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**上海醫藥集團股份有限公司**  
**Shanghai Pharmaceuticals Holding Co., Ltd.\***

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

**(Stock code:02607)**

**PROPOSED ADOPTION OF THE SHARE OPTION SCHEME**  
**AND THE GRANT THEREUNDER**

The Company hereby announces that on 10 April 2019, the Board has approved the resolutions in relation to, among others, (i) the proposed adoption of the Scheme and the Assessment Measures; and (ii) the proposed authorization to the Board to deal with relevant matters in relation to the Scheme. The implementation of the resolutions mentioned above is subject to the approval of Shanghai SASAC and the approval by the Shareholders at the AGM.

**1. PROPOSED ADOPTION OF THE SHARE OPTION SCHEME**

**1.1 Purpose of the Share Option Scheme**

To further optimize the corporate governance structure of the Company, create long-term incentive and restrictions on the Directors, senior management, mid-level management and key employees in technique and business 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, Shanghai Pharmaceuticals formulated the Share Option Scheme in accordance with the relevant laws, regulations and regulatory documents, and the Articles of Associations.

**1.2 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, Regulating 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 Directors, senior management, mid-level management and key employees in technique and business of the Company. The Participants do not include independent non-executive Directors, Supervisors, external Directors who are not from the controlling companies, 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 received 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 AGM 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.

### *(3) Assessment Basis for Determining the Participants*

In respect of the assessment matters for the Scheme, the Board 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 Directors, senior management, mid-level management and key employees in technique and business of the Company, totaling 215 individuals and accounting for 0.45% of the 47,580 registered employees of the Company as of 31 December 2018.

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

In addition, persons who are under the following circumstances may not be Participants under the Scheme, if he or she:

- (i) is an independent non-executive Directors, Supervisors, and external Directors who are not from the controlling companies;
- (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) trade the Shares with aware of inside 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; and
- (xi) has commitment other circumstances determined by the CSRC.

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

### **1.3 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 the 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 this announcement, i.e. 2,842,089,322 shares. Among them, 25,960,000 shares shall be granted initially, representing approximately 0.913% of the total issued shares of the Company as at the date of this announcement and approximately 91.34% of the total Share Options to be granted under the Scheme; the number reserved is 2,460,900 shares, representing approximately 0.087% of the total issued shares of the Company as at the date of this announcement and representing approximately 8.66% 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 Share of the Company at the Exercise Price during the Exercise Period.

The total number of Shares to be granted to the Participants 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 AGM on a cumulative basis.

### **1.4 Validity Period, Validity Period of the Share Options, Grant Date, Vesting Period, Exercise Date and the Lock-up Requirements of the Scheme**

#### *(1) Validity Period of the Scheme*

The Scheme will take effect after it has been considered and approved by the AGM, 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 AGM. 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 AGM. Should the Company fails to complete the above-mentioned matters within 60 days, the Scheme shall be terminated and the Share Options not granted will lapse.

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 AGM..

The Grant Date must be a trading day.

## *(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 lawful 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:

<b>Exercise Period</b>	<b>Time Arrangement</b>	<b>Proportion of Exercisable Share</b>
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*

The lock-up period refers to the period during which there is sale restriction on Shares obtained by the Participants upon the Exercise. Lock-up provisions of the Scheme shall be implemented in accordance with the relevant laws, regulations and normative 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 should purchase 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 by Directors and senior management under applicable laws, regulations and normative 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 normative documents and requirements under the Articles of Association.

## **1.5 Exercise Price and basis of determination**

The Exercise Price of the Share Options under the Scheme is RMB21.54 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 RMB21.54 per A Share. In cases of capitalization of capital reserves, bonus issue and shares subdivision, share consolidation, rights issue and dividend distribution, 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 this announcement, being RMB21.54 per A Share;
- (ii) the average trading price of the A Shares for 20, 60 or 120 trading days immediately preceding the date of this announcement, being RMB19.48 per A Share.

The Share Options for the reserved grant shall be approved by the meetings of the Board before each grant, of which the Exercise price shall be not be less than the nominal value of the 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.

## **1.6 Grant conditions of the Grant and Exercise 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 account 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 account 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; and
  - (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 a person unsuitable for the relevant post(s) in the last 12 months;
  - (ii) he or she has been held by the CSRC or its delegated agencies as 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 circumstance as determined by the CSRC.
- c. Performance assessment of the grant

Performance conditions at the Company Level

- (i) The operating income growth rate of the Company for the last financial year prior to the announcement of the 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 of the Scheme shall not be less than 12.0% and no less than 50 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year;
- (iii) Research and development expenses for the last financial year prior to the announcement of the Scheme shall not be lower than RMB 850 million .
- (iv) Performance composite index of the Company for the last financial year prior to the announcement of the Scheme shall not be lower 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 of the 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 circumstance 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 account 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 account 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; and
- (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 circumstance in respect of the Participants:

- (i) he or she has been held by the Shanghai Stock Exchange to be a person unsuitable for the relevant post(s) in the last 12 months;
- (ii) he or she has been determined by the CSRC or its delegated agencies as a 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 circumstance 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

The performance conditions for the Exercise of the Share Options are set out below:

Exercise Period	Targets of performance assessment
First Exercise Period	1) The compound growth rate on average operating income of the Company for 2020 shall not be lower than 10.0%, as compared to the average operating income for the year of 2016 to 2018, and the operating income of the Company shall not be lower than the RMB 175 billion;
	2) The average weighted rate of return on common Shareholder's equity for the year of 2020 shall not be less than 12.0% 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 RMB 900 million; and

	<p>4) Performance composite index of the Company for the year of 2020 shall not be lower than 75 percentile of benchmark enterprises.</p>
Second Exercise Period	<p>1) The compound growth rate on average operating income of the Company for 2021 shall not be lower than 10.0%, as compared to the average operating income for the year of 2016 to 2018, and the operating income of the Company shall not be lower than the RMB 185 billion;</p> <p>2) The average weighted rate of return on common Shareholder's equity for the year of 2021 shall not be less than 12.2% 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;</p> <p>3) Research and development expenses for the year of 2020 shall not be lower than RMB 950 million; and</p> <p>4) Performance composite index of the Company for the year of 2021 shall not be lower than 75 percentile of benchmark enterprises.</p>
Third Exercise Period	<p>1) The compound growth rate on average operating income of the Company for 2022 shall not be lower than 10.0%, as compared to the average operating income for the year of 2016 to 2018, and the operating income of the Company shall not be lower than the RMB 200 billion;</p> <p>2) The average weighted rate of return on common Shareholder's equity for the year of 2022 shall not be less than 12.4% 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;</p> <p>3) Research and development expenses for the year of 2022 shall not be lower than RMB 1 billion; and</p> <p>4) Performance composite index of the Company for the year of 2022 shall not be lower than 75 percentile of benchmark enterprises.</p>

*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 income reaches the 90 percentile of benchmark enterprises; the operating income 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 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 profit attributable to Shareholders*

+ research and development expenses) / the average equity attributable to shareholders of parent company.

*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 effective upon approval at the general meetings of the Company.*

*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 =  $\sum$ (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 5: The exercise conditions shall not be fulfilled unless all the other annual targets set by the Board has been satisfied at the same time.*

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 Pharmaceutical, in accordance with the comprehensive businesses composition and strategic requirements of Shanghai Pharmaceutical's various segments such as research and development, manufacturing, segmenting distribution and retail. The Specific assessment rules is as following:

<b>Strategic orientation</b>	<b>Quality</b>	<b>Scale</b>		<b>Innovation</b>
Segmented indexes	Rate of return on common stockholder's equity	Industrial sales revenue growth rate	Commercial sales revenue	Research and development expense
Strategic importance weigh	40	30	10	20

The performance composite index = the equityopment, manufacturing, segmenting distribution and gic requirements of Shan, 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 income, and research and development expenses are all from annual report disclosures; the average weighted return rate of return on common stockholder's equity = (net profits attributable to stockholders of the parent company + research and development expense) / average equity attributable to shareholder of the parent company.*

*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 this announcement; in terms of the exercise conditions, the industrial sales revenue growth rate equals to the compound sales revenue growth rate on the basis of average industrial sales revenue for the year 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 competitive 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 top-ranking A share listed or H share listed companies in respect of comprehensive strength, scale, profitability 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, the Board are authorized to delete or change the sampling according to actual situation.

Participants may Exercise the Share Options proportionately under the Scheme upon fulfillment of the Exercise Conditions of the Share Options.

d. Participants' performance assessment requirements

The Company shall assess the individual performance of the Participants based on the Assessment Method approved by the Board. The assessment results of the Participants' performance for previous year is the prerequisite for 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
Exercise quota	1.0	0.8	0

The actual Exercise quota of the individual in the current year = the individual's planned Exercise quota for the year × the employee's Exercisable coefficient for the 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".

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, 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 for reserved Share Options are the same as Exercise Conditions 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.

## **1.7 Methods of and procedures for adjustment**

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

In the event of capitalization of capital reserves, bonus issue, share subdivision, rights issue or share consolidation of the Company prior to any Exercise by the Participants , the number of the Share Options shall be adjusted accordingly. The adjustment methods are as follows:

a. Capitalization of capital reserves, 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 capitalization of capital reserves, bonus issue or share subdivision (i.e. the number of increased share(s) per share upon capitalization of capital reserves, bonus issue or share subdivision); and  $Q$  represents the number of the Share Options after adjustment.

b. Rights issue

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

Where:  $Q_0$  represents the number of the Share Options prior to adjustment;  $P_1$  represents the closing price of the Share Options on the registration 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); 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 dividend distribution, capitalization of capital reserves, bonus issue, share subdivision, rights issue or share consolidation of the Company after this announcement and prior to any Exercise by the Participants, the Exercise Price should be adjusted accordingly. The adjustment methods are as follows:

a. capitalization of capital reserves, 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 capitalization of capital reserves, bonus issue or Share Option 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 Options as at 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. Dividend distribution

$$P = P_0 - V$$

Where:  $P_0$  represents the Exercise Price prior to the adjustment;  $V$  represents the dividend per share; and  $P$  represents the Exercise Price after the adjustment. After the adjustment of dividend distribution,  $P$  shall still be a positive number.

e. 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. The Board shall publish announcements timely upon they made 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 Management Method, 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, considered and approved by the General Meeting and approved by Shanghai SASAC.

## **1.8 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 AGM, such amendments shall be considered and approved by the Board.

If the Company proposes to amend the Scheme after the consideration and approval of the Scheme at the AGM, 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 General Meeting, such termination shall be considered and approved by the Board.

- (ii) If the Company proposes to terminate the Scheme after the consideration and approval of the Scheme at the Annual General Meeting, such termination shall be considered and approved by the General Meeting.

## 2. Proposed Grant

Key terms of the proposed grant are set out in details in this section. The proposed grant set out herein complies with the terms and provisions of the Scheme.

### (1) Distribution details of the 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 this Announcement (%)
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%
Liu Yanjun	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, secretary of the board of director, joint company secretary	33.00	1.16%	0.012%
Zhang Yaohua	Vice president	33.00	1.16%	0.012%

Middle level management and key employees of the Company (207 persons in total)	2,305.00	81.10%	0.811%
Reserved Shares	246.09	8.66%	0.087%
<b>Total</b>	<b>2,842.09</b>	<b>100.00%</b>	<b>1.000%</b>

*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, son or daughter 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 AGM 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 AGM. 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 number of Shares granted.*

### **3. Mechanism for specific occurrences to the Company or the Participants**

#### **3.1 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; and
- (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; and

- (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.

### **3.2 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; and
- (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 Participant to compensate for any loss of the Company according to the actual circumstances if the situation is severe:

- (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; and

- (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.

Other circumstances not stated above together with the methods dealing with such circumstances shall be determined by the Board.

#### **4. Proposed Mandate to the Board**

To ensure the smooth implementation of the Scheme, it is proposed to the AGM to authorize the Board to deal with all issues in relation to the Scheme at their full discretion, including but not limited to:

- (i) to determine the Grant Date of the Scheme;
- (ii) on the occurrence of capitalization of capital reserves, bonus issue, share split, right issues or shares consolidation, to make corresponding adjustments to the number of the Share Options and the Exercise price in accordance with the methods stipulated in the Scheme;
- (iii) to grant Share Options to Participants when he/she meets the grant conditions and to deal with all matters required related to such grant;
- (iv) to examine and confirm whether the Company and the Participants are qualified to Exercise and whether the Company and Participants fulfill the grant conditions, to authorize the Board to grant such rights to the Remuneration and Assessment Committee;
- (v) to determine whether the Participants are able to Exercise;
- (vi) 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;
- (vii) to deal with lock-up issues in respect of Share Options that are not Exercised;
- (viii) to determine changes and termination of the Scheme, including but not limited to the cancellation of Exercise qualification of the Participants, withdrawal and recovery the 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 are already dead, and the termination of the Scheme;
- (ix) to manage the Scheme;
- (x) to approve, sign, execute, modify, terminate any agreements or other relevant contracts in relation to the Scheme;

- (xi) to make corresponding adjustments to relevant provisions of the Scheme in accordance with any modification of laws, regulations, rules and normative documents such as Company Law, Securities Law, the Administrative Measures and Trial Measures;
- (xii) to determine whether to withdraw any revenue gained by the Participants through the Exercise in accordance with provisions of the Scheme;
- (xiii) to deal with other necessary issues to implement the Scheme, but excluding any rights specifically stipulated by relevant documents to be exercised by the general meeting of the Company; and
- (xiv) to seek approval from the AGM that the validity of the grant to the Board is the same of the validity of the Scheme.

## 5. The Implication 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. Any grant of Share Options under the 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.31(3)(b) of the Hong Kong Listing Rules.

## 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 industry, 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. The Annual General Meeting

Shareholders' approval will be sought at the AGM to consider, among other things, (i) the proposed adoption of the Scheme and the Assessment Measures; and (ii) the proposed authorization to the Board to deal with relevant matters in relation to the Scheme. A circular containing, among other things, details of the Scheme will be dispatched to the Shareholders on or before 24 May 2019.

## 8. Definitions

In this announcement, the following expressions shall have the meanings set out below unless the context otherwise requires:

A Share(s)	domestic share(s) of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
Administrative Measures	the Administrative Measures on Equity Incentives of Listed Companies
Annual General Meeting	The annual general meeting of the Shareholders to be convened on or around 26 June 2019, or any adjournment thereof to approve, among others, the proposed adoption of the Scheme, the Assessment Measures, and authorizing the Board to deal with relevant matters in

		relation to the Scheme
Articles of Association	of	Articles of Association of Shanghai Pharmaceutical Group Co., Ltd.
Assessment Measures		Management Measures for the Implementation of 2019 Share Option Incentive Scheme of Shanghai Pharmaceutical Group Co., Ltd.
Board		the board of Directors
Company/ Shanghai Pharmaceuticals		Shanghai Pharmaceuticals Holding Co., Ltd.
Company Law		Company Law of the People's Republic of China
CSRC		China Securities Regulatory Commission
Grant Date		the date on which the Company shall grant Share Option(s) to the Participants, which shall fall on a trading day
Director(s)		director(s) of the Company
Exercise		Participant's exercise of his/or Share Option(s) according to the Scheme, i.e. Participant's purchasing target Shares according to conditions as stipulated in the Scheme
Exercise Period		period during which the Share Option(s) can be exercised
Exercise Date		the date on which the Participants are entitled to exercise the Share Options, which must be a trading day
Exercise Price		the price determined by the Scheme, at which the Participants shall purchase the Shares
Exercise Conditions		the conditions must be fulfilled by Participants to exercise the Share Options under the Scheme
H Share(s)		overseas share(s) of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
Hong Kong		Hong Kong Special Administrative Region of the People's Republic of China
Hong Kong Listing Rules		Stock Exchange of Hong Kong Limited Securities Listing Rules
Hong Kong Stock Exchange		The Stock Exchange of Hong Kong Limited
Regulating Notice		Notice on Issues Concerning Regulating the Implementation of the Equity Incentive System by the State-Controlled Listed Companies
Participant(s)		Participant(s) to be granted the Shares Option(s) according to the

	Scheme
PRC	the People's Republic of China, and for the purpose of this announcement, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
Remuneration and Assessment Committee	the remuneration and assessment committee under the Board
Registration and Settlement Company	China Securities Registration and Settlement Co., Ltd. Shanghai Branch
Shanghai SASAC	Shanghai State-owned Assets Supervision and Administration Commission
Scheme or 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 Stock Exchange	the Shanghai Stock Exchange
Share(s)	Share(s) of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares
Share Option(s)/ 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)	the shareholder(s) of the Company
Supervisor(s)	the supervisor(s) of the Company
Subsidiary	Same as defined under the Hong Kong Listing Rules
Trial Measures	Trial Measures for the Implementation of the Equity Incentive System by the State-owned 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, China's lawful currency

By order of the Board  
**Shanghai Pharmaceutical Group Co., Ltd.\***

**Zhou Jun**

*Chairman*

Shanghai, the PRC, 11 April 2019

*As at the date of this announcement, the executive directors of the Company are Mr. CHO Man, Mr. LI Yongzhong and Mr. SHEN Bo; the non-executive directors are Mr. ZHOU Jun and Ms. LI An; and the independent non-executive directors are Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang.*

*\*For identification purpose only*