CSRC, as may be amended, supplemented or otherwise modified from time to time |
| “Initial Grant” | the initial Grant of 23,150,000 Share Options to the Participants pursuant to the Share Option Scheme, representing 92.97% of the total amount granted under the Share Option Scheme |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as may be amended, supplemented or modified from time to time |
| “Option(s)” | the right to be granted to a Participant to acquire certain amount of A Shares of the Company at a pre-determined price in a particular period of time and subject to certain conditions under the Share Option Scheme |
| “Participant” | a person eligible to be granted the Option(s) under the Share Option Scheme |
| “PRC” | the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Reserved Grant” | the Grant of up to 1,750,000 Share Options (representing 7.03% of the total amount available for Grant under the Share Option Scheme) which are reserved for Grant to Participants subsequent to the Initial Grant in accordance with the Share Option Scheme |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SASAC” | The State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government |
| “Securities Law” | the Securities Law of the PRC, as amended, supplemented or otherwise modified from time to time |
| “Share(s)” | A Share(s) and H Share(s) |
| “Share Option Scheme” | the proposed share option incentive scheme of the Company described in this announcement |
| “Shareholders” | the holders of Shares |
| “Shenzhen Listing Rules” | Rules Governing the Listing of Securities on the Shenzhen Stock Exchange |
| “Shenzhen Stock Exchange” | the Shenzhen Stock Exchange |
| “Vesting Date” | the date on which the granted Options shall vest (i.e. 24 months, 36 months and 48 months from the Grant Date) |

“Validity Period”

the term of the Share Option Scheme during which it shall remain in effect

By the order of the Board
Shandong Xinhua Pharmaceutical Company Limited
Zhang Daiming
Chairman

29 October 2021, Zibo, the PRC

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. Zhang Daiming (Chairman)
Mr. Du Deping
Mr. He Tongqing

Independent Non-executive Directors:

Mr. Pan Guangcheng
Mr. Zhu Jianwei
Mr. Lo Wah Wai

Non-executive Directors:

Mr. Xu Lie
Mr. Cong Kechun

This announcement, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.