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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you have sold or transferred** all your shares in Great Wall Motor Company Limited, you should at once pass this circular and the enclosed proxy form to the purchaser, the transferee, the bank, the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**山東晨鳴紙業集團股份有限公司**  
**SHANDONG CHENMING PAPER HOLDINGS LIMITED\***  
*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 1812)**

**PROPOSED ADOPTION OF THE INCENTIVE SCHEME**  
**AND**  
**ASSESSMENT MANAGEMENT MEASURES FOR THE**  
**IMPLEMENTATION OF THE INCENTIVE SCHEME**  
**AND**  
**CONNECTED TRANSACTION-THE ISSUE AND GRANT OF**  
**RESTRICTED SHARES UNDER THE INCENTIVE SCHEME**

**INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD**  
**COMMITTEE AND THE INDEPENDENT SHAREHOLDERS**



The EGM and the H Shareholders' Class Meeting are to be held on Friday, 15 May 2020 at 2:00 p.m and immediately after the conclusion of the 2020 first class meeting for holders of domestic-listed shares (A shares and B shares) (or any adjourned meeting thereof) respectively at the conference room of the research and development centre of the Company, No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, the People's Republic of China. Notices of the EGM and the H Shareholders' Class Meeting have been sent to the Shareholders together with their respective proxy forms, the Independent Non-executive Director's Proxy Forms. Whether or not you are able to attend the EGM or the H Shareholders' Class Meeting in person, you are requested to complete the proxy form enclosed or the Independent Non-executive Director's Proxy Forms in accordance with the instructions printed thereon. For H Shareholders, the proxy form or the Independent Non-executive Director's Proxy Form should be returned, in person or by post, to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in any event, not less than 24 hours before the designated time for the commencement of the EGM and/or the H Shareholders' Class Meeting and any adjournment thereof (as the case may be). Completion and return of the proxy form or the Independent Non-executive Director's Proxy Form will not preclude you from attending and voting in person at the EGM and/or the H Shareholders' Class Meeting or any adjournment thereof should you so wish.

\* For identification purposes only

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## DEFINITIONS

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

“A Shares”	domestic share(s) with a nominal value of RMB1.00 each of the Company which are listed on the SSE and traded in Renminbi (Stock Code: 000488)
“A Shareholder(s)”	holders of A Share(s)
“A Shareholders’ Class Meeting”	the class meeting of A Shareholders
“Administrative Measures”	the Administrative Measures on Share Incentives of Listed Companies (《上市公司股權激勵管理辦法》)
“Articles of Association”	articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“Assessment Measures”	Assessment Management Measures For The Implementation Of The 2020 Restricted Share Incentive Scheme
“Articles of Association”	articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“B Shares”	the domestic listed foreign shares(s) of the Company, with a nominal value of RMB1.00 each, which are listed on the Shenzhen Stock Exchange in the PRC and traded in Hong Kong dollars (stock code: 200488)
“Board”	the board of directors of the Company
“Class Meetings”	the A Shareholders’ Class Meeting, the B Shareholders’ Class Meeting and the H Shareholders’ Class Meeting to be convened by the Company for considering and, if thought fit, approving the terms of the Incentive Scheme and the issue and grant of Restricted Shares to the Participants
“close associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules

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## DEFINITIONS

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“Company”	Shandong Chenming Paper Holdings Limited* (山東晨鳴紙業集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange
“Company Law”	the Company Law of the PRC, as amended from time to time
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting to be convened on 15 May 2020 by the Company for considering and, if thought fit, approving the terms of the Incentive Scheme and the issue and grant of Restricted Shares to the Participants
“Group”	the Company and its subsidiaries
“Grant Date”	the date on which the Company shall grant entitlements to the Participants, which must be a trading day
“Grant Price”	the price of each Restricted Share granted to the Participants by the Company
“H Shares”	the overseas-listed foreign share(s) with a nominal value of RMB1.00 each of the Company which are listed on the Stock Exchange and traded in Hong Kong dollars
“H Shareholder(s)”	holders of H Share(s)
“H Shareholders’ Class Meeting”	the class meeting of H Shareholders to be convened on 15 May 2020 by the Company for considering and, if thought fit, approving the terms of the Incentive Scheme and the issue and grant of Restricted Shares to the Participants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Incentive Scheme”	the 2020 Restricted Shares Incentive Scheme of Shandong Chenming Paper Holdings Limited (山東晨鳴紙業集團股份有限公司2020年限制性股票激勵計劃)
“Independent Director(s)”	the independent non-executive director(s) of the Company
“Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the independent board committee and independent Shareholders in respect of the issue and grant of Restricted Shares by the Company to the Participants who are connected persons of the Company under the Incentive Scheme
“Latest Practicable Date”	29 April 2020, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein
“Lock-up Period”	the period during which the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as security or for repayment of debts which shall commence from the date on which the registration of the grant of the Restricted Shares is completed
“Participant(s)”	the directors (excluding independent directors and external directors), senior management, key technical (business) employees of the Company and other persons who, in the opinion of the Board, are qualified, to be granted a certain number of the Restricted Shares under the Incentive Scheme
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong, the Macau Special Administrative Region and Taiwan

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## DEFINITIONS

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“Restricted Shares”	a certain number of new A shares of the Company granted to the Participants by the Company under the conditions and at the price as stipulated in the Incentive Scheme, which are subject to the lock-up period and can only be unlocked for trading when the Unlocking Conditions under the Incentive Scheme are satisfied
“RMB”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the People’s Republic of China, as amended from time to time
“SFO”	Securities and Futures Ordinance (chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	A Share(s), B Share(s) and H Share(s)
“Shareholders”	holders of the Company’s Shares including A Share(s), B Share(s) and H Share(s)
“SSE”	the Shenzhen Stock Exchange
“SSE Listing Rules”	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	unless the context requires otherwise, has the meaning ascribed thereto under the Hong Kong Listing Rules
“Substantial Shareholder”	Chenming Holdings Company Limited, a joint stock company incorporated in the PRC with limited liability
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Unlocking Period”	the period during which the Restricted Shares of the Participants are unlocked and can be transferred upon the fulfillment of the unlocking conditions as stipulated in the Incentive Scheme
“%”	per cent

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LETTER FROM THE BOARD

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山東晨鳴紙業集團股份有限公司  
**SHANDONG CHENMING PAPER HOLDINGS LIMITED\***  
*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
(Stock Code: 1812)

*Executive Directors:*

Chen Hongguo  
Hu Changqing  
Li Xingchun

*Headquarter:*

No. 595 Shengcheng  
Road Shouguang City  
Shandong Province

*Non-executive Directors:*

Han Tingde  
Li Chuanxuan

*Independent non-executive Directors:*

Yin Meiqun  
Sun Jianfei  
Yang Biao

29 April 2020

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED ADOPTION OF THE INCENTIVE SCHEME  
AND  
ASSESSMENT MANAGEMENT MEASURES FOR THE  
IMPLEMENTATION OF THE INCENTIVE SCHEME  
AND  
CONNECTED TRANSACTION-THE ISSUE AND GRANT OF  
RESTRICTED SHARES UNDER THE INCENTIVE SCHEME**

\* For identification purposes only

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## LETTER FROM THE BOARD

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### 1. INTRODUCTION

Reference is made to the announcement of the Company dated 30 March 2020 in relation to the propose adoption of the Incentive Scheme and the issue and grant of Restricted Shares under the Incentive Scheme (the “Announcement”). This circular is issued in relation to the EGM and the H Shareholders’ Class Meeting to be held on Friday, 15 May 2020 at 2:00 p.m and immediately after the conclusion of the 2020 first class meeting for holders of domestic-listed shares (A Shares and B Shares) (or any adjourned meeting thereof) respectively at the conference room of the research and development centre of the Company, No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, PRC.

### 2. PROPOSED ADOPTION OF THE INCENTIVE SCHEME

In order to further improve the corporate governance structure of the Company, promote the establishment and improvement of long-term incentive and restraint mechanisms, fully mobilize the enthusiasm, responsibility and mission of the directors, core technology and business key personnel, and bond the interests of Shareholders, the Company and individual operators together effectively, making all parties to attend to the long-term development of the Company and work together for it; at the same time, in order to further promote the long-term behavior of decision-makers and operators, promote the rapid and sustainable development of the Company, and maximize the value of the Company and shareholders, the Incentive Scheme is formulated, on the premise of fully protecting the interests of Shareholders and on the principle of income equivalent to contribution, and in compliance with the relevant requirements under the PRC legal and regulatory requirements such as “Company Law”, the “Securities Law”, the “Trial Measures”, the “Notice”, the “Administrative Measures” and other relevant laws, regulations and regulatory documents and the Articles of Association, combined with the existing management systems of the Company, including the remuneration mechanism and performance appraisal system.

The Incentive Scheme adheres to the following principles:

- (i) Being lawful, open and transparent, and abiding by laws, regulations and the requirements of the Articles of Association;
- (ii) Safeguarding the interests of the Shareholders and the Company, improving value preservation and appreciation of state-owned assets, and contributing to the Company’s sustainable development;
- (iii) Combining incentives with constraints, making risks commensurate with returns and enhancing incentives for the Company’s management team;
- (iv) Being practicable and standardized, rolling out step by step and improving constantly.



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## LETTER FROM THE BOARD

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### DETERMINING THE PARTICIPANTS AND THE SCOPE OF THE PARTICIPANTS

#### I. Basis for Determining the Participants

##### *(i) Legal Basis for Determining the Participants*

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

##### *(ii) Position Basis for Determining the Participants*

The Participants under the Incentive Scheme shall include the current directors (excluding independent non-executive Directors and external Directors), senior management, key technical (business) employees of the Company and other persons who, in the opinion of the Board, are qualified.

#### II. Scope of the Participants

The number of the Participants under the Incentive Scheme shall be 120, specifically including:

1. Directors, senior management members of the Company;
2. Key technical (business) employees of the Company;
3. The persons who, in the opinion of the Board, are qualified.

The Participants under the Incentive Scheme exclude independent non-executive Directors, Supervisors and Shareholders individually or in aggregate holding 5% or more of the shares of the Company or the de facto controllers and their spouses, parents or children.

Among the above Participants, a director or senior management member must have been elected at a general meeting or engaged by the Board. All Participants should be engaged, employed or hired by the Company or any of the branch or subsidiary of the Company at the time of granting the Incentive Scheme and during the evaluation period.

All of the Participants under the Incentive Scheme shall not participate in the incentive scheme of any other listed company concurrently and any of the Participants who has participated in the incentive scheme of any other listed company shall not participate in the Incentive Scheme.

No other persons who are not Directors, nor employees of the Company are qualified as Participants.

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## LETTER FROM THE BOARD

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### III. Verification of the Participants

1. After the Incentive Scheme is reviewed and approved by the Board, the Company shall announce the name and position of the Participants via Company website for not less than 10 days.
2. The Supervisory Committee shall review the list of the Participants and take sufficient consideration of the public opinions. The Company shall disclose the explanation of the Supervisory Committee regarding the review of the list of Participants and the status of announcement 5 days prior to the consideration of the Incentive Scheme at the general meeting of the Company. Any adjustments to the lists of the Participants made by the Board shall also be subject to verification by the Supervisory Committee.

### SOURCE, NUMBER AND DISTRIBUTION OF RESTRICTED SHARES GRANTED UNDER THE INCENTIVE SCHEME

#### I. Source of the Shares

The source of the shares granted under the Incentive Scheme shall be ordinary A shares of the Company issued by the Company to the Participants under specific mandate sought at the EGM and the Classing Meetings.

#### II. Number of the Shares

The Restricted Shares that may be granted to the Participants by the Company under the Incentive Scheme shall be 80,000,000 Restricted Shares, representing approximately 2.75% of the total issued share capital of the Company being 2,904,608,200 Shares, as at the date of the Announcement. This grant shall be one-off in nature without reserved portion.

The total number of shares to be issued and granted under the Incentive Scheme during the validity period shall not exceed 10% of the total issued share capital of the Company and the total number of the Restricted Shares to be granted under the Incentive Scheme during the validity period to the Participant shall not exceed 1% of the total issued share capital of the Company.

The Company determined the maximum number of Restricted Shares to be granted to each Participant with reference to the standardized number of Restricted Shares (which is, for illustration purpose only, 1,000,000 A Shares), and further adjusted based on (i) the Participant's positions and seniority (崗位職稱); (ii) the Participant's years of services (司齡); (iii) the Participant's performance (績效); (iv) the Participant's remuneration level (薪酬水平); and (v) the Participant's comprehensive capacities (綜合能力). The Company applied the above six assessment coefficients to calculate the maximum numbers of Restricted Shares to be granted to each Participant. The actual number of the Restricted Shares to be granted to each Participant was further subject to the Participant's intention for subscribing the Restricted Shares (including the proposed subscription contribution amounts).

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## LETTER FROM THE BOARD

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### III. Allocation of the Restricted Shares to be Granted to the Participants

The allocation of the Restricted Shares to be granted under the Incentive Scheme among all Participants are set out in the table below (Participants Nos 1 to 19 below are related persons of the Company under the SSE Listing Rules):

Name	Position	Number of shares to be granted (‘0,000 shares)	Proportion in the total shares granted	Proportion in the Total Issued Share Capital
1. Chen Hongguo <sup>(4)</sup>	Chairman and Executive Director	2,000 <sup>(6)</sup>	25.00%	0.69%
2. Hu Changqing <sup>(4)</sup>	Vice Chairman and Executive Director	500	6.25%	0.17%
3. Li Xingchun <sup>(4)</sup>	Vice Chairman and Executive Director	500	6.25%	0.17%
4. Li Feng <sup>(4)</sup>	General Manager	300	6.25%	0.10%
5. Li Xueqin <sup>(3)(4)</sup>	Vice General Manager	300	6.25%	0.10%
6. Chen Liang <sup>(4)</sup>	Overseas Market Sales Director and Director of Subsidiary Company	300	6.25%	0.10%
7. Geng Guanglin	Vice General Manager	200	3.75%	0.07%
8. Dong Lianming	Chief Financial Officer	100	1.25%	0.03%
9. Chen Gang <sup>(4)</sup>	Director of Subsidiary Company	100	1.25%	0.03%
10. He Zhiqiang <sup>(4)</sup>	Director of Subsidiary Company	60	0.75%	0.02%
11. Zhang Gang <sup>(4)</sup>	Director of Subsidiary Company	60	0.75%	0.02%
12. Li Haiyong <sup>(4)</sup>	Director of Subsidiary Company	60	0.75%	0.02%
13. Zhang Jinyu <sup>(4)</sup>	Director of Subsidiary Company	60	0.75%	0.02%
14. Yuan Xikun	Secretary of the Board	30	0.25%	0.01%
15. Ma Jingye <sup>(4)</sup>	Director of Subsidiary Company	30	0.25%	0.01%

## LETTER FROM THE BOARD

Name	Position	Number of shares to be granted (‘0,000 shares)	Proportion in the total shares granted	Proportion in the Total Issued Share Capital
16. Qu Bo <sup>(4)</sup>	Director of Subsidiary Company	22	0.28%	0.008%
17. Zhang Ye <sup>(4)</sup>	Director of Subsidiary Company	22	0.28%	0.008%
18. Xiao Peng <sup>(4)</sup>	Director of Subsidiary Company	22	0.28%	0.008%
19. Ma Chuanfei <sup>(4)</sup>	Director of Subsidiary Company	10	0.13%	0.003%
Key technical (business) employees (101) <sup>(5)</sup>		3,324	41.55%	1.14%
Total (120)		8,000	100%	2.75%

*Notes:*

- (1) The number of the Shares to be granted during the validity period to any one of the above Participants will not exceed 1% of the Company’s total issued share capital as at the Latest Practicable Date. The total number of Shares to be granted under the Incentive Scheme during the validity period shall not exceed 10% of the total issued share capital of the Company as at the Latest Practicable Date.
- (2) Any discrepancies of totals and sums of figures listed in the above table between are due to rounding.
- (3) Li Xueqin is the spouse of Chen Hongguo, a Director and chairman of the Company.
- (4) The Participants are connected persons under the Hong Kong Listing Rules. Please refer to the table above for their respective positions in the Company and/or the subsidiaries.
- (5) Each of the 101 Participants is independent third party of the Company, who are key technical (business) employees from the headquarters, different subsidiaries and different sales companies of the Company. Such key technical (business) employees have provided tremendous contributions to the Company’s business development and have kept the Company’s in the leading position of the industry for more than 20 years. The Participants of the headquarters include its senior management and heads of different departments, who have managed for the overall planning and fine management in order for the Group to have smooth development. The Participants of the subsidiaries include their senior management and key technical (business) personnel, who have managed to stay on the front line of production management, to ensure the order, coordination and efficiency of production management. The Participants of the sales companies include their senior management and key technical (business) personnel, who have strengthened the Group’s market operations and continued to lift the prices and strengthened customer management. Their pre-sale and after-sale services have received positive feedback from customers.
- (6) Among the six factors as disclosed in the paragraph headed “Number of the Shares of Source, Number and Distribution of Restricted Shares Granted under the Incentive Scheme” of this circular, when determining the 20,000,000 Restricted Shares to be granted to Mr. Chen Hongguo, the Company has also taken into account Mr. Chen Hongguo’s 33 years of services to the Group, his position as the chairman of the Company for 20 years and his current salary.

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## LETTER FROM THE BOARD

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### VALIDITY PERIOD, GRANT DATE, LOCK-UP PERIOD AND UNLOCKING ARRANGEMENT AND LOCK-UP PERIOD

#### I. Validity Period

The validity period of the Incentive Scheme shall commence on the date on which the registration of the grant of the Restricted Shares is completed and end on the date on which all the Restricted Shares granted to the Participants are unlocked or repurchased and cancelled, which shall not exceed 60 months.

#### II. Grant Date

The Grant Date shall be determined by the Board after the Incentive Scheme is considered and approved at the EGM and the Class Meetings, and must be a trading day. Within 60 days after the Incentive Scheme is considered and approved at the EGM and the Class Meetings (excluding the dates that granting is not allowed in accordance with relevant laws, regulations and the SSE Listing Rules), and the conditions for the grant are satisfied, the Company shall convene a Board meeting to grant the Restricted Shares to the Participants under the Incentive Scheme according to relevant provisions and complete registration, announcement and other relevant procedures.

If the Company fails to complete the above work within 60 days, the implementation of the Incentive Scheme will be terminated and the Restricted Shares which have not been granted will lapse.

The Restricted Shares shall not be granted to the Participants by the Company in the following periods:

- (i) within 60 days prior to the announcement of annual report of the Company, 30 days prior to the announcement of interim results or quarterly results and the respective announcement day of the abovementioned results; in the event that the date of announcement of regular reports has been postponed for special reasons, the period from 30 days prior to the originally appointed date of announcement to one day prior to the date of publication;
- (ii) within 10 days prior to the publication of the announcement of the performance forecast or the announcement of the preliminary performance results;
- (iii) the period commencing from the date of occurrence of any significant event which may have significant effect on the trading prices of the Company's shares and their derivatives or the date on which relevant decision-making procedures start, and ending on the second trading day following the disclosure in accordance with laws;
- (iv) such other period as stipulated by the CSRC and the Stock Exchange and SSE or the SSE Listing Rules and/or the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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For the avoidance of doubt, the periods during which the Company is not allowed to grant Restricted Shares as mentioned in (i) to (iv) above shall not be included in the period of 60 days.

### III. Lock-up Periods of the Incentive Scheme

The Lock-up Periods of the Restricted Shares granted under the Incentive Scheme shall be 24 months, 36 months and 48 months from the date of registration of the Restricted Shares under the grant. The Restricted Shares granted to the Participants under the Incentive Scheme subject to selling restrictions, but shall not be transferred, pledged or used for repayment of debt during the Lock-up Period.

The shares and dividends obtained by the Participants due to the grant of the Restricted Shares not yet unlocked to them arising from capitalization issue, bonus issue, share sub-division, etc. shall be subject to locking in accordance with the Incentive Scheme, and shall not be sold in the secondary market or otherwise transferred. The Unlocking Period of such shares is the same as that of the Restricted Shares. If the Company repurchases the Restricted Shares not yet unlocked, such shares shall be repurchased at the same time.

### IV. Unlocking Period of the Incentive Scheme

After 24 months from the date of completion of the registration of the grant of Restricted Shares granted under the Incentive Scheme, the Participants will unlock in three phases within the next 36 months. Upon expiry of each Lock-up Period, the Company shall proceed with the unlocking for the Participants who satisfy the unlocking conditions, and the Restricted Shares held by Participants who do not satisfy the unlocking conditions shall be repurchased and cancelled by the Company. The table below sets out the Unlocking Period and unlocking schedule for the Restricted Shares under each grant:

<b>Unlocking Period</b>	<b>Description of the Unlocking Period</b>	<b>Percentage of the Restricted Shares to be unlocked of total number of the Restricted Shares granted</b>
First Unlocking Period	Commencing from the first trading day after expiry of the 24-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 36-month period from the date on which the registration of the grant of the Restricted Shares is completed	40%

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## LETTER FROM THE BOARD

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Unlocking Period	Description of the Unlocking Period	Percentage of the Restricted Shares to be unlocked of total number of the Restricted Shares granted
Second Unlocking Period	Commencing from the first trading day after expiry of the 36-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 48-month period from the date on which the registration of the grant of the Restricted Shares is completed	30%
Third Unlocking Period	Commencing from the first trading day after expiry of the 48-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 60-month period from the date on which the registration of the grant of the Restricted Shares is completed	30%

The Participants correspond to the Restricted Shares that cannot be unlocked during the Unlocking Period, and cannot be deferred to the future years to unlock the Restricted Shares. These Restricted Shares shall be repurchased and cancelled by the Company. The repurchase price is the price granted for Restricted Shares plus the bank loan interest rate for the same period.

### **V. Lock up Provisions under the Incentive Scheme**

The lock-up provisions under the Incentive Scheme shall be implemented in accordance with the “Company Law”, the “Securities Law”, other relevant laws, regulations and regulatory documents, and the Articles of Association. Such provisions include but are not limited to:

- (i) If a Participant is a director or a senior management member of the Company, the number of shares that may be transferred each year during his/her term of office shall not exceed 25% of the total number of shares held by him/her. He/she shall not transfer any of his/her shares within 6 months from his/her departure.
- (ii) When the last batch of Restricted Share under the Incentive Scheme was unlocked, the Participants, who is a director or a senior management member of the Company was granted 20% of the total Restricted Share (and the share dividends distributed on such shares) until the expiry of the term (or term of office), and unlock the restrictions subject to his/her performance appraisal or the result of economic duty audit during such term.

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## LETTER FROM THE BOARD

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Whether a Participant is a director or a senior management member shall be determined based on the position such Participant holds for the year when he/she was granted the Restricted Shares under the Incentive Scheme; performance appraisal or economic duty audit of a Participant refers to those conducted for the term of office during the year when the Participants were granted the Restricted Shares under the Incentive Scheme.

- (iii) If a Participant, who is a director or a senior management member of the Company, disposes of any shares within six months after the acquisition, or re-purchases within six months after disposition, all gains arising therefrom shall belong to the Company and be recovered by the Board.
- (iv) If, during the validity period of the Incentive Scheme, there is any change to the requirements regarding the transfer of shares by a director or a senior management member of the Company under the “Company Law”, the “Securities Law”, other relevant laws, regulations and regulatory documents and the Articles of Association, a Participant shall comply with the relevant amended regulations upon transfer of his/her shares held by him/her.

### **GRANT PRICE AND BASIS OF DETERMINATION OF THE GRANT PRICE OF RESTRICTED SHARES**

#### **I. Grant Price**

The Grant Price of the Restricted Shares shall be RMB2.85 per share. A Participant who has satisfied the conditions of grant may purchase Restricted Shares issued by the Company to the Participants at RMB2.85 per share.

#### **II. Basis of Determination of the Grant Price**

The Grant Price of the Restricted Shares granted by the Company via means of issuing additional shares shall be determined according to principle of fair market price, and shall be the higher of the followings:

- (i) 60% of the closing price of the shares of the Company on the last trading day before the date of the Announcement;
- (ii) 60% of the average closing prices of the shares of the Company on the last 30 trading days before the date of the Announcement;
- (iii) 60% of the average trading prices (the total transaction value for the last trading days divided by the total transaction volume for the last trading days) of the shares of the Company on the last trading day before the date of the Announcement;



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## LETTER FROM THE BOARD

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- (iv) 60% of the average trading price (the total transaction value for the last 20 trading days divided by the total transaction volume for the last 20 trading days) of the shares of the Company on the last 20 trading days before the date of the Announcement; or
- (v) the nominal value of the shares of Company, being RMB1 per share.

Based on the above pricing principles, the Grant Price of the Restricted Shares to be granted under the Incentive Scheme shall be RMB2.85 per share.

The Restricted Shares granted to the Participants shall be funded by themselves. The Company shall undertake not to provide loans, loan guarantee and any other form of financial assistances to the Participants for the acquisition of the Restricted Shares under the Incentive Scheme.

### CONDITIONS FOR GRANT AND UNLOCKING OF THE RESTRICTED SHARES

#### I. Conditions for grant of the Restricted Shares

The Restricted Shares shall be granted to the Participants by the Company upon satisfaction of all the following conditions. In other words, the Restricted Shares cannot be granted to the Participants if any of the following conditions of grant is not satisfied.

- (i) There is no occurrence of any of the following events on the part of the Company:
  - 1. issue of an auditors' report with 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;
  - 2. issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
  - 3. failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  - 4. prohibition from implementation of a share incentive scheme by laws, rules (including but not limited to the Hong Kong Listing Rule) and regulations;
  - 5. other circumstances as determined by the CSRC.

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## LETTER FROM THE BOARD

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(ii) There is no occurrence of any of the following events on the part of the Participants:

1. having been determined to be an inappropriate candidate by the SSE in the past 12 months;
2. having been determined to be an inappropriate candidate by the CSRC or its local counterparts in the past 12 months;
3. having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local counterparts in the past 12 months due to material violation of laws and regulations;
4. being prohibited from acting as a director or senior management member of the Company by the Company Law;
5. being prohibited from participating in any share incentive scheme of listed companies by laws and regulations;
6. other circumstances as determined by the CSRC.

(iii) The Company is deemed to have achieved the performance target if all of the following conditions are satisfied:

- 1 Return on net assets for 2018 shall not be less than 5.0% and shall not be less than the industry average level or 50 fractiles of benchmark enterprise;
- 2 Gross profit margin of sales for 2018 shall not be less than 20% and shall not be less than the industry average level or 50 fractiles of benchmark enterprise;
- 3 Revenue from principal businesses as a percentage of total revenue for 2018 shall not be less than 90%.

### **II. Conditions for unlocking of the Restricted Shares**

During the Unlocking Period, the following conditions must be fulfilled before the Restricted Shares granted to the Participants can be unlocked pursuant to the Incentive Scheme:

(i) There is no occurrence of any of the following events on the part of the Company:

1. issue of an auditors' report with 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;

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## LETTER FROM THE BOARD

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2. issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
  3. failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  4. prohibition from implementation of a share incentive scheme by laws and regulations;
  5. other circumstances as determined by the CSRC.
- (ii) There is no occurrence of any of the following events on the part of the Participants:
1. having been determined to be an inappropriate candidate by the SSE in the past 12 months;
  2. having been determined to be an inappropriate candidate by the CSRC or its local counterparts in the past 12 months;
  3. having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local counterparts in the past 12 months due to material violation of laws and regulations;
  4. being prohibited from acting as a director or senior management member of the Company by the Company Law;
  5. being prohibited from participating in any share incentive scheme of listed companies by laws and regulations;
  6. other circumstances as determined by the CSRC.

Where the Company has any of the circumstances specified in the above sub-paragraph (i), all the Restricted Shares that have been granted to the Participants under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company as stipulated; where any Participant has any of the circumstances specified in the above sub-paragraph (ii), the Restricted Shares that have been granted to the Participant under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company as stipulated, except as otherwise provided in the Incentive Scheme.

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## LETTER FROM THE BOARD

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(iii) Performance appraisal at company level

The Restricted Shares granted under the Incentive Scheme shall be subject to annual performance appraisal for the three accounting years from 2021 to 2023 for unlocking, to fulfil the Company's performance indicators as the unlocking conditions for the Participants. The annual performance targets are shown in the following table:

<b>Unlocking Period</b>	<b>Performance target</b>
First Unlocking Period	<ul style="list-style-type: none"><li>① Return on net assets for 2021 shall not be less than 5.5% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>② Gross profit margin of sales for 2021 shall not be less than 22% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>③ Revenue from principal businesses as a percentage of total revenue for 2021 shall not be less than 90%.</li></ul>
Second Unlocking Period	<ul style="list-style-type: none"><li>① Return on net assets for 2022 shall not be less than 6.0% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>② Gross profit margin of sales for 2022 shall not be less than 23% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>③ Revenue from principal businesses as a percentage of total revenue for 2022 shall not be less than 90%.</li></ul>
Third Unlocking Period	<ul style="list-style-type: none"><li>① Return on net assets for 2023 shall not be less than 6.5% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>② Gross profit margin of sales for 2023 shall not be less than 24% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>③ Revenue from principal businesses as a percentage of total revenue for 2023 shall not be less than 90%.</li></ul>

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*Notes:*

- (1) The “return on net assets” refers to the return on weighted average net assets.
- (2) During the validity period of the Incentive Scheme, if the listed company purchases assets through issuing shares as a means of payment or utilizing raised funds in the future, the increased net assets and the net profit generated from such net assets shall not be included in the calculation of appraisal for future years.
- (3) If there are significant changes in the business structure of or extreme values with excessive performance variation in the benchmark enterprise samples during the annual appraisal process for granting and unlocking, the Board of the Company will remove or adjust the samples.

If the performance appraisal by the Company level is up to standards, the Restricted Shares granted to the Participants will be unlocked pursuant to the Incentive Scheme. If the performance indicators of the Company in a specific Unlocking Period are not up to standards, all the Restricted Shares held by the Participants for the period shall not be unlocked and shall be repurchased and cancelled by the Company at the repurchase price, i.e., the sum of the Grant Price and the interest rate for bank loans for the same period, in accordance with the Incentive Scheme.

(iv) Performance appraisal at individual level of the Participants

The Participants shall be subject to annual performance appraisal in accordance with the Assessment Management Measures formulated by the Company, and the assessment results and unlocking ratio for the year shall be determined according to the annual average performance indicators of the individual departments. The assessment results shall be categorised into four grades, namely excellent, good, up to standard and below standard. The reference for assessment is shown in the following table:

<b>Performance results</b>	<b>A ≥ 80 scores</b>	<b>A &lt; 80 scores</b>
Standard coefficient	1.0	0

Actually unlocked individual quota in current year = standard coefficient × individual quota planned to unlock in current year. The Participants are eligible to unlock the Restricted Shares for the current year only after they are up to standard in the assessment for the previous year. If the unlocking conditions in current period are not satisfied due to the failure to pass the performance appraisal at company level or individual level, no corresponding Restricted Shares shall be unlocked or deferred to the next period and will be repurchased and cancelled by the Company as stipulated.

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## LETTER FROM THE BOARD

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- (v) Selection of benchmark enterprises in respect of granting and unlocking of the Restricted Shares

Based on the industry classification of the CSRC, the Company is a listed company in the “paper-making and paper products industry”. The Company selected 13 A-share listed companies with similar businesses, stable operations or certain industry representativeness as benchmark enterprises in the same industry. The names of benchmark enterprises are as follows:

<b>Stock code</b>	<b>Stock name</b>	<b>Stock code</b>	<b>Stock name</b>
002012.SZ	Zhejiang Kan Specialities Material Co., Ltd. (浙江凱恩特種材料股份有限公司)	600308.SH	Shandong Huatai Paper Industry Shareholding Co., Ltd. (山東華泰紙業股份有限公司)
002067.SZ	Zhejiang Jingxing Paper Joint Stock Co., Ltd. (浙江景興紙業股份有限公司)	600356.SH	Mudanjiang Hengfeng Paper Co., Ltd. (牡丹江恆豐紙業股份有限公司)
002078.SZ	Shandong Sun Paper Co., Ltd. (山東太陽紙業股份有限公司)	600433.SH	Guangdong Guanhao High-tech Co., Ltd. (廣東冠豪高新技術股份有限公司)
002521.SZ	Qifeng New Material Co., Ltd. (齊峰新材料股份有限公司)	600567.SH	Anhui Shanying Paper Co., Ltd. (安徽山鷹紙業股份有限公司)
600069.SH	Henan Yinge Industrial Investment Co., Ltd. (河南銀鴿實業投資股份有限公司)	600963.SH	Yueyang Forest & Paper Co., Ltd. (岳陽林紙股份有限公司)
600103.SH	Fujian Qingshan Paper Industry Co., Ltd. (福建省青山紙業股份有限公司)	600966.SH	Shandong Bohui Paper Industrial Co., Ltd. (山東博匯紙業股份有限公司)
600235.SH	Minfeng Special Paper Co., Ltd. (民豐特種紙股份有限公司)		

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## LETTER FROM THE BOARD

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### III. Scientificity and reasonableness of the appraisal indicators

The indicators for the Incentive Scheme of the Company are categorised into two levels, i.e. performance appraisal at company level and performance appraisal at individual level.

The Company selects three indicators as performance indicators, i.e., return on weighted average net assets, gross profit margin of sales and revenue from principal businesses as a percentage of total revenue. The return on weighted average net assets is an important financial indicator that reflects the quality of the Company's revenue, and the gross profit margin of sales is the basis for the Company's operating profit and one of the important indicators reflecting the Company's profitability, the adoption of which can intuitively reflect the Company's profitability and industry competitiveness. The combination of the three indicators forms a well-established indicator evaluation system, comprehensively reflecting corporate operating benefit and efficiency. When setting the performance indicators, the Company mainly considered factors such as the industry in which it operates, current development status, future performance development level, overall strategy and business planning. From a perspective that is conducive to the Company's sustainable development and feasibility, the Company reasonably set the aforesaid performance indicators at company level for the Incentive Scheme after reasonable forecast and consideration of the incentive effect of the Incentive Scheme.

In addition to the performance appraisal at company level, the Company has established a strict performance appraisal system for individuals, which evaluates the performance of the Participants in an accurate and all-round manner. The Company will determine whether the Participants meet the unlocking conditions based on their performance results for the previous year.

Given the above, performance indicators are scientific and reasonable, and appraisal system is all-round, comprehensive and operable for the Incentive Scheme, which are binding on the Participants and conducive to strengthening the responsibility of the core operation management team to fully mobilize their enthusiasm, thereby enhancing the Company's competitiveness and creating more efficient and sustainable value returns for shareholders to maximize the interests of all shareholders, and can serve the appraisal goal of the Incentive Scheme.

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## LETTER FROM THE BOARD

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### METHODS AND PROCEDURES FOR ADJUSTMENT OF THE INCENTIVE SCHEME

#### I. Methods of adjusting the number of the Restricted Shares

In the event of any capitalisation issue, bonus issue, sub-division, rights issue or share consolidation of the Company in the period from the date of the Announcement to the completion of registration of the Restricted Shares by the Participants, the number of the Restricted Shares shall be adjusted accordingly. The adjustment method is as follows:

##### 1. *Issue of shares by capitalisation issue, bonus issue and sub-division of shares*

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the ratio of increase per share resulting from capitalization issue, bonus issue and sub-division of shares (i.e. the increase in number of shares per share upon capitalisation issue, bonus issue and sub-division of shares);  $Q$  represents the adjusted number of the Restricted Shares.

##### 2. *Rights issue*

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue);  $Q$  represents the adjusted number of the Restricted Shares.

##### 3. *Share consolidation*

$$Q = Q_0 \times n$$

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the ratio of consolidation of shares (i.e. one share shall be consolidated into  $n$  shares);  $Q$  represents the adjusted number of the Restricted Shares.

##### 4. *Additional issues*

Under the circumstance of additional issue of new shares, no adjustment will be made to the number of the Restricted Shares.



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## LETTER FROM THE BOARD

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### II. Method of adjusting the Grant Price of the Restricted Shares

In the event of any capitalisation issue, bonus issue, sub-division, rights issue, share consolidation or dividend distribution of the Company in the period from the date of the Announcement to the completion of registration of the Restricted Shares by the Participants, the Grant Price of the Restricted Shares shall be adjusted accordingly. The adjustment method is as follows:

#### 1. *Issue of shares by capitalisation issue, bonus issue and sub-division of shares*

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

Where:  $P_0$  represents the Grant Price before the adjustment;  $n$  represents the ratio of increase per share resulting from capitalisation issue, bonus issue and sub-division of shares;  $P$  represents the adjusted Grant Price.

#### 2. *Rights issue*

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

Where:  $P_0$  represents the Grant Price before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue);  $P$  represents the adjusted Grant Price.

#### 3. *Share consolidation*

$$P = P_0 \div n$$

Where:  $P_0$  represents the Grant Price before the adjustment;  $n$  represents the ratio of consolidation of shares;  $P$  represents the adjusted Grant Price.

#### 4. *Dividend distribution*

$$P = P_0 - V$$

Where:  $P_0$  represents the Grant Price before the adjustment;  $V$  represents the dividend per share;  $P$  represents the adjusted Grant Price.  $P$  shall be greater than 1 after the dividend distribution.

#### 5. *Additional issues*

Under the circumstance of additional issue of new shares, no adjustment will be made to the Grant Price of the Restricted Shares.

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## LETTER FROM THE BOARD

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### III. Adjustment procedures for the Incentive Scheme

The general meeting of the Company shall authorize the Board to adjust the Grant Price and the number of Restricted Shares upon the occurrence of any of the above circumstances. The legal adviser of the Company shall give professional advice on whether such adjustment is in compliance with the Management Measures, the Articles of Association and the Incentive Scheme. After the resolution for adjustment is reviewed and passed by the Board, the Company shall disclose an announcement on the resolution by the Board timely, and announce the opinions of the legal adviser.

### ACCOUNTING TREATMENT ON RESTRICTED SHARES

In accordance with the requirements of the Accounting Standards for Business Enterprises No. 11 – Share-Based Payments, at each balance sheet date within the Lock-up Period, the Company shall revise the number of the Restricted Shares which are expected to be unlocked according to the change in the latest available number of persons eligible to unlock the Restricted Shares, completion of the performance targets and other subsequent information, and recognize the services acquired during such period in relevant costs or expenses and capital reserve at the fair value of the Restricted Shares on the Grant Date.

#### I. Accounting treatment method

##### 1. *Grant Date*

The share capital and capital reserve shall be determined according to the issuance of the Shares to the Participants by the Company.

##### 2. *Each balance sheet date within the Lock-up Period*

In accordance with the requirements of the accounting standards, at each balance sheet date within the Lock-up Period, the services provided by the staff will be recognized in the costs or expenses, and the equity or liability will be recognized at the same time.

##### 3. *Unlocking date*

At the unlocking date, the shares can be unlocked if all conditions of unlocking are satisfied; if all or any part of the Shares are not unlocked and thus become invalid or cancelled, they shall be dealt with according to accounting standards and relevant requirements.

#### II. The expected impact of implementation of the Incentive Scheme on the operating performance in each accounting period

The Company granted 80,000,000 Restricted Shares to the Participants. Assuming the grant is made in the beginning of May 2020 and the price determination date is set on 30 March 2020, the total estimated amortization costs of Restricted Shares will be RMB139,200,000

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(which will be duly forecasted when granted). Such total amortization cost will be recognized by installments in proportion to the unlocking percentage during the implementation of Incentive Scheme. The incentive costs incurred by the Incentive Scheme will be recorded as expenses in the recurring profit and loss. The impact of Restricted Shares granted under the Incentive Scheme on the cost in each accounting period is set out in the following table:

Number of Restricted Shares (0,000)	Cost of Restricted Shares (RMB0,000)	2020	2021	2022	2023	2024
		(RMB0,000)	(RMB0,000)	(RMB0,000)	(RMB0,000)	(RMB0,000)
8,000	13,920.00	1,740.00	5,220.00	4,292.00	1,972.00	696.00

*Note:* The above are the preliminary estimation based on the Company's information at present. The actual amount will be calculated by the fair value of the Restricted Shares on the Grant Date, subject to the annual audited report issued by the accounting firm.

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

### PROCEDURES OF IMPLEMENTATION OF THE INCENTIVE SCHEME

#### I. Effective Procedures of the Incentive Scheme

- (i) The Remuneration and Appraisal Committee under the Board is responsible for preparing the draft of the Incentive Scheme (including the relevant amendments) and submit to the Board for consideration.
- (ii) The Board shall resolve on the Incentive Scheme in accordance with the laws. When the Board reviews the Incentive Scheme, the Directors who are Participants of the Incentive Scheme or Directors who are related thereto shall abstain from voting.
- (iii) The independent directors and the Supervisory Committee shall express their opinions of whether the Incentive Scheme is beneficial to the sustainable development of the Company or whether there is any noticeable damage to the interests of the Company and all shareholders as a whole.

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## LETTER FROM THE BOARD

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- (iv) The law firm engaged by the Company shall issue legal opinions on the Incentive Scheme and publish an announcement simultaneously with the draft of the Incentive Scheme. The Independent Financial Adviser shall issue professional opinions on the feasibility of the Scheme, whether it is beneficial to the sustainable development of the Company, whether it is detrimental to the interests of the Company and the impact on the interests of the Shareholders.
- (v) After the Incentive Scheme has been considered by the Board and the public announcement and announcement procedures have been fulfilled, the Incentive Scheme shall be submitted to the State-owned Assets Supervision and Administration Bureau of Shouguang City. Upon obtaining the relevant approvals, the Incentive Scheme shall be considered, approved and implemented at the general meeting and the Class Meetings. It is also proposed at the general meeting to authorize the Board to be responsible for the implementation of the grant, unlocking and repurchase of the Restricted Shares.
1. The Company shall, before the convening of the general meeting Class Meetings, publish the names and positions of the Participants internally through the Company's website or other channels for a period of not less than 10 days. The Supervisory Committee shall verify the list of the Participants and fully listen to the public opinions. The Company shall disclose the explanation of the Supervisory Committee on the verification and publication of the Incentive List 5 days before the Incentive Scheme is considered at the general meeting and the Class Meetings.
  2. When voting on the Incentive Scheme at the general meeting of the Company, independent directors shall solicit proxy voting rights from all shareholders in respect of the Incentive Scheme, and the Company shall provide online voting method when onsite voting is provided.
  3. The contents of the Incentive Scheme as stipulated in Article 9 of the Administrative Measures shall be voted at the general meeting, and shall be approved by more than two-thirds of the voting rights held by the shareholders present at the meeting. The voting of shareholders other than the directors, supervisors and senior management of the Company and shareholders individually or jointly holding more than 5% of the shares of the Company shall be separately counted and disclosed.
  4. When the Incentive Scheme is considered at the general meeting of the Company, Shareholders who are Participants or Shareholders who are related to the Participants shall abstain from voting.

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## LETTER FROM THE BOARD

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- (vi) When the Incentive Scheme is considered and approved at the general meeting of the Company and the grant conditions stipulated in the Incentive Scheme are satisfied, the Company shall grant Restricted Shares to the Participants within the prescribed time. The Board shall be responsible for the implementation of the grant, unlocking and repurchase and cancellation of the Restricted Shares as authorized by the general meeting.

### II. Procedures of Grant of the Restricted Shares

- (i) Upon consideration and approval of the Incentive Scheme at the EGM and the Class Meetings, the Company shall sign the Agreement on Grant of Restricted Shares with the Participants to stipulate the rights and obligations of both parties. The Board shall handle the specific matters in relation to the grant of Restricted Shares in accordance with the authorization granted at the general meeting.
- (ii) The Board shall consider and announce whether the conditions for the grant of the Share Options to the Participants as set out in the Incentive Scheme have been fulfilled before the Company grants the Share Options to the Participants.

The independent directors and the Supervisory Committee shall both express their views explicitly. The law firm shall issue legal opinions on whether the conditions for the grant of the entitlements to the Participants are satisfied or not.

- (iii) The Supervisory Committee shall verify and express opinions on the date of grant of the Restricted Shares and the list of Participants.
- (iv) In the event of any discrepancy between the grant of Share Options by the Company to the Participants and the arrangements under the Incentive Scheme, the independent directors, the Supervisory Committee (in case of any change of the Participants), law firms and independent financial advisers shall express their views explicitly.
- (v) Upon consideration and approval of the Incentive Scheme at the EGM and the Class Meetings, the Company shall grant the Restricted Shares to the Participants and complete the announcement and registration procedures within 60 days. The Board shall disclose the implementation thereof timely by the way of announcement after the completion of registration of the Restricted Shares granted. The Board shall disclose the implementation thereof in a timely manner after the completion of the registration of the grant of Restricted Shares.

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## LETTER FROM THE BOARD

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If the Company fails to complete the above work within 60 days, the Incentive Scheme shall be terminated, and the Board shall disclose the reason for such failure in a timely manner and shall not consider and disclose the Incentive Scheme again within 3 months (the period during which a listed company is prohibited from granting Restricted Shares under the Administrative Measures shall not be counted within 60 days).

- (vi) If the senior management of the Company, as the Participant, has reduced the shareholding of the Company within 6 months before the grant of Restricted Shares and no trading with inside information has been conducted after verification, the Company may postpone the grant of Restricted Shares to six months after the date of the last reduction in trading with reference to the short-swing trading provisions under the Securities Law.
- (vii) The Company shall make an application to the stock exchange before granting the Restricted Shares to the Participants. Upon confirmation by the stock exchange, the securities registration and clearing institution shall handle the registration and clearing matters.

### **III. Procedures for Unlocking of the Restricted Shares**

- (i) Prior to the date of unlocking, the Company shall confirm whether the Participants have satisfied the conditions for unlocking the Restricted Shares. The Board shall consider whether the conditions for unlocking the Restricted Shares under the Scheme have been satisfied and the independent non-executive Directors and the Supervisory Committee shall issue their relevant opinions. The Company's legal adviser shall issue legal opinions as to whether the conditions for unlocking the Restricted Shares have been satisfied.
- (ii) For the Participants who have satisfied the conditions for unlocking the Restricted Shares, the Company shall handle the matters of unlocking the Restricted Shares. For the Participants who have not satisfied the conditions, the Company shall repurchase and cancel the Restricted Shares corresponding to the unlocking held by them. The Company shall disclose the implementation thereof in a timely manner by way of announcement.
- (iii) Before the unlocking of Restricted Shares of the Participants, the Company shall apply to the SSE. Securities registration and clearing institution will conduct registration and settlement procedure thereof upon confirmation by such stock exchange.
- (iv) Participants may transfer their unlocked Restricted Shares whereas the transfer of the Restricted Shares held by the Directors and senior management members of the Company shall comply with the requirements of the relevant laws, regulations and regulatory documents.

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## LETTER FROM THE BOARD

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### IV. Procedures for Amendments to the Incentive Scheme

- (i) In the event that the Company intends to amend the Incentive Scheme before it is considered and approved at the general meeting, such amendment shall be considered and approved by the Board.
- (ii) If the Company intends to amend the Incentive Scheme after it is considered and approved at the EGM and the Class Meetings, such amendment shall be considered and approved at the general meeting, the A shares, B shares and H shares class meetings, and shall not include the following circumstances:
  - 1. circumstances leading to early release of lock-up restrictions;
  - 2. reducing the Grant Price.
- (iii) the Company shall fulfill its obligations to publish announcements in a timely manner; the independent directors and the Supervisors Committee shall express clear opinions on whether the amended proposal is beneficial to the sustainable development of the listed company and whether there is any noticeable damage to the interests of the listed company and all shareholders.
- (iv) The law firm shall issue professional opinions on whether the amended Scheme is in compliance with the requirements of the Administrative Measures and relevant laws and regulations and whether there is any noticeable damage to the interests of the Company and all shareholders.

### V. Procedures for Termination of the Incentive Scheme

- (i) If any of the circumstances as stipulated in Article 7 of the Administrative Measures occurs to the Company, the implementation of the Incentive Scheme shall be terminated and no further new entitlements shall be granted to the Participants. The exercise of the outstanding entitlements granted to the Participants under the Incentive Scheme shall be terminated.
- (ii) In the event that a Participant is prohibited from being a Participant under Article 8 of the Administrative Measures and Article 35 of the Trial Measures, the Company shall not continue to grant his/her rights and interests and the granted but unexercised rights and interests shall be terminated.
- (iii) If the Company intends to terminate the implementation of the Incentive Scheme prior to the consideration of the Incentive Scheme at the EGM and the Class Meetings, the A shares, B shares and H shares class meetings, such termination shall be considered and approved by the Board.

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## LETTER FROM THE BOARD

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- (iv) If the Company intends to terminate the implementation of the Incentive Scheme after it is considered and approved at the EGM and the Class Meetings, such termination shall be considered and approved at the general meetings.
- (v) The law firm shall issue professional opinions as to whether the termination of the Incentive Scheme is in compliance with the requirements of the Administrative Measures and relevant laws and regulations and whether there is any noticeable damage to the interests of the Company and the Shareholders as a whole.
- (vi) Upon termination of the Incentive Scheme, the Company shall repurchase and cancel the Restricted Shares which have not been unlocked and shall be dealt with in accordance with the Company Law.
- (vii) Before the Company repurchasing the Restricted Shares, the Company shall apply to the SSE. Securities registration and clearing institution will conduct registration and settlement procedure thereof upon confirmation by such stock exchange.

### **RESPECTIVE RIGHTS AND OBLIGATIONS OF THE COMPANY AND THE PARTICIPANTS**

#### **I. Rights and Obligations of the Company**

- (i) The Company shall have the right to interpret and execute the Incentive Scheme and shall evaluate the Participants in accordance with the requirements of the Incentive Scheme. If the Participants fail to satisfy the unlocking conditions as stipulated under the Incentive Scheme, the Company shall repurchase and cancel the Restricted Shares of the Participants which have not been unlocked in accordance with the provisions of the Incentive Scheme.
- (ii) The Company undertakes not to provide loans, loan guarantees and other financial assistance in any form for the Participants to acquire the Restricted Shares under the Incentive Scheme.
- (iii) The Company shall perform its reporting, information disclosure and other obligations in a timely manner in relation to the Restricted Shares under the Scheme in accordance with the relevant requirements.
- (iv) The Company shall actively cooperate with the Participants who have satisfied the conditions for unlocking the Restricted Shares in accordance with the relevant requirements of the Incentive Scheme and the CSRC, the Shenzhen Stock Exchange and the CSDC. However, the Company shall not be liable for any loss suffered by the Participants arising from the failure of the Participants to unlock the Restricted Shares at their own discretion due to reasons caused by the CSRC, the Shenzhen Stock Exchange and CSDC.



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## LETTER FROM THE BOARD

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- (v) The Company shall withhold and pay the individual income tax payable by the Participants in accordance with the provisions of the national tax regulations.
- (vi) The Company confirms that the Participants of the Scheme do not represent the rights of the Participants to continue to serve the Company and do not constitute the Company's commitment to the term of employment of the employees. The employment relationship between the Company and the Participants is still governed by the labor contract entered into between the Company and the Participants.
- (vii) Other relevant rights and obligations as stipulated by laws and regulations.

### **II. Rights and Obligations of the Participants**

- (i) The Participants shall comply with the requirements of their positions as stipulated by the Company, and shall be diligent and responsible, abide by professional ethics and make contribution to the development of the Company.
- (ii) The Participants shall lock up their granted Restricted Shares according to the requirements of the Incentive Scheme. Prior to the unlocking of the Restricted Shares, the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as guarantee or used for repayment of debts.
- (iii) The source of funds of the Participants shall be self-raised funds of the Participants.
- (iv) The Restricted Shares granted to the Participants shall be entitled to the rights of their shares after registration with the CSDC, including but not limited to the rights to dividends and allotment options of such shares. Shares acquired by the Participants as a result of the grant of Restricted Shares which have not been unlocked, such as bonus shares, capitalisation issue, rights issue and sub-division of shares, shall be subject to lock-up restrictions pursuant to the Incentive Scheme, and shall not be sold or otherwise transferred in the secondary market. The lock-up period of such shares shall be the same as that of the Restricted Shares.
- (v) Any gains of the Participants from the Incentive Scheme are subject to individual income tax and other taxes according to national tax regulations. The Participants agree that the Company shall withhold and pay the aforesaid individual income tax.
- (vi) The Participants undertake that, if false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant or arrangements for exercise of rights, the Participants concerned shall return to the Company all interests gained through the Incentive Scheme since the relevant information disclosure documents are confirmed to have false statements or misleading statements or material omissions.

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## **LETTER FROM THE BOARD**

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- (vii) When the Company distributes cash dividends, the cash dividends to be received by the Participants in respect of the Restricted Shares granted to them shall be enjoyed by the Participants after withholding and paying personal income tax; if such portion of the Restricted Shares cannot be unlocked, the Company shall deduct such portion of cash dividends that the Participants are entitled to when repurchasing such portion of the Restricted Shares in accordance with the provisions of the Scheme and make corresponding accounting treatment.
- (viii) Upon consideration and approval of the Incentive Scheme at the EGM and the Class Meetings, the Company will enter into the Agreement on Grant of Restricted Shares with each of the Participants to specify their respective rights and obligations under the Incentive Scheme and other relevant matters.
- (ix) Other relevant rights and obligations as stipulated by laws and regulations.

### **III. Dispute or Quarrel Settlement System for the Company and the Participants**

Any disputes or disputes between the Company and the Participants arising from the implementation of the Incentive Scheme and/or the Equity Incentive Agreement entered into by the parties or in connection with the Incentive Scheme and/or an equity incentive agreement shall be resolved through negotiation, communication or mediation by the remuneration and assessment committee of the board. If relevant disputes are not solved through the abovementioned methods within 60 days from the date of occurrence of the disputes, either party is entitled to file a lawsuit with the People's Court with jurisdiction in the place where the Company is located.

## **HANDLING UNUSUAL CHANGES TO THE COMPANY AND PARTICIPANTS**

### **I. Handling Unusual Changes to the Company**

- (i) The Incentive Scheme shall be terminated immediately if any of the following events occurs to the Company, the Restricted Shares which have been granted to the Participants but not yet unlocked shall not be unlocked and shall be repurchased and cancelled by the Company:
  - 1. issue of an auditor's report with 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;
  - 2. issue of an auditor's report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;

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## LETTER FROM THE BOARD

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3. failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  4. prohibition from implementation of a share incentive scheme by laws and regulations;
  5. other circumstances under which the Incentive Scheme shall be terminated as determined by the CSRC.
- (ii) The Incentive Scheme shall remain effective if any of the following events occurs to the Company:
1. change in control of the Company;
  2. merger and spin-off of the Company.
- (iii) Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with grant conditions or unlocking arrangements for Restricted Shares, all the Restricted Shares that have not been unlocked shall be repurchased and cancelled by the Company uniformly and all outstanding Share Options shall be cancelled by the Company. In respect of the Restricted Shares granted to the Participants that have already been unlocked, the Participants concerned shall return all rights and interests granted to the Company. 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 Incentive Scheme.

The Board shall recover the gain received by the Participants in accordance with the aforesaid provisions and the relevant arrangements under the Incentive Scheme.

### **II. Change in Personal Particulars of the Participants:**

- (i) When a Participant has a change in job positions, including demotion, but still works in the Company or a branch or a subsidiary of the Company or is assigned by the Company, the Restricted Share granted to him/her will be fully regulated by the procedures as specified in the Incentive Scheme before the change of his/her job positions. In case a Participant becomes a party who cannot hold Shares or Restricted Shares of the Company under relevant policy provisions, Restricted Shares that have been granted but not yet unlocked shall not be unlocked and shall be repurchased by the Company for cancellation at the Grant Price bearing interest at bank's loan rate for the same period.

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## LETTER FROM THE BOARD

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However, when a Participant is dismissed or removed, or ceases to be a management personnel prior to the unlocking of the current quota of the Restricted Shares due to his/her incapability for the role, Restricted Shares that have been granted but not yet unlocked shall not be unlocked and shall be repurchased by the Company for cancellation at the Grant Price bearing interest at bank's loan rate for the same period.

- (ii) When a Participant leaves the Company due to voluntary resignation, cessation to renew upon expiration of contract, redundancy, and cancellation (termination) of labor contract by the Company for personal fault, Restricted Shares that have been granted to the Participant since the date he/she leaves the Company but not yet permitted to be unlocked shall not be unlocked and shall be repurchased by the Company at the Grant Price plus interest with reference to the bank leading rate at the same period. The Participant shall make full payment for income tax in respect of the unlocked portion of Restricted Shares before leaving the Company.
- (iii) When a Participant leaves the Company due to retirement, and the Restricted Shares granted to him/her have, in the year of retirement, reached the exercisable conditions subject to time restriction and performance assessment, the qualified portion of the shares may be exercised within half a year from the date of retirement while the unqualified portion will no longer be exercised. Restricted Shares that have not been unlocked shall be repurchased by the Company at the Grant Price bearing interest at bank's loan rate for the same period. The Participant shall make full payment for income tax in respect of the unlocked portion of Restricted Shares before leaving the Company.
- (iv) When any of the following events occurs to a Participant, the Company shall cease to grant any new interest to him/her and shall cancel his/her exercise qualification for interest not yet exercised. Restricted Shares that have been granted but not yet unlocked shall be repurchased by the Company for cancellation at the Grant Price bearing interest at bank's loan rate for the same period, while the Company is entitled to request the return of gains from share incentive by the Participant:
  - 1. there is such conduct as violates national laws and regulations, occupational ethics, or negligence of duty or professional misconduct, which causes severe damage to the interests or the reputation of the Company and causes financial losses or negative effect in society, direct or indirect, to the Company;
  - 2. where a Participant 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;
  - 3. where the Company has sufficient evidence to prove a Participant, during his/her terms of office, has taken illegal or unethical actions such as accepting bribes, asking for bribes, corruption, theft and divulging operational and

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## LETTER FROM THE BOARD

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technical secrets, entering into related transactions, which have material adverse impact on the Company's reputation and image, and cause financial losses or negative effect in society, direct or indirect, to the Company;

4. where the Participant is prosecuted as a result of criminal offence;
  5. where the Participant causes improper losses to the Company as a result of violating relevant laws and regulations or the Articles of Association;
  6. where the Restricted Shares are not permitted to be granted to the Participants pursuant to rule 8 of Management Measures.
- (v) The resignation of Participants due to incapacity shall be treated depending on the following two circumstances:
1. If a Participant resigns due to incapacity resulting from performance of duties, the Restricted Shares granted to the Participant shall be fully subject to the procedures under the Incentive Scheme in accordance with the case prior to the incapacity, and all Unlocking Conditions shall be satisfied, except the individual performance appraisal results, which will no longer be included in the Unlocking Conditions;
  2. If a Participant resigns not due to incapacity resulting from performance of duties, the Restricted Shares which have been granted to the Participant but not yet unlocked shall not be unlocked and shall be repurchased at the Grant Price and cancelled by the Company.
- (vi) The death of Participants shall be treated depending on the following two circumstances:
1. If a Participant dies due to the performance of duties, the Restricted Shares which have been granted to the Participant shall be held by his/her designated heir or lawful heir on his/her behalf. The Restricted Shares granted to the Participant but not yet unlocked shall be subject to the procedures under the Incentive Scheme in accordance with the case prior to the death, and all Unlocking Conditions shall be satisfied, except the individual performance appraisal results, which will no longer be included in the Unlocking Conditions;
  2. If a Participant dies due to other reasons, the Restricted Shares which have been granted to the Participant but not yet unlocked shall not be unlocked and shall be repurchased and cancelled by the Company, and the repurchase price shall be the sum of the Grant Price plus the bank loan interest rate of the same term.

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## LETTER FROM THE BOARD

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(vii) Other circumstances not stated above and the handling method thereof shall be determined by the Board.

### **PRINCIPLES OF REPURCHASE AND CANCELLATION OF RESTRICTED SHARES**

If the Company repurchases and cancels the Restricted Shares under the requirements of the Incentive Scheme, the repurchase price represents the Grant Price plus the bank loan interest rate of the same term, unless otherwise provided by the Incentive Scheme.

#### **(i) Method for adjustment of repurchase quantity**

Upon completion of registration of the Restricted Shares granted to the Participants, in case of capitalisation issue, bonus issue, stock split, rights issue, share consolidation or any other matters affecting the total share capital or share price of the Company, in respect of the Restricted Shares granted but not yet unlocked, the repurchase quantity shall be adjusted in accordance with the following method:

##### **1. Capitalisation issue, bonus issue and stock split**

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

Where:  $Q_0$  represents the number of Restricted Shares prior to adjustment;  $n$  represents the rate of increase per share resulting from capitalisation issue, bonus issue and stock split (i.e. the increase in number of shares per share upon capitalisation issue, bonus issue and stock split);

$Q$  represents the number of Restricted Shares after adjustment.

##### **2. Rights issue**

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

Where:  $Q_0$  represents the number of Restricted Shares prior to adjustment;  $P_1$  represents the closing price on the record date;  $P_2$  represents the price of rights issue;  $n$  represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company prior to the rights issue);  $Q$  represents the number of restricted shares after adjustment.

##### **3. Share consolidation**

$$Q = Q_0 \times n$$

Where:  $Q_0$  represents the number of Restricted Shares prior to adjustment;  $n$  represents the ratio of share consolidation (i.e. one share shall be consolidated into  $n$  share);  $Q$  represents the number of restricted shares after adjustment.

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## LETTER FROM THE BOARD

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### (ii) Method for adjustment of repurchase price

Upon completion of registration of the Restricted Shares granted to the Participants, in case of capitalisation issue, bonus issue, stock split, rights issue, share consolidation, dividend distribution or any other matters that affecting the total share capital or share price of the Company, in respect of the Restricted Shares granted but not yet unlocked, the repurchase price shall be adjusted by the Company.

#### 1. Capitalisation issue, bonus issue and stock split

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

Where: P represents the repurchase price per Restricted Shares after adjustment,  $P_0$  represents the Grant Price per Restricted Share; n represents the rate of increase per share resulting from capitalisation issue, bonus issue and stock split (i.e. the increase in number of shares per share upon capitalisation issue, bonus issue and stock split).

#### 2. Share consolidation

$$P = P_0 \div n$$

Where: P represents the repurchase price per Restricted Shares after adjustment,  $P_0$  represents the Grant Price per Restricted Share; n represents the ratio of share consolidation per share (i.e. one share shall be consolidated into n share).

#### 3. Rights issue

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

Where: P represents the repurchase price per Restricted Shares after adjustment,  $P_0$  represents the Grant Price per Restricted Share;  $P_1$  represents the closing price of shares on the record date;  $P_2$  represents the price of rights issue; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the share company prior to the rights issue).

#### 4. Dividend distribution

$$P = P_0 - V$$

Where: P represents the repurchase price per Restricted Share after adjustment,  $P_0$  represents the Grant Price per Restricted Share prior to adjustment; V represents the amount of dividends per share; P must remain greater than 1 after adjustment.

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## **LETTER FROM THE BOARD**

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### **(iii) Procedures for adjustment of repurchase quantity or price**

1. The Board of the Company shall be authorized at the EGM and the Class Meetings to adjust the repurchase quantity and price of Restricted Shares based on the reasons listed above. After the adjustment according to the above provisions, an announcement shall be made in a timely manner.
2. The adjustment to the repurchase quantity and price of Restricted Shares for other reasons shall be subject to resolution of the Board and consideration and approval at the EGM and the Class Meetings.

### **(iv) Procedures of repurchase and cancellation**

1. Upon the occurrence of any circumstances specified in the Incentive Scheme giving rise to a repurchase and cancellation, the Company shall promptly convene a Board meeting to consider the repurchase plan and submit the same to the EGM and the Class Meetings for approval, and make a timely announcement.
2. When making a repurchase, the Company shall apply to the SSE for unlocking such Restricted Shares. Securities registration and clearing institution will conduct registration and settlement procedure thereof upon confirmation by such stock exchange.
3. The repurchase under the Incentive Scheme shall be subject to the requirements of the Company Law and other relevant laws and regulations.

## **INFORMATION ON THE COMPANY AND REASONS FOR AND BENEFITS OF ADOPTING THE INCENTIVE SCHEME**

The principal activities of the Group are production and sales of paper products.

The Incentive Scheme can further establish and improve the Company's long-term incentive mechanism, attract and retain talented individuals, fully mobilize the enthusiasm of Directors, senior management, core technical (business) backbone staff and other employees of the Company, bond the interests of Shareholders, the Company and core individuals together effectively, help various parties to attend to the long-term development of the Company and improve operational efficiency. The Board believes that the adoption of the Incentive Scheme will help the Company achieve the above objectives, and that the Incentive Scheme also reflects the ongoing support to the Group from the related employees and the recognition to their contribution to the long-term growth and development of the Group.

The Incentive Scheme can realize sharing risks and benefits between workers and owners, tap the driving force for organic growth of the Company, improve the cohesion and market competitiveness of the Company, enhance the momentum of sustainable development, and accelerate growth in the results of the Company.



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## LETTER FROM THE BOARD

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The Incentive Scheme will also enable employees to play the dual roles of being a worker and an owner, and this change in identity will facilitate Participants to reposition themselves. Employees paying more attention to the operation of the Company as a result of a change in identity will effectively prompt internal employees to spontaneously supervise major decisions and operating activities of their company, so as to improve the its results. Employees also share the results of the development of the Company as owners.

### HONG KONG LISTING RULES IMPLICATIONS

The Incentive Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules.

The issue and grant of the Restricted Shares by the Company under the Incentive Scheme shall be subject to approval of the Shareholders at the EGM and at the Class Meetings by way of special resolution pursuant to Rule 19A.38 of the Hong Kong Listing Rules.

The issue and grant of Restricted Shares to the connected persons of the Company under the Incentive Scheme will constitute a non-exempt connected transaction of the Company which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Special resolutions will be proposed by the Company at the EGM and the Class Meetings to consider and, if thought fit, approve the Incentive Scheme and the issue and grant of 80,000,000 Restricted Shares (representing approximately 2.75% of the total issued share capital of the Company as at the date of the Announcement) under the Incentive Scheme.

Mr. Chen Hongguo, Mr. Hu Changqing and Mr. Li Xingchun which are Directors to be granted the Restricted Shares under the Incentive Scheme, have abstained from voting at the Board meeting approving the Incentive Scheme.

Mr. Chen Hongguo, Mr. Hu Changqing, Ms. Li Xueqin and Chenming Holding Limited which are Shareholders to be granted the Restricted Shares under the Incentive Scheme, will abstain from voting on the EGM and the Class Meetings approving the Incentive Scheme.

Where applicable, the Company will comply with relevant rules requirements under Chapter 10 of the Hong Kong Listing Rules and the Code on Share Buy-Backs.

The grant of Restricted Shares to the Directors shall subject to the Model Code for Securities Transactions by Directors of Listed Issuers under the Hong Kong Listing Rules. Accordingly, no Restricted Shares shall be granted by the Board and no repurchase for the Restricted Shares where any Director is in possession of unpublished inside information in relation to the Group or where dealings by Directors are prohibited under any code or requirement of the Hong Kong Listing Rules and all applicable laws from time to time.

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## LETTER FROM THE BOARD

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### **3. PROPOSED ADOPTION OF ASSESSMENT MANAGEMENT MEASURES FOR THE IMPLEMENTATION OF THE INCENTIVE SCHEME**

To ensure the smooth implementation of the Incentive Scheme, further improve the corporate governance structure of the Company, form a sound and balanced value distribution system, motivate Directors (excluding independent non-executive Directors and Supervisors), senior management members, and key technical (business) employees of the Company (including branches/subsidiaries) to carry out their work with integrity and diligence, ensure the steady improvement of the Company's performance, and to ensure the realisation of the Company's development strategy and business objectives, these measures are specially formulated according to the relevant national regulations and the actual situation of the Company.

The full text of Assessment Management Measures for Implementation of the Incentive Scheme is set out in Appendix II to this circular.

### **4. AUTHORISATION GRANTED BY THE GENERAL MEETING TO THE BOARD TO DEAL WITH MATTERS RELATING TO THE INCENTIVE SCHEME**

To ensure the smooth implementation of the Incentive Plan, the Board of the Company agreed to propose the authorisation to the Board to handle the following matters in respect of the Incentive Plan at the general meeting:

- (I) It is proposed to the general meeting to grant the authorisation to the Board to be responsible for the following matters in respect of the specific implementation of the Incentive Plan:
1. Authorise the Board to determine the date of grant of the Incentive Plan;
  2. Authorise the Board to make corresponding adjustment to the number of restricted shares and the number of subject shares involved in the event of any capitalisation issue, bonus issue, sub-division or share consolidation, rights issue of the Company using the methods as stipulated under the Incentive Scheme (Draft);
  3. Authorise the Board to make corresponding adjustment to the grant price of restricted shares in the event of any capitalisation issue, bonus issue, sub-division or share consolidation, rights issue of the Company using the methods as stipulated under the Incentive Scheme (Draft);
  4. Authorise the Board to grant the restricted shares to the participants if they are qualified for the conditions, and to handle all necessary matters in respect of the grant of restricted shares, including the entering into the Agreement on Grant of Restricted Shares with the participants;

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## LETTER FROM THE BOARD

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5. Authorise the Board to review and confirm the unlocking qualification of the participants and the unlocking conditions, and agree the Board to authorise such right to the Remuneration and Appraisal Committee;
6. Authorise the Board to determine whether restricted shares for the participants can be unlocked;
7. Authorise the Board to handle all necessary matters in respect of unlocking restricted shares for the participants, including but not limited to the application of unlocking to stock exchange and the application of clearing business to clearing houses;
8. Authorise the Board to determine whether to recover gains arising from unlocking restricted shares for the participants in accordance with the rules under the Incentive Scheme and to handle all necessary matters;
9. Authorise the Board to handle matters in respect of the changes and termination of the Incentive Scheme, including but not limited to cancellation of unlocking qualification of the participants, repurchase and cancellation of restricted shares not yet been unlocked of the participants, inheritance of restricted shares not yet been unlocked of the dead participant, and termination of the Incentive Scheme;
10. Authorise the Board to manage and adjust the Incentive Scheme, and to formulate or amend the management and implementation rules of the Incentive Scheme from time to time on the premise of maintaining consistent terms with those under the Incentive Scheme. However, if such amendments made under the requirements of laws, regulation or relevant regulatory authorities are subject to approval by the general meeting and/or relevant regulatory authorities, such amendments made by the Board must obtain relevant approval;
11. Authorise the Board to handle matters in respect of the implementation of the Incentive Scheme, including but not limited to matters involving amendments to the Articles of Association and registration of changes in registered capital such as unlocking of restricted shares, repurchase and share cancellation;
12. Authorise the Board to handle other necessary matters in respect of the implementation of the Incentive Scheme, except for those rights to be exercised by the general meeting as stipulated under relevant documents.

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## LETTER FROM THE BOARD

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- (II) It is proposed to the general meeting to grant the authorisation to the Board to handle procedures regarding the review, registration, filing, approval and consent of relevant government authorities or institutions in relation to the Incentive Scheme; to sign, execute, amend and complete documents to be submitted to relevant government authorities, institutions, organisation or individual; and to conduct any necessary, proper or appropriate act in relation to the Incentive Scheme.
- (III) It is proposed to the general meeting to grant the authorisation to the Board to appoint financial consultant, bank of receipt, accountant, lawyer, security firm and other intermediary institution for the implementation of the Incentive Scheme.
- (IV) It is proposed to the general meeting to agree that the validity term of authorisations to the Board shall be same as that of the Incentive Scheme.

Except for matters subject to approval by Board resolutions in accordance with specific rules under laws, administrative measures, constitutional and regulatory documents of China Securities Regulatory Commission, the Incentive Scheme (Draft) or the Articles of Association, other matters in respect of the above authorisation can be exercised directly by the chairman or his delegated representative on behalf of the Board.

The abovementioned authorizations can be directly exercised by the Chairman or the appropriate person authorized by the Board on behalf of the Board other than those subject to resolution by the Board as expressly stipulated in laws, administrative regulations, rules of the CSRC, regulatory documents, the Restricted Share Incentive Scheme or the Articles of Association.

### **5. THE EGM AND THE H SHAREHOLDERS' CLASS MEETINGS**

The EGM and the H Shareholders' Class Meeting will be held on Friday, 15 May 2020 at 2:00 p.m and immediately after the conclusion of the 2020 first class meeting for holders of domestic-listed shares (A Shares and B Shares) (or any adjourned meeting thereof) respectively at the conference room of the research and development centre of the Company, No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, PRC. The notices of the EGM and the H Shareholders' Class Meeting have been published on the website of the Stock Exchange on 30 March 2020 and sent to the Shareholders.

#### **Solicitation of votes on the Share Option Scheme resolutions**

Pursuant to the Administrative Measures, Independent Directors of a company listed on the SSE should solicit votes publicly from all shareholders of the company on any proposed resolution relating to adoption of a share incentive scheme by the listed company.

The purpose of such arrangement is to encourage shareholders of a company listed on the SSE to participate in the voting for the resolution relating to adoption of a share incentive scheme by providing them with an additional way of participation in the general meeting.

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## LETTER FROM THE BOARD

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As the A Shares of the Company are listed on the SSE, pursuant to the Administrative Measures, the independent non-executive Directors of the Company have nominated Mr. Yang Biao as a caller on their behalf to solicit votes from the Shareholders on the resolutions regarding the Incentive Scheme at the EGM and the Class Meetings. Pursuant to the Administrative Measures, Mr. Yang Biao will solicit votes from the Shareholders on the proposed resolutions relating to adoption of the Incentive Scheme and its related matters. Mr. Yang Biao will not solicit votes on resolutions proposed at the EGM or the Class Meetings which are not related to the Incentive Scheme. For such purposes, Mr. Yang Biao has prepared two Independent Non-executive Director's Proxy Forms (the "**Independent Non-executive Director's Proxy Forms**") for each of the EGM and the H Shareholders' Class Meeting. The Independent Non-executive Director's Proxy Forms for the EGM and the H Shareholders' Class Meeting respectively were enclosed on 30 March 2020. Mr. Yang Biao has, on behalf of the independent Non-executive Directors, prepared the announcement on the public solicitation of votes by the independent non-executive Directors, the announcement of which, dated 30 March 2020, has been published on the website of the SSE and the website of the Stock Exchange.

You may appoint Mr. Yang Biao as your proxy by filling in the Independent Non-executive Directors' Proxy Forms to vote on the resolutions relating to the Incentive Scheme on your behalf and appoint your own proxy by filling in the usual proxy forms to vote for you on all other resolutions proposed at the EGM and the H Shareholders' Class Meeting. Alternatively, you may simply appoint your own proxy to vote for you on all the resolutions (including those relating to the Schemes). Please refer to the Notice of the EGM and Notice of the H Shareholders' Class Meeting for details of the solicitation of votes and voting arrangements.

### 6. BOOK CLOSURE PERIOD

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM and/or the H Shareholders' Class Meeting (as the case may be), the H Share register of members of the Company will be closed from 8 May 2020 to 15 May 2020 (both days inclusive), during which no transfer of H Shares will be effected. H Shareholders whose names appear on the H Share register of members of the Company at 4:30 p.m. on 7 May 2020 shall be entitled to attend and vote at the EGM and the H Shareholders' Class Meeting. In order for the H Shareholders to qualify for attending and voting at the EGM and the H Shareholders' Class Meeting, all completed share transfer documents accompanied by the relevant H Share certificates must be lodged with the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any case no later than 4:30 p.m. on 7 May 2020.

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## LETTER FROM THE BOARD

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### 7. VOTING BY WAY OF POLL

Pursuant to Rule 13.39 of the Hong Kong Listing Rules, all votes of the Shareholders at the general meetings must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to vote at the EGM and the Class Meetings in accordance with the Articles of Association. An announcement on the poll results will be made by the Company after the EGM and the Class Meetings in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

Please note that Mr. Yang Biao, an independent non-executive Director, has sent out the Independent Non-executive Director's Proxy Forms in accordance with the relevant regulations of the PRC to solicit votes from the Shareholders on the resolutions regarding the Schemes and their related matters at the EGM and the Class Meetings. Should you wish to appoint Mr. Yang Biao as your proxy to vote for you and on your behalf at the EGM and/or the H Shareholders' Class Meeting on the resolutions regarding the Schemes and their related matters, please complete the Independent Non-executive Director's Proxy Forms. Alternatively, if you wish to appoint any person other than Mr. Yang Biao as your proxy to vote for you and on your behalf at the EGM and/or the H Shareholders' Class Meeting on the resolutions regarding the Schemes and their related matters, you may simply disregard the Independent Non-executive Director's Proxy Forms and complete and return the proxy form for use at the EGM and the proxy form for use at the H Shareholders' Class Meeting instead.

H Shareholders who wish(es) to appoint a proxy/proxies to attend the EGM and/or the H Shareholders' Class Meeting are requested to complete and sign the proxy form or the Independent Non-executive Director's Proxy Forms in accordance with the instructions contained therein, and deliver the forms to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time designated for the commencement of the EGM and/or the H Shareholders' Class Meeting.

### 8. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the proposed adoption of the Incentive Scheme, the Assessment Measures and the authorization to the Board to handle all matters relation to the Incentive Scheme are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Company and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend all Shareholders to vote in favour of all the resolutions as set out in the notices of the EGM and the H Shareholders' Class Meeting.

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**LETTER FROM THE BOARD**

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**9. ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
By Order of the Board  
**Shandong Chenming Paper Holdings Limited**  
**Chen Hongguo**  
*Chairman*

Shandong, PRC

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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山東晨鳴紙業集團股份有限公司  
**SHANDONG CHENMING PAPER HOLDINGS LIMITED\***  
*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
(Stock Code: 1812)

29 April 2020

*To the Independent Shareholders*

Dear Sir/Madam,

**CONNECTED TRANSACTION  
THE ISSUE AND GRANT OF RESTRICTED SHARES  
UNDER THE INCENTIVE SCHEME**

We refer to the circular dated 29 April 2020 (the “**Circular**”) issued by the Company, of which this letter forms a part. Terms defined in the Circular shall have the same meanings herein.

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the grant and issue of Restricted Shares to the Participants who are Directors (excluding independent non-executive Directors), senior management, key technical (business) employees of the Company, and other persons who are qualified in the opinion of the Board, under the Incentive Scheme will constitute connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders’ approval requirements of the Hong Kong Listing Rules.

We have been appointed to constitute the independent board committee to make a recommendation to the Independent Shareholders as to whether, in our view, the grant of Restricted Shares to the Directors, and other connected person grantees under the grant of Restricted Shares pursuant to the terms of the Incentive Scheme, is fair and reasonable. Gram Capital has been appointed as an independent financial adviser to advise us and the Independent Shareholders as to whether the grant of Restricted Shares to the Directors under the grant of Restricted Shares pursuant to the terms of the Incentive Scheme, is fair and reasonable and in the interest of the Company and the Shareholders as a whole.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the information set out in the letter from the Board, and the principal factors, reasons and recommendation set out in the letter from Gram Capital, we are of the opinion that the grant of Restricted Shares to the Directors and other connected persons under the grant of Restricted Shares pursuant to the terms of the Incentive Scheme, is carried out in the ordinary course of business of the Company and on normal commercial terms, it is fair and reasonable and in the interest of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolution(s) to be proposed at the EGM and the H Shareholders' Class Meeting to approve the grant of the Restricted A Shares to this director and other connected persons under the grant of the Restricted Shares.

Yours faithfully,

The Independent Board Committee of  
**Shandong Chenming Paper Holdings Limited**

**Yin Meiqun**

**Sun Jianfei**

**Yang Biao**

*Independent Non-executive Directors*

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Connected Grant for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

29 April 2020

*To: The independent board committee and the independent shareholders  
of Shandong Chenming Paper Holdings Limited*

Dear Sir/Madam,

### CONNECTED TRANSACTION

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the grant of the Restricted Shares to connected persons of the Company under the Incentive Scheme (the “**Connected Grant**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 29 April 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company announced on 31 March 2020 (the “**Announcement Date**”) that the Board considered and approved the relevant resolution in relation to proposed adoption of the Incentive Scheme. The Incentive Scheme shall become effective upon consideration and approval at the EGM and the Class Meetings.

The Company intends to grant 80,000,000 Restricted Shares to the Participants, representing approximately 2.75% of the Company’s total number of Shares of 2,904,608,200 Shares as at the Announcement Date.

Among the total of 80,000,000 Restricted Shares under the grant: (i) 46,760,000 Restricted Shares will be granted to 19 connected persons of the Company (the “**Connected Participants**”), representing approximately 58.45% to the total number of Restricted Shares; and (ii) 33,240,000 Restricted Shares will be granted to 101 other Participants, representing approximately 41.55% to the total number of Restricted Shares.

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## LETTER FROM GRAM CAPITAL

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With reference to the Board Letter, the Connected Grant constitutes a non-exempt connected transaction of the Company, which is subject to reporting, announcement and independent shareholder's approval requirement under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Ms. Yin Meiqun, Mr. Sun Jianfei and Mr. Yang Biao (all being Independent Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Connected Grant are on normal commercial terms and are fair and reasonable; (ii) whether the Connected Grant is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Connected Grant at the EGM and H Shareholders' Class Meeting. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Incentive Scheme. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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## LETTER FROM GRAM CAPITAL

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We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company and the Participants (including the Connected Participants) or their respective associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the proposed adoption of the Incentive Scheme. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

### **Principal factors and reasons considered**

In arriving at our opinion in respect of the Connected Grant, we have taken into consideration the following principal factors and reasons:

#### ***1. Background of and reasons for the Connected Grant***

##### *Information on the Group*

With reference to the Board Letter, the principal activities of the Group are production and sales of paper products.

##### *Information on the Connected Participants*

With reference to the Board Letter, the Participants under the Incentive Scheme shall include the current directors (excluding independent non-executive Directors and external Directors), senior management, key technical (business) employees of the Company and other persons who, in the opinion of the Board, are qualified.

The Directors advised us that after finalising the identities of all Participants (i.e. (i) directors and senior management members of the Company; (ii) key technical (business) employees of the Company; (iii) the persons who, in the opinion of the Board, are qualified), the Company further identified if such Participants are connected persons of the Company. Identities and positions of the Participants (including the Connected Participants) are set out under the section headed “Allocation of the Restricted Shares to be Granted to the Participants” of the Board Letter and the Company’s announcement named “2020年A股限制性股票激勵計劃激勵對象名單” (Name List of Participants under the 2020 Restricted A Shares Incentive Scheme\*) as published in Shenzhen Stock Exchange.

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## LETTER FROM GRAM CAPITAL

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### *Reasons for and benefits of the Connected Grant*

With reference to the Board Letter, the Incentive Scheme can further establish and improve the Company's long-term incentive mechanism, attract and retain talented individuals, fully mobilize the enthusiasm of Directors, senior management, core technical (business) backbone staff and other employees of the Company, bond the interests of Shareholders, the Company and core individuals together effectively, help various parties to attend to the long-term development of the Company and improve operational efficiency. The Board believes that the adoption of the Incentive Scheme will help the Company achieve the above objectives, and that the Incentive Scheme also reflects the ongoing support to the Group from the related employees and the recognition to their contribution to the long-term growth and development of the Group. The Board is also of the view that the terms and conditions of the Incentive Scheme are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Based on our independent research, we noted that it is common practice for companies listed in Shanghai Stock Exchange and Shenzhen Stock Exchange to adopt restricted share incentive scheme for the purpose of motivating their personnel and employees.

Having considered the above reasons and that the (i) the Connected Grant can motivate the Connected Participants to make contributions to the Group; (ii) the adoptions of restricted share incentive scheme for personnel and employees by companies listed in Shanghai Stock Exchange and Shenzhen Stock Exchange are common practice; and (iii) there will not be any actual cash paid by the Group to the Connected Participants under the the Connected Grant, we concur with the Directors that the Connected Grant is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

### **2. *Principal terms of the Connected Grant***

Set out below are the principal terms of the Connected Grant. Details of the terms of the Connected Grant are set out under the section headed "PROPOSED ADOPTION OF THE INCENTIVE SCHEME" of the Board Letter.

#### *Number of Restricted Shares under the Connected Grant*

The number of Restricted Shares to be granted to each of Connected Participants ranged from approximately 0.003% to 0.69% of the total share capital of the Company as at the Latest Practicable Date. Details of number of Restricted Shares to be granted to the Connected Participants are set out under the section headed "Allocation of the Restricted Shares to be Granted to the Participants" of the Board Letter.

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## LETTER FROM GRAM CAPITAL

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Pursuant to the Incentive Scheme and as confirmed by the Directors, the Incentive Scheme (including the participants and number of Restricted Shares to be granted to each of Connected Participants) shall be considered and approved for implementation at the general meeting and the A shares, B shares and H shares class meetings to be convened by the Company after the Incentive Scheme is considered and approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Shouguang.

With reference to the Board Letter and as further advised by the Directors, the Company determined the maximum number of Restricted Shares to be granted with reference to the standardized number of Restricted Shares and further adjusted based on (i) the Connected Participant's positions and seniority (崗位職稱); (ii) the Connected Participant's years of services (司齡); (iii) the Connected Participant's performance (績效); (iv) the Connected Participant's remuneration level (薪酬水平); and (v) the Connected Participant's comprehensive capacities (綜合能力). The Company applied the above six assessment coefficients to calculate the maximum numbers of Restricted Shares to be granted to each Connected Participant. The actual number of the Restricted Shares to be granted to each Connected Participant was further subject to the Connected Participant's intention for subscribing the Restricted Shares (including the proposed subscription contribution amounts).

For our due diligence purpose, we obtained assessment records of the Connected Participants and noted that such assessment records were consistent with the aforesaid basis of determining the maximum numbers of Restricted Shares to be granted to the Connected Participants. In addition, the actual number of the Restricted Shares to be granted to each Connected Participants did not exceed the maximum number of the Restricted Shares for such Connected Participants as per the above determination.

To assess the fairness and reasonableness of the number of Restricted Shares to be granted to the Connected Participants, we identified those restricted A shares incentive scheme proposals first announced by companies listed on the mainboard of Shenzhen Stock Exchange from 1 January 2020 to the Announcement Date, being approximate three months immediate before the Announcement Date. To the best of our knowledge, we could not find any transaction which met the aforesaid criteria. We therefore extended the review period from approximately three months to approximately six months (i.e. from 1 October 2019 to the Announcement Date). However, to the best of our knowledge, we found only five transactions which met the aforesaid criteria. In this respect, we further extended the review period to seven months (i.e. from 1 September 2019 to the Announcement Date). To the best of our knowledge, we found nine proposals or announcements (the “**Comparables**”), which met the aforesaid criteria and are exhaustive. The table below sets out the summary of the Comparables (the “**Comparables Table**”):

# LETTER FROM GRAM CAPITAL

Publication date of announcement	Company name (Stock code)	Subject to the compliance with relevant PRC laws/regulations, was the initial grant price determined only refer to the benchmark price (being only the higher of (i) average trading price of the subject A shares on the trading day preceding the date of announcement of the incentive scheme; and (ii) average trading price of the subject A shares for the period of last 20/60/120 trading days preceding the date of announcement of the incentive scheme (the "Criteria")? (Percentage is disclosed if yes)	Unlocking provision over a period of time	Lock-up period grant from the date on which the grant has been registered	Conditions for unlocking the restricted A shares which are based on, amongst others, the participants' performance and/or financial performance of the listed companies	Percentage of "the restricted A shares to be granted to individual director/senior management" to "the total share capital of the listed companies"	Percentage of "the maximum total number of restricted A shares to be granted (including reserve part if any)" to "the total number of issued shares of the listed companies as at the date of their respective incentive scheme proposals" (the "Issue Size Ratio(s)")
10 December 2019	貴州輪胎股份有限公司(Guizhou Tyre Co., Ltd.) (SZ000589)	Yes. (Note) 50%	Yes	24 months 36 months 48 months	Yes	0.03% to 0.04%	2.93%
6 December 2019	哈爾濱電氣集團佳木斯電機股份有限公司 (Harbin Electric Corp Jiamusi Electric Machine Co Ltd.) (SZ000922)	Yes. 60%	Yes	24 months 36 months 48 months 60 months	Yes	0.02% to 0.04%	2.00%
14 November 2019	新興鑄管股份有限公司 (Xinxing Ductile Iron Pipes Co., Ltd.) (SZ000778)	Yes. 70%	Yes	24 months 36 months 48 months	Yes	0.0095% to 0.0105%	0.9839%
6 November 2019	四川金宇汽車城(集團)股份有限公司 (Sichuan Jinyu Automobile City (Group) Co., Ltd.) (SZ000803)	Yes. 50%	Yes	18 months 30 months	Yes	0.16% to 0.99%	9.90%
4 November 2019	京藍科技股份有限公司(Kingland Technology Co., Ltd.) (SZ000711)	Yes. 50%	Yes	12 months 24 months 36 months	Yes	0.08% to 0.78%	3.15%
27 September 2019	甘肅工程諮詢集團股份有限公司 (Gansu Engineering Consulting Group Co. Ltd.) (SZ000779)	Yes. (Note) 50%	Yes	24 months 36 months 48 months	Yes	0.008%	3.00%
21 September 2019	中糧生物科技股份有限公司 (COFCO Biotechnology Co., Ltd.) (SZ000930)	Yes. 70%	Yes	24 months 36 months 48 months 60 months	Yes	0.014% to 0.056%	1.723%
17 September 2019	北部灣港股份有限公司(Beibuwan Port Co., Ltd.) (SZ000582)	Yes. (Note) 50%	Yes	24 months 36 months 48 months	Yes	0.004% to 0.006%	0.508%
17 September 2019	神州數碼信息服務股份有限公司 (Digital China Information Service Company Ltd.) (SZ000555)	Yes. 50%	Yes	12 months 24 months	Yes	0.03% to 0.10%	0.77%
<b>31 March 2020</b>	<b>The Company</b>	<b>Yes, (Note) 60%</b>	<b>Yes</b>	<b>24 months 36 months 48 months</b>	<b>Yes</b>	<b>0.003% to 0.69%</b>	<b>2.75%</b>

Note: The initial grant prices of the restricted A shares of the companies were determined based on 50% or 60% (as the case may be) of the higher of (i) the Criteria; (ii) the closing price of the subject A shares on the trading day preceding the date of announcement of the incentive scheme; and (iii) average closing price of the subject A shares for the period of last 30 trading days preceding the date of announcement of the incentive scheme.

Sources: <http://www.cninfo.com.cn/>

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## LETTER FROM GRAM CAPITAL

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As depicted from the Comparables Table, the Company's Issue Size Ratio (i.e. 2.75%) fell within the range of the Comparable's Issue Size Ratios (i.e. 0.508% to 9.90%). We consider the issue size of Incentive Scheme to be acceptable.

In addition, the percentage of "the restricted A shares to be granted to individual director/senior management" to "the total share capital of the Comparables" ranged from 0.004% to 0.99% (the "**Comparable Percentage Range**"). The number of Restricted Shares to be granted to each of Connected Participant ranged from approximately 0.003% to 0.69% (or 0.003% to 0.17% excluding number of Restricted Shares to be granted to Mr. Chen Hongguo) to the total share capital of the Company as at the Announcement Date which did not exceed the upper limit of Comparable Percentage Range.

We also noted that number of Restricted Shares to be granted to Mr. Chen Hongguo (the "**Mr. Chen's Shares**") represented approximately 0.69% to the total issued share capital of the Company as at the Announcement Date. To further assess the Mr. Chen's Shares, we conducted the following analysis:

- According to the Company's annual report for the year ended 31 December 2019, Mr. Chen Hongguo ("**Mr. Chen**") holds a bachelor's degree. He is a senior economist and holds the titles including Nationwide Light Industry Top Ten Youth Experts (全國輕工系統十佳傑出青年崗位能手), Labor Medal on Enriching Shandong Province (山東省富民興魯勞動獎章獲得者), Excellent Entrepreneur of Shandong Province (山東省優秀企業家), Nationwide May 1st Labor Medal (全國五一勞動獎章獲得者), Nationwide Excellent Entrepreneur (全國優秀創業企業家) and USA RISI CEO of the Year (美國銳思"年度最佳CEO獎").

Mr. Chen is vice chairman of the China National Light Industry Council. He joined the Company in 1987 and had held positions including chief officer of manufacturing section, chief officer of branch factory, deputy general manager, Director of the Company.

As confirmed by the Directors, Mr. Chen has held the position of Chairman of the Company since 2001.

- As advised by the Directors, Mr. Chen is responsible for the overall standing management of the Company since 2001.



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## LETTER FROM GRAM CAPITAL

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Set out below are the key financial information of the Group from 2010 to 2019 (the “**Period**”), being recent 10 full financial years immediate before the Announcement Date, as extracted from the Company’s previous annual reports:

<b>During the year of:</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Revenue (RMB'million)	17,203	17,747	19,762	20,389	19,102	20,193	22,567	29,472	28,876	30,395
Profit for the current period attributable to shareholders of the Company (RMB'million)	1,163	608	221	711	505	1,087	1,999	3,769	2,510	1,657
<b>As at the year end of</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Total assets (RMB'million)	35,077	45,631	47,725	47,522	56,822	77,961	82,285	105,625	105,319	97,959
Equity attributable to shareholders of the Company (RMB'million)	13,536	13,529	13,760	14,040	13,917	16,937	22,219	27,779	25,049	25,170

With reference to the Board Letter, based on the industry classification of the CSRC, the Company is a listed company in the “paper-making and paper products industry”. The Company selected 13 A-share listed companies (with similar businesses, stable operations or certain industry representativeness as benchmark enterprises in the same industry) in respect of granting and unlocking of the Restricted Shares (the “**Benchmark Enterprises**”). Details of the Benchmark Enterprises are set out in the Board Letter.

## LETTER FROM GRAM CAPITAL

To assess the Group's performance during the Period, we listed out the Benchmark Enterprises' net profit to turnover ratio (i.e. net profit margin) and 加權淨資產收益率 (return on weighted average equity\* (ROE)):

Net profit/loss margin:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	%	%	%	%	%	%	%	%	%	%
002012.SZ	13.90	13.72	11.34	0.71	5.36	3.14	1.91	4.09	3.46	5.99
002067.SZ	5.17	4.03	0.39	0.17	0.10	0.07	8.56	12.91	6.03	3.87
002078.SZ	9.37	6.43	2.10	2.92	5.23	6.97	8.01	11.91	10.30	9.66
002521.SZ	10.86	4.94	8.14	8.97	10.76	11.46	5.24	4.51	1.58	4.09
600069.SH	0.88	-6.20	0.32	-8.59	-24.76	0.71	-18.48	0.41	-3.56	-32.19
600103.SH	3.43	0.94	-18.38	1.49	2.16	-6.16	2.68	4.82	6.19	5.43
600235.SH	5.32	0.64	1.42	1.35	0.07	-11.20	0.68	1.12	0.59	0.93
600308.SH	1.28	0.71	0.54	0.55	0.56	0.50	1.67	5.00	4.88	4.83
600356.SH	6.91	6.71	6.28	4.87	5.34	6.31	6.91	6.72	4.03	5.01
600433.SH	4.21	9.10	21.70	16.28	13.71	2.70	5.98	2.18	4.20	6.44
										Information
600567.SH	4.97	0.95	-0.65	3.16	1.44	2.13	2.96	11.56	14.11	not available
600963.SH	4.35	2.21	-3.33	0.29	0.20	-6.58	0.58	5.66	5.22	4.40
600966.SH	4.15	3.21	0.60	-3.17	0.87	0.61	2.74	9.76	3.07	1.38
<b>The Company</b>	<b>7.57</b>	<b>3.32</b>	<b>0.24</b>	<b>3.38</b>	<b>2.37</b>	<b>4.84</b>	<b>8.96</b>	<b>12.75</b>	<b>8.88</b>	<b>5.77</b>
										<b>[4]</b>
										<b>(based</b>
<b>Ranking of the Company</b>	<b>4</b>	<b>7</b>	<b>11</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>on available</b>
										<b>information)</b>

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**LETTER FROM GRAM CAPITAL**

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<b>ROE (on weighted average basis):</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	%	%	%	%	%	%	%	%	%	%
002012.SZ	24.66	20.61	7.90	1.30	3.56	1.65	0.73	2.55	2.03	3.69
002067.SZ	6.98	5.35	0.52	0.45	0.39	0.40	10.33	17.91	8.33	4.40
002078.SZ	19.47	13.39	4.50	6.06	8.94	10.34	14.12	22.65	19.54	16.12
002521.SZ	32.20	3.91	6.98	8.63	11.36	9.16	4.21	4.74	1.73	3.87
600069.SH	1.68	-11.16	0.90	-16.30	-56.72	3.07	-17.98	2.71	-4.29	-37.52
600103.SH	2.95	0.72	-21.26	1.26	2.15	-12.52	2.76	3.25	4.58	3.63
600235.SH	6.93	0.75	1.66	1.34	0.30	-11.69	1.00	1.51	0.78	0.99
600308.SH	1.53	1.35	0.98	0.95	0.96	1.02	2.83	9.86	9.71	8.60
600356.SH	6.88	7.46	7.25	5.05	5.09	4.83	4.81	4.80	3.16	4.17
600433.SH	5.16	11.21	13.45	9.49	7.32	1.59	4.37	2.09	4.23	6.40
										Information not available
600567.SH	9.79	1.00	-0.95	6.60	1.85	3.46	4.98	21.54	27.55	3.79
600963.SH	7.01	3.46	-4.93	0.36	0.25	-7.29	0.54	5.16	4.57	2.56
600966.SH	5.64	4.25	0.23	-6.12	1.38	0.99	5.01	18.87	5.05	
<b>The Company</b>	<b>8.8</b>	<b>4.5</b>	<b>1.63</b>	<b>5.11</b>	<b>3.62</b>	<b>6.73</b>	<b>9.59</b>	<b>15.8</b>	<b>8.51</b>	<b>5.57</b>
										[4]
										(based on available information)
<b>Ranking of the Company</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>information)</b>

Source: 巨潮資訊網 (Cninfo\*, www.cninfo.com.cn, being a website designated by CSRC for the purpose of information disclosure)

According to the net profit margin and ROE as shown above, under the lead of Mr. Chen, the Group had a better performance as compared to most of the Benchmark Enterprises during most of the Period.

## LETTER FROM GRAM CAPITAL

- Set out below are the remuneration of Mr. Chen from 2010 to 2019, being recent 10 full financial years immediate before the Announcement Date, as extracted from the Company's previous annual reports:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Remuneration (RMB million)	4.98	5.0307	3.992	5	5	5	4.98	4.99	4.99	4.99

According to the above table, other than 2012, Mr. Chen's remuneration remained at approximately RMB5 million per year during recent ten years.

Among the 13 Benchmark Enterprises, only two Benchmark Enterprises granted restricted A shares to their senior/middle management, core technical personnel during the five years preceding the Announcement Date. We summarised the grant information of two participants (the "**Two Participants**") (who, among all participants, was the most senior at the two Benchmark Enterprises respectively) with such participants' remuneration for the full financial year the date of the relevant restricted A share proposal.

Company name	Publication date of restricted shares proposal	Position	Number of restricted shares to be granted	Number of restricted shares to be granted to the then total issued share capital	Grant price	Trading price immediately before the publication date of proposal	Total Expected return (Note 1)	Remuneration for the full financial year preceding the date of the restricted A share proposal	Validity period	Annual expected return to remuneration (Note 2)
					RMB	Approximate RMB	RMB	RMB	(Months)	(Times)
002067.SZ	10 February 2017	Director and general manager	4,600,000	0.42%	3.43	6.85	15,732,000	762,800	48	5.16
002078.SZ	11 September 2017	Director and vice general manager	1,500,000	0.06%	4.65	9.28	6,945,000	382,800	48	4.54
The Company	31 March 2020	Chairman and executive Director	20,000,000	0.69%	2.85	4.54	33,800,000	4,990,000	60	1.35

Notes:

- The total expected return = (trading price immediately before the publication date of proposal - grant price) X number of restricted shares to be granted
- Portion of annual expected return to remuneration = (Total expected return / validity period (in year)) / Remuneration for the full financial year immediate before the date of the restricted A share proposal

Based on the above information, annual expected return to Mr. Chen's remuneration was much less than annual expected return to the Two Participants' remunerations.

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## LETTER FROM GRAM CAPITAL

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In light of (i) the Group had a better performance as compared to most of the Benchmark Enterprises during most of the Period; (ii) other than 2012, Mr. Chen's remuneration remained at approximately RMB5 million per year during recent ten years; and (iii) annual expected return to Mr. Chen's remuneration was much less than annual expected return to the Two Participants' remunerations, we are of the view that number of Restricted Shares to be granted to Mr. Chen to be reasonable.

Having considered the above factors, including:

- a) range of the numbers of Restricted Shares to be granted to each of Connected Participants to the total share capital of the Company as at the Announcement Date did not exceed the upper limit of Comparable Percentage Range;
- b) numbers of Restricted Shares to be granted to each Connected Participant was determined with reference to the same factors; and
- c) our analysis in respect of number of Restricted Shares to be granted to Mr. Chen as mentioned above,

we are of the view that the numbers of Restricted Shares to be granted to the Connected Participants are fair and reasonable.

### *The Grant Price*

With reference to the Board Letter, the Grant Price of the Restricted Shares shall be RMB2.85 per share. A Participant who has satisfied the conditions of grant may purchase new Restricted Shares issued by the Company to the Participants at RMB2.85 per share.

Under the Incentive Scheme, the Grant Price of the Restricted Shares granted by the Company via means of issuing additional shares shall be determined according to principle of fair market price, and shall not be lower than the higher of the following: (i) 60% of the closing price of the shares of the Company on the last trading day before the Announcement Date; (ii) 60% of the average closing prices of the shares of the Company on the last 30 trading days before the Announcement Date; (iii) 60% of the average trading prices (the total transaction value for the last trading day divided by the total transaction volume for the last trading day) of the shares of the Company on the last trading day before the Announcement Date; (iv) 60% of the average trading price (the total transaction value for the last 20 trading days divided by the total transaction volume for the last 20 trading days) of the shares of the Company on the last 20 trading days before the Announcement Date; or (v) the nominal value of the shares of Company, being RMB1 per share.

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## LETTER FROM GRAM CAPITAL

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As advised by the Directors, the Grant Price has to comply with the requirements set out under the relevant regulations promulgated by the CSRC, for instance:

- the Administrative Measures, which was issued by CSRC, requires, among other things, the issue price of new restricted shares (i) not to be set at a price lower than its nominal value; and (ii) principally not to be set at a price lower than the highest of the (a) 50% of the average trading price on the trading day preceding the date of announcement of the incentive scheme; and (b) 50% of the average price for the period of last 20, 60 or 120 trading days preceding the date of announcement of the A shares incentive scheme. If a listed company adopts other approaches to determine grant price of restricted A shares, detailed basis of determination of such price should be disclosed in the A shares incentive scheme.
- 《國有控股上市公司(境內)實施股權激勵試行辦法》(Trial Measures for the Implementation of Equity Incentive Plans by Listed State-controlled Companies (Domestic)\*) which was issued by SASAC and 《關於進一步做好中央企業控股上市公司股權激勵工作有關事項的通知》(Notice on Further Improving in Equity Incentive Work of the State-owned Listed Companies\*), which was issued by Ministry of Finance of the PRC, requires among other things (i) the issue price of restricted shares principally not to be set at a price lower than the 60% of its market price, should the listed company's stock price being lower than its net asset value; and (ii) the closing price on last trading day and 30 days' average closing price immediately before the last trading day will also be considered.

As confirmed by the Directors, the Grant Price complies with the above measures.

As demonstrated in the Comparables Table, the majority of the Comparables' grant prices were determined based on 50% of the benchmark price (being the higher of (i) the closing price/average trading price of the subject A shares on the trading day preceding the date of announcement of the incentive scheme; and (ii) the average closing price/average price of the subject A shares for the period of last 20, 30, 60, and/or 120 trading days preceding the date of announcement of the incentive scheme). The calculation methodology of the benchmark price of (i) six Comparables was similar to the calculation of benchmark price under the Incentive Scheme; and (ii) three Comparables was the same as the calculation of benchmark price under the Incentive Scheme. The Grant Price represented a smaller discount than majority of the Comparables.

Given the above, we are of the view that the Grant Price is fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM GRAM CAPITAL

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### *The Validity Period and unlocking conditions (the “Unlocking Conditions”)*

With reference to the Board Letter, the Validity Period of the Incentive Scheme shall commence on the date on which the registration of the grant of the Restricted Shares is completed and end on the date on which all the Restricted Shares granted to the Participants are unlocked or repurchased and cancelled, which shall not exceed 60 months.

The Lock-up Periods of the Restricted Shares granted under the Incentive Scheme shall be 24 months, 36 months and 48 months from the date of registration of the Restricted Shares under the grant. The Restricted Shares granted to the Participants under the Incentive Scheme are subject to selling restrictions, but shall not be transferred, pledged or used for repayment of debt during the Lock-up Period.

As demonstrated in the Comparables Table, (i) the first portions of restricted A shares to be granted under the grant by majority of the Comparables were with locking period for 24 months from the date of which the grant has been registered; and (ii) an additional 12 months period was applied to the next portions of restricted A shares to be granted by the Comparables (e.g. from 1st portion to 2nd portion, from 2nd portion to 3rd portion). We consider that the Lock-up Period for the grant of Restricted Shares under the Restricted Shares Incentive Scheme were comparable to the lock-up period under the Comparables.

Certain conditions must be fulfilled before the Restricted Shares granted to the Participants can be unlocked pursuant to the Incentive Scheme. Details of the Unlocking Conditions (including the performance indicators) are set out under Appendix I to the Circular.

We are of the view that the Unlocking Conditions will strengthen the incentive for the Connected Participants to use their efforts to achieve the performance targets, which will contribute to the growth and development of the Group.

In addition, according to our observation on the Comparables, we note that it is common practice for restricted A shares incentive schemes to have conditions for unlocking the restricted A shares which are based on, amongst others, the participants' performance and/or financial performance of the listed companies.

### *Adjustments*

Number of Restricted Shares and the Grant Price are subject to adjustment according to various situations (e.g. capitalisation issue, bonus issue, sub-division of shares, etc.). For details, please refer to section headed “Methods of adjusting the number of the Restricted Shares” as contained in Appendix I to the Circular. We noted that the calculation formulae of adjustments to number of Restricted Shares and the Grant Price are comparable to those of the Comparables. Having considered that the adjustment

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## LETTER FROM GRAM CAPITAL

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mechanisms (i) will be applied to all Participants (including Connected Participants); and (ii) are comparable to those of the Comparables, we do not doubt the fairness and reasonableness of the proposed adjustment mechanisms for number of Restricted Shares and the Grant Price.

Having considered the above and that, save as number of Restricted Shares to be granted, other terms of the Connected Grant (i.e. Repurchase and Cancellation of Restricted Shares, adjustments, etc.) are the same as those under the Incentive Scheme, we are of the view that the terms of the Connected Grant are fair and reasonable so far as the Independent Shareholders are concerned.

### ***3. Dilution effect on the shareholding interests of the existing shareholders of the Company***

The Connected Grant involves 46,760,000 Restricted Shares, representing approximately 1.61% of the existing total issued share capital of the Company as at the Announcement Date. Accordingly, the dilution effect on the shareholding interests of the existing shareholders of Company will be immaterial.

### **RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Connected Grant are fair and reasonable; (ii) the Connected Grant is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM and H Shareholders' Class Meeting to approve the Connected Grant, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

**Yours faithfully,**  
**For and on behalf of**  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

\* *For identification purpose only*



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# NOTICE OF 2020 SECOND EXTRAORDINARY GENERAL MEETING

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山東晨鳴紙業集團股份有限公司  
**SHANDONG CHENMING PAPER HOLDINGS LIMITED\***

*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 1812)**

## NOTICE OF 2020 SECOND EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the 2020 second extraordinary general meeting (the “**EGM**”) of Shandong Chenming Paper Holdings Limited (the “**Company**”) will be held at 2:00 p.m. on Friday, 15 May 2020, at the conference room of the research and development centre of the Company, No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, the People’s Republic of China (the “**PRC**”) for the purpose of passing the following resolution:

### SPECIAL RESOLUTIONS

1. Resolution in relation to the “2020 Restricted Share Incentive Scheme (draft) of Shandong Chenming Paper Holdings Limited (draft)” and its summary
2. Resolution in relation to the “Assessment Management Measures for the Implementation of the 2020 Restricted Share Incentive Scheme (draft) of Shandong Chenming Paper Holdings Limited”
3. Resolution in relation to the authorisation granted by the general meeting to the Board to deal with matters relating to the share incentive scheme of the Company

By order of the Board  
**Shandong Chenming Paper Holdings Limited**  
**Chen Hongguo**  
*Chairman*

Shandong, PRC  
30 March 2020

\* *For identification purpose only*

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## NOTICE OF 2020 SECOND EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. The register of members of the Company will be temporarily closed from 8 May 2020 to 15 May 2020 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of holders of H shares of the Company for attending the EGM. The last lodgment for the transfer of the H shares of the Company should be made on 7 May 2020 at Computershare Hong Kong Investor Services Limited by or before 4:30 p.m. The holders of H shares of the Company or their proxies being registered at the close of business on 7 May 2020 are entitled to attend the EGM by presenting their identity documents. The address of Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
2. Each shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one shareholder, such proxy shall only exercise his voting rights on a poll.
3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the proxy form enclosed). The proxy form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the proxy form is signed by an attorney, the power of attorney or other documents of authorisation shall be notarially certified. To be valid, the proxy form and the notarially certified power of attorney or other documents of authorisation must be delivered to in the case of H shares, the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; not later than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof.
4. Shareholders or their proxies shall present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy shall also present the proxy form.
5. The EGM is expected to last for half day. The shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.
6. The Company's registered address:  
No. 595 Shengcheng Road, Shouguang City, Shandong Province, the PRC  
Postal code: 262705  
Telephone: (86)-536-2158008  
Facsimile: (86)-536-2158977

*As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Hu Changqing and Mr. Li Xingchun; the non-executive Directors are Mr. Han Tingde and Mr. Li Chuanxuan; and the independent non-executive Directors are Ms. Yin Meiqun, Mr. Sun Jianfei and Mr. Yang Biao.*



**山東晨鳴紙業集團股份有限公司**  
**SHANDONG CHENMING PAPER HOLDINGS LIMITED\***

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

**(Stock Code: 1812)**

**NOTICE OF 2020 FIRST CLASS MEETING FOR HOLDERS OF H SHARES**

**NOTICE IS HEREBY GIVEN** that the 2020 first class meeting for holders of overseas listed foreign shares (H shares) of the Company (“**H Shares**”) (the “**Class Meeting**”) of Shandong Chenming Paper Holdings Limited (the “**Company**”) will be held immediately after the conclusion of the 2020 first class meeting for holders of domestic-listed shares (A shares and B shares) (or any adjourned meeting thereof) of the Company on Friday, 15 May 2020 at the conference room of the research and development centre of the Company, No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, the People’s Republic of China (the “**PRC**”) for the purposes of considering and, if thought fit, passing the following resolutions:

**Special Resolutions**

1. Resolution in relation to the “2020 Restricted Share Incentive Scheme (draft) of Shandong Chenming Paper Holdings Limited (draft)” and its summary
2. Resolution in relation to the “Assessment Management Measures for the Implementation of the 2020 Restricted Share Incentive Scheme (draft) of Shandong Chenming Paper Holdings Limited”
3. Resolution in relation to the authorisation granted by the general meeting to the Board to deal with matters relating to the share incentive scheme of the Company

By order of the Board  
**Shandong Chenming Paper Holdings Limited**  
**Chen Hongguo**  
*Chairman*

Shandong, PRC  
30 March 2020

\* *For identification purpose only*

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## NOTICE OF 2020 FIRST CLASS MEETING FOR HOLDERS OF H SHARES

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*Notes:*

1. The register of members of the Company will be temporarily closed from 8 May 2020 to 15 May 2020 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of holders of H shares of the Company for attending the 2020 first class meeting for holders of H Shares. The last lodgment for the transfer of the H shares of the Company should be made on 7 May 2020 at Computershare Hong Kong Investor Services Limited by or before 4:30 p.m. The holders of H shares of the Company or their proxies being registered at the close of business on 7 May 2020 are entitled to attend the 2020 first class meeting for holders of H Shares by presenting their identity documents. The address of Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
2. Each shareholder having the rights to attend and vote at the class meeting is entitled to appoint one or more proxies (whether a shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one shareholder, such proxy shall only exercise his voting rights on a poll.
3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the proxy form enclosed). The proxy form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the proxy form is signed by an attorney, the power of attorney or other documents of authorisation shall be notarially certified. To be valid, the proxy form and the notarially certified power of attorney or other documents of authorisation must be delivered to in the case of H shares, the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; not later than 24 hours before the time scheduled for the holding of the general meeting or any adjournment thereof.
4. Shareholders or their proxies shall present proofs of their identities upon attending the class meeting. Should a proxy be appointed, the proxy shall also present the proxy form.
5. The class meeting is expected to last for half day. The shareholders and proxies attending the class meeting shall be responsible for their own travelling and accommodation expenses.
6. The Company's registered address:  
No. 595 Shengcheng Road, Shouguang City, Shandong Province, the PRC  
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*As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Hu Changqing and Mr. Li Xingchun; the non-executive Directors are Mr. Han Tingde and Mr. Li Chuanxuan; and the independent non-executive Directors are Ms. Yin Meiqun, Mr. Sun Jianfei and Mr. Yang Biao.*

Stock Short Name: Chenming Paper

Stock Code: 000488

**SHANDONG CHENMING PAPER HOLDINGS LIMITED**  
**THE 2020 RESTRICTED A-SHARE INCENTIVE SCHEME (DRAFT)**

March 2020

**Statements**

The Company and all its directors and supervisors guarantee that there are no false statements, misleading representations or material omissions in the Incentive Scheme and its summary, and assume individual and joint legal responsibility for its authenticity, accuracy and completeness.

**Special Note**

- I. The Incentive Scheme is formulated in accordance with the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Securities Law of the People's Republic of China (《中華人民共和國證券法》), the Administrative Measures on Share Incentives of Listed Companies (《上市公司股權激勵管理辦法》) (the "Administrative Measures"), the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175) (《國有控股上市公司(境內)實施股權激勵試行辦法》(國資發分配[2006]175號)) (the "Trial Measures"), the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171) (《關於規範國有控股上市公司實施股權激勵制度有關問題的通知》(國資發分配[2008]171號)) (the "Notice") and the Articles of Association of Shandong Chenming Paper Holdings Limited ("Chenming Paper" or "Company") as well as other relevant laws, regulations, rules and regulatory documents.
- II. The incentive instruments under the Incentive Scheme are the Restricted Shares which shall be ordinary A shares of the Company issued by the Company to the Participants under the Incentive Scheme.
- III. The Restricted A Shares that may be granted to the Participants under the Incentive Scheme shall be 80,000,000 shares, representing approximately 2.75% of the Total Share Capital of the Company of 2,904,608,200 shares as at the date of the announcement of the draft of the Incentive Scheme. This grant shall be one-off in nature without reserved portion. The total number of underlying shares to be granted under the Share Incentive Scheme during the Validity Period shall not exceed 10% of the Total Share Capital of the Company and the total number of the Restricted Shares to be granted under the Incentive Scheme to any one of the Participants shall not exceed 1% of the Total Share Capital of the Company prior to the date on which the Incentive Scheme was proposed to the general meeting for consideration.

- IV. The Grant Price of the Restricted Shares to be granted under the Incentive Scheme shall be RMB2.85 per share.
- V. In the event of any capitalisation issue, bonus issue, share split or share consolidation, rights issue or dividend distribution of the Company during the period from the date on which the Incentive Scheme is announced to the date on which the registration of the Restricted Shares is completed by the Participants, the number and the Grant Price of the Restricted Shares shall be adjusted in accordance with the Incentive Scheme accordingly.
- VI. The number of the Participants under the Incentive Scheme shall be 120, including directors, senior management members, key technical (business) employees of the Company (including its branches and subsidiaries, the same below) and those who, in the opinion of the Board, are qualified, but excluding supervisors, independent directors and external directors of the Company. Shareholders individually or in aggregate holding 5% or more of the shares of the Company or the de facto controllers and their spouses, parents or children are unqualified to participate in the Incentive Scheme.

All of the Participants under the Incentive Scheme shall not participate in the share incentive scheme of any other listed company concurrently and any of the Participants who has participated in the incentive scheme of any other listed company shall not participate in the Incentive Scheme.

- VII. The Validity Period of the Incentive Scheme shall commence on the date on which the registration of the grant of the Restricted Shares is completed and end on the date on which all the Restricted Shares granted to the Participants are unlocked or repurchased and cancelled, which shall not exceed 60 months. The Lock-up Period of the Restricted Shares shall be 24 months, 36 months and 48 months from the date on which the registration of the grant is completed. The Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as security or for repayment of debts prior to the expiry of the Lock-up Period.
- VIII. None of the following circumstances under which the implementation of the share incentive shall not be conducted as stipulated in Article 7 of the Management Measures for Share Incentives of Listed Companies has occurred to the Company:
- (i) issue of an auditors' report with 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 an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;

- (iii) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  - (iv) prohibition from implementation of a share incentive scheme by laws and regulations;
  - (v) other circumstances as determined by the CSRC.
- IX. None of the following circumstances under which one is unqualified as a participant as stipulated in Article 8 of the Management Measures for Share Incentives of Listed Companies has occurred to a Participant under the Incentive Scheme:
- (i) having been determined to be an inappropriate candidate by the SSE in the past 12 months;
  - (ii) having been determined to be an inappropriate candidate by the CSRC or its local counterparts in the past 12 months;
  - (iii) having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local counterparts in the past 12 months due to material violation of laws and regulations;
  - (iv) being prohibited from acting as a director or senior management member of the Company by the Company Law;
  - (v) being prohibited from participating in any share incentive scheme of listed companies by laws and regulations;
  - (vi) other circumstances as determined by the CSRC.

- X. The table below sets out the Unlocking Period and unlocking schedule for the Restricted Shares under each grant:

<b>Unlocking Period</b>	<b>Description of the Unlocking Period</b>	<b>Percentage of the Restricted Shares to be unlocked of total number of the Restricted Shares granted</b>
First Unlocking Period	Commencing from the first trading day after expiry of the 24-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 36-month period from the date on which the registration of the grant of the Restricted Shares is completed	40%
Second Unlocking Period	Commencing from the first trading day after expiry of the 36-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 48-month period from the date on which the registration of the grant of the Restricted Shares is completed	30%
Third Unlocking Period	Commencing from the first trading day after expiry of the 48-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 60-month period from the date on which the registration of the grant of the Restricted Shares is completed	30%

- XI. Conditions for the Restricted Shares to be granted under the Incentive Scheme in relation to business performance: The Company's return on net assets for 2018 is not less than 5.0% and the gross profit margin of sales for 2018 is not less than 20%, and both are not less than the industry average level or 50 fractiles of benchmark enterprise; revenue from principal businesses as a percentage of total revenue for 2018 is not less than 90%.



XII. The table below sets out the Unlocking Conditions of the Restricted Shares to be granted in respect of the Company's performance:

<b>Unlocking Period</b>	<b>Performance target</b>
First Unlocking Period	<ul style="list-style-type: none"><li>① Return on net assets for 2021 shall not be less than 5.5% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>② Gross profit margin of sales for 2021 shall not be less than 22% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>③ Revenue from principal businesses as a percentage of total revenue for 2021 shall not be less than 90%.</li></ul>
Second Unlocking Period	<ul style="list-style-type: none"><li>① Return on net assets for 2022 shall not be less than 6.0% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>② Gross profit margin of sales for 2022 shall not be less than 23% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>③ Revenue from principal businesses as a percentage of total revenue for 2022 shall not be less than 90%.</li></ul>
Third Unlocking Period	<ul style="list-style-type: none"><li>① Return on net assets for 2023 shall not be less than 6.5% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>② Gross profit margin of sales for 2023 shall not be less than 24% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li><li>③ Revenue from principal businesses as a percentage of total revenue for 2023 shall not be less than 90%.</li></ul>

- XIII. The subscription for the Restricted Shares by the Participants shall be funded by themselves. The Company shall undertake not to provide loans, loan guarantee and any other form of financial assistances to the Participants for the acquisition of the Restricted Shares granted under the Incentive Scheme.
- XIV. The Participants shall undertake that where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant or arrangements for exercise of rights, they shall return to the Company all interests gained through the Incentive Scheme when it is confirmed that the relevant information disclosure documents of the Company contain false statements or misleading statements or material omissions.
- XV. The Incentive Scheme shall be considered and approved for implementation at the general meeting and the A shares, B shares and H shares class meetings to be convened by the Company after the Incentive Scheme is considered and approved by the State-owned Assets Supervision and Administration Commission of the People's government of Shouguang, Weifang, Shandong province.
- XVI. Within 60 days after the Incentive Scheme is considered and approved at the relevant general meetings, the Company shall grant the Restricted Shares to the Participants and complete the announcement, registration and other relevant procedures. The Board shall disclose the announcement on the relevant implementation in a timely manner upon completion of the registration of the Restricted Shares granted. If the Company fails to complete the above work within 60 days, the implementation of the Incentive Scheme will be terminated and the Restricted Shares which have not been granted will lapse.
- XVII. The implementation of the Incentive Scheme shall not result in the shareholding structure of the Company to fail to meeting listing requirements.

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**Chapter I Definitions**

Unless otherwise requires, the following expressions herein shall have the following meanings:

Chenming Paper, Company	Shandong Chenming Paper Holdings Limited
Share Incentive Scheme, Restricted Share Incentive Scheme, Incentive Scheme	the 2020 Restricted A Shares Incentive Scheme of Shandong Chenming Paper Holdings Limited (《山東晨鳴紙業集團股份有限公司2020年A股限制性股票激勵計劃》)
Restricted Shares	a certain number of shares of the Company granted to the Participants by the Company under the conditions and at the price as stipulated in the Incentive Scheme, which are subject to the Lock-up Period and can only be unlocked for trading when the Unlocking Conditions under the Incentive Scheme are satisfied
Participant(s)	the directors (excluding independent directors and external directors), senior management, key technical (business) employees of the Company and other persons who, in the opinion of the Board, are qualified, to be granted a certain number of the Restricted Shares under the Incentive Scheme
Grant Date	the date on which the Company grants the Restricted Shares to the Participants, which must be a trading day
Grant Price	the price at which each Restricted Share is granted by the Company to the Participants
Validity Period	the period commencing on the date on which the registration of the grant of the Restricted Shares is completed and ending on the date on which all the Restricted Shares granted to the Participants are unlocked or repurchased and cancelled
Lock-up Period	the period during which the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as security or for repayment of debts which shall commence from the date on which the registration of the grant of the Restricted Shares is completed

Unlocking Period	the period during which the Restricted Shares held by the Participants can be unlocked and transferred after all the Unlocking Conditions prescribed under the Incentive Scheme are satisfied
Unlocking Condition(s)	the conditions prescribed under the Incentive Scheme which have to be satisfied to unlock the Restricted Shares granted to the Participants
Total Share Capital	the total issued share capital of the Company upon approval of the latest share incentive scheme at the general meeting
Company Law	the Company Law of the People's Republic of China (《中華人民共和國公司法》)
Securities Law	the Securities Law of the People's Republic of China (《中華人民共和國證券法》)
Administrative Measures	the Administrative Measures on Share Incentives of Listed Companies (《上市公司股權激勵管理辦法》)
Trial Measures	the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175) (《國有控股上市公司(境內)實施股權激勵試行辦法》(國資發分配[2006]175號))
Notice	the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171) (《關於規範國有控股上市公司實施股權激勵制度有關問題的通知》(國資發分配[2008]171號))
Articles of Association	the Articles of Association of Shandong Chenming Paper Holdings Limited (《山東晨鳴紙業集團股份有限公司章程》)
Assessment Management Measures	the Assessment Management Measures for the 2020 Restricted A Shares Incentive Scheme of Shandong Chenming Paper Holdings Limited (《山東晨鳴紙業集團股份有限公司2020年A股限制性股票激勵計劃實施考核管理辦法》)

CSRC	the China Securities Regulatory Commission
SSE	Shenzhen Stock Exchange
Securities Depository and Clearing Body	Shenzhen Branch of China Securities Depository and Clearing Corporation Limited
RMB	Renminbi

## Chapter II Purpose and Principles of Restricted Share Incentive Scheme

In order to further improve the corporate governance structure of Chenming Paper, promote the establishment and improvement of long-term incentive and restraint mechanisms, fully mobilize the enthusiasm, responsibility and mission of the directors (excluding independent Directors), senior management, core technical (business) key personnel of the Company, and bond the interests of Shareholders, the Company and individual operators together effectively, making all parties to attend to the long-term development of the Company and work together for it; at the same time, in order to further promote the long-term behavior of decision-makers and operators, promote the rapid and sustainable development of the Company, and maximum the value of the Company and shareholders, the Share Incentive Scheme is formulated, on the premise of fully protecting the interests of Shareholders and on the principle of income equivalent to contribution, and in compliance with the relevant requirements under the Company Law, the Securities Law, the Trial Measures, the Notice, the Administrative Measures and other relevant laws, regulations and regulatory documents and the Articles of Association, combined with the existing management systems of the Company, including the remuneration mechanism and performance appraisal system.

The Incentive Scheme adheres to the following principles:

- (i) Being lawful, open and transparent, and abiding by laws, regulations and the requirements of the Articles of Association;
- (ii) Safeguarding the interests of the Shareholders and the Company, improving value preservation and appreciation of state-owned assets, and contributing to the Company's sustainable development;
- (iii) Combining incentives with constraints, making risks commensurate with returns and enhancing incentives for the Company's management team;
- (iv) Being practicable and standardized, rolling out step by step and improving constantly.

**Chapter III Administrative Bodies of the Incentive Scheme**

- I. The general meeting, as the ultimate authority of the Company, shall be responsible for considering and approving the implementation, modification and termination of the Incentive Scheme. The general meeting may, within its powers and authority, authorize the Board to handle certain matters relating to the Incentive Scheme.
- II. The Board shall act as the executive and administrative body for the Incentive Scheme and be responsible for the implementation of the Incentive Scheme. The Remuneration and Evaluation Committee under the Board shall be responsible for drafting and revising the Incentive Scheme, and submitting the Incentive Scheme to the Board for review and approval. Upon approval by the Board, the Incentive Scheme shall be further submitted to the general meeting and the A shares, B shares and H shares class meetings for consideration and approval. The Board may handle other matters relating to the Incentive Scheme within its scope of authority as delegated by the general meeting.
- III. The Supervisory Committee shall act as the supervisory authority for the Incentive Scheme, and shall issue opinions as to whether the Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the Shareholders as a whole. The Supervisory Committee shall be responsible for verifying the list of Participants, and shall supervise the implementation of the Incentive Scheme as to whether it is in compliance with the relevant laws, administrative regulation, departmental regulation and operational rules of the SSE.
- IV. The independent directors shall issue independent opinions as to whether the Incentive Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the Shareholders as a whole, and shall solicit voting rights by proxy from all shareholders in respect of the Incentive Scheme.
- V. Where amendments have been made to the Share Incentive Scheme before the Share Incentive Scheme is passed at the general meeting and the A shares, B shares and H shares class meetings, the independent directors and the Supervisory Committee shall issue independent opinions as to whether the amended Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the shareholders as a whole.
- VI. Before any entitlements are granted to a Participant, the independent directors and the Supervisory Committee shall issue clear opinions as to whether the conditions stipulated for the Participant to receive such entitlements as set out in the Share Incentive Scheme have been fulfilled. In the event of any discrepancy between the entitlements granted to a Participant and the arrangement under the Incentive Scheme, the independent directors and the Supervisory Committee (where there are changes the Participants) shall simultaneously issue clear opinions thereon.

VII. Before the exercise of the any entitlement by a Participant, the independent directors and the Supervisory Committee shall issue clear opinions as to whether the conditions stipulated under the Share Incentive Scheme for the Participant to exercise such entitlements have been fulfilled.

#### **Chapter IV Basis for Determining the Participants and the scope of the Participants**

##### **I. Basis for Determining the Participants**

###### *(i) Legal Basis for Determining the Participants*

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

###### *(ii) Position Basis for Determining the Participants*

The Participants under the Incentive Scheme shall include the current directors (excluding independent directors and external directors), senior management and core technical (business) key personnel of the Company and other persons who, in the opinion of the Board, are qualified.

##### **II. Scope of the Participants**

The number of the Participants under the Incentive Scheme shall be 120, specifically including:

1. Directors, senior management members of the Company;
2. Key technical (business) personnel of the Company;
3. The persons who, in the opinion of the Board, are qualified.

The Participants under the Incentive Scheme exclude independent directors, external directors, supervisors and Shareholders individually or in aggregate holding 5% or more of the shares of the Company or the de facto controllers and their spouses, parents or children.

Among the above Participants, a director or senior management member must have been elected at a general meeting or engaged by the Board. All Participants should be engaged, employed or hired by the Company or any of the branch or subsidiary of the Company at the time of granting the Incentive Scheme and during the evaluation period.



All of the Participants under the Incentive Scheme shall not participate in the share incentive scheme of any other listed company concurrently and any of the Participants who has participated in the incentive scheme of any other listed company shall not participate in the Incentive Scheme.

### **III. Verification of the Participants**

1. After the Incentive Scheme is reviewed and approved by the Board, the Company shall announce the name and position of the Participants via Company website for not less than 10 days.
2. The Supervisory Committee of the Company shall review the list of the Participants and take sufficient consideration of the public opinions. The Company shall disclose the explanation of the Supervisory Committee regarding the review of the list of Participants and the status of announcement 5 days prior to the consideration of the Incentive Scheme at the general meeting of the Company. Any adjustments to the lists of the Participants made by the Board shall also be subject to verification by the Supervisory Committee of the Company.

## **Chapter V Source, Number and Distribution of Restricted Shares**

### **I. Source of the Underlying Shares**

The source of the underlying shares shall be ordinary A shares of the Company issued by the Company to the Participants.

### **II. Number of the Underlying Shares**

The Restricted A Shares that may be granted to the Participants under the Incentive Scheme shall be 80,000,000 shares, representing approximately 2.75% of the Total Share Capital of the Company of 2,904,608,200 shares as at the date of the announcement of the draft of the Incentive Scheme. This grant shall be one-off in nature without reserved portion.

The total number of underlying shares to be granted under the Share Incentive Scheme during the Validity Period shall not exceed 10% of the Total Share Capital of the Company and the total number of the Restricted Shares to be granted under the Incentive Scheme during the Validity Period to any one of the Participants shall not exceed 1% of the Total Share Capital of the Company.

**III. Allocation of the Restricted Shares to be Granted to the Participants**

The allocation of the Restricted Shares to be granted under the Incentive Scheme among all Participants are set out in the table below:

Name	Position	Number of shares to be granted ('0,000 shares)	Proportion in the total shares granted	Proportion in the Total Issued Share Capital
1. Chen Hongguo	Chairman and Executive Director	2,000	25.00%	0.69%
2. Hu Changqing	Vice Chairman and Executive Director	500	6.25%	0.17%
3. Li Xingchun	Vice Chairman and Executive Director	500	6.25%	0.17%
4. Li Feng	General Manager	300	6.25%	0.10%
5. Li Xueqin	Vice General Manager	300	6.25%	0.10%
6. Chen Liang	Overseas Market Sales Director and Director of Subsidiary	300	6.25%	0.10%
7. Geng Guanglin	Vice General Manager	200	3.75%	0.07%
8. Dong Lianming	Chief Financial Officer	100	1.25%	0.03%
9. Chen Gang	Director of Subsidiary Company	100	1.25%	0.03%
10. He Zhiqiang	Director of Subsidiary Company	60	0.75%	0.02%
11. Zhang Gang	Director of Subsidiary Company	60	0.75%	0.02%
12. Li Haiyong	Director of Subsidiary Company	60	0.75%	0.02%
13. Zhang Jinyu	Director of Subsidiary Company	60	0.75%	0.02%
14. Yuan Xikun	Secretary of the Board	30	0.25%	0.01%

Name	Position	Number of shares to be granted ('0,000 shares)	Proportion in the total shares granted	Proportion in the Total Issued Share Capital
15. Ma Jingye	Director of Subsidiary Company	30	0.25%	0.01%
16. Qu Bo	Director of Subsidiary Company	22	0.28%	0.008%
17. Zhang Ye	Director of Subsidiary Company	22	0.28%	0.008%
18. Xiao Peng	Director of Subsidiary Company	22	0.28%	0.008%
19. Ma Chuanfei	Director of Subsidiary Company	10	0.13%	0.003%
Key technical (business) employees and other persons (101)		3,324	41.55%	1.14%
Total (120)		8,000	100%	2.75%

*Notes:*

- (1) The number of the Shares to be granted during the validity period to any one of the above Participants will not exceed 1% of the Company's total issued share capital as at the Latest Practicable Date. The total number of Shares to be granted under the Incentive Scheme during the validity period shall not exceed 10% of the total issued share capital of the Company as at the Latest Practicable Date.
- (2) Any discrepancies of totals and sums of figures listed in the above table between are due to rounding.

## Chapter VI Validity Period, Grant Date, Lock-up Period and Unlocking Arrangement and Lock-up Period

### I. Validity Period of the Incentive Scheme

The Validity Period of the Incentive Scheme shall commence on the date on which the registration of the grant of the Restricted Shares is completed and end on the date on which all the Restricted Shares granted to the Participants are unlocked or repurchased and cancelled, which shall not exceed 60 months.

### II. Grant Date of the Incentive Scheme

The Grant Date shall be determined by the Board after the Incentive Scheme is considered and passed at the general meeting and the A shares, B shares and H shares class meetings of the Company, and must be a trading day. Within 60 days after the Incentive Scheme is considered and approved at the general meeting and the A shares, B shares and H shares class meetings of the Company (excluding the dates that granting is not allowed in accordance with relevant laws, regulations and the Listing Rules), and the conditions for the grant are satisfied, the Company shall convene a Board meeting to grant the Restricted Shares to the Participants under the Incentive Scheme according to relevant provisions and complete registration, announcement and other relevant procedures.

If the Company fails to complete the above work within 60 days, the implementation of the Incentive Scheme will be terminated and the Restricted Shares which have not been granted will lapse.

The Restricted Shares shall not be granted to the Participants by the Company in the following periods:

- (i) within 60 days prior to the announcement of annual report of the Company, 30 days prior to the announcement of interim results or quarterly results and the respective announcement day of the abovementioned results; in the event that the date of announcement of regular reports has been postponed for special reasons, the period from 30 days prior to the originally appointed date of announcement to one day prior to the date of publication;
- (ii) within 10 days prior to the publication of the announcement of the performance forecast or the announcement of the preliminary performance results;
- (iii) the period commencing from the date of occurrence of any significant event which may have significant effect on the trading prices of the Company's shares and their derivatives or the date on which relevant decision-making procedures start, and ending on the second trading day following the disclosure in accordance with laws;
- (iv) such other period as stipulated by the CSRC and SSE.

The abovementioned periods during which the Company is not allowed to grant Restricted Shares shall not be included in the period of 60 days.

### III. Lock-up Periods of the Incentive Scheme

The Lock-up Periods of the Restricted Shares granted under the Incentive Scheme shall be 24 months, 36 months and 48 months from the date of registration of the Restricted Shares under the grant. The Restricted Shares granted to the Participants under the Incentive Scheme subject to selling restrictions, but shall not be transferred, pledged or used for repayment of debt during the Lock-up Period.

The shares and dividends obtained by the Participants due to the grant of the Restricted Shares not yet unlocked to them arising from capitalization issue, bonus issue, share sub-division, etc. shall be subject to locking in accordance with the Incentive Scheme, and shall not be sold in the secondary market or otherwise transferred. The Unlocking Period of such shares is the same as that of the Restricted Shares. If the Company repurchases the Restricted Shares not yet unlocked, such shares shall be repurchased at the same time.

### IV. Unlocking Period of the Incentive Scheme

After 24 months from the date of completion of the registration of the grant of Restricted Shares granted by the Scheme, the Participants will unlock in three phases within the next 36 months. Upon expiry of each Lock-up Period, the Company shall proceed with the unlocking for the Participants who satisfy the unlocking conditions, and the Restricted Shares held by Participants who do not satisfy the unlocking conditions shall be repurchased and cancelled by the Company. The table below sets out the Unlocking Period and unlocking schedule for the Restricted Shares under each grant:

Unlocking Period	Description of the Unlocking Period	Percentage of the Restricted Shares to be unlocked of total number of the Restricted Shares granted
First Unlocking Period	Commencing from the first trading day after expiry of the 24-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 36-month period from the date on which the registration of the grant of the Restricted Shares is completed	40%

Unlocking Period	Description of the Unlocking Period	Percentage of the Restricted Shares to be unlocked of total number of the Restricted Shares granted
Second Unlocking Period	Commencing from the first trading day after expiry of the 36-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 48-month period from the date on which the registration of the grant of the Restricted Shares is completed	30%
Third Unlocking Period	Commencing from the first trading day after expiry of the 48-month period from the date on which the registration of the grant of the Restricted Shares is completed and ending on the last trading day of the 60-month period from the date on which the registration of the grant of the Restricted Shares is completed	30%

The Participants corresponds to the Restricted Shares that cannot be unlocked during the Unlocking Period, and cannot be deferred to the future years to unlock the Restricted Shares. These Restricted Shares shall be repurchased and cancelled by the Company. The repurchase price is the price granted for Restricted Shares plus the bank loan interest rate for the same period.

#### V. Black-out Provisions under the Incentive Scheme

The black-out provisions under the Restricted Share Incentive Scheme shall be implemented in accordance with the Company Law, the Securities Law, other relevant laws, regulations and regulatory documents, and the Articles of Association. Such provisions include but are not limited to:

- (i) If a Participant is a director or a senior management member of the Company, the number of shares that may be transferred each year during his/her term of office shall not exceed 25% of the total number of shares held by him/her. He/she shall not transfer any of his/her shares within 6 months after his/her departure.
- (ii) When the last batch of Restricted Share under the Incentive Scheme was unlocked, the Participants, who is a director or a senior management member of the Company was granted 20% of the total Restricted Share (and the share dividends distributed on such shares) until the expiry of the term (or term of office), and unlock the restrictions subject to his/her performance appraisal or the result of economic duty audit during such term.

Whether a Participant is a director or a senior management member shall be determined based on the position such Participant holds for the year when he/she was granted the Restricted Shares under the Incentive Scheme; performance appraisal or economic duty audit of a Participant refers to those conducted for the term of office during the year when the Participants were granted the Restricted Shares under the Incentive Scheme.

- (iii) If a Participant, who is a director or a senior management member of the Company, disposes any shares within six months after the acquisition, or re-purchases within six months after disposition, all gains arising therefrom shall belong to the Company and be recovered by the Board.
- (iv) If, during the Validity Period of the Incentive Scheme, there is any change to the requirements regarding the transfer of shares by a director or a senior management member of the Company under the Company Law, the Securities Law, other relevant laws, regulations and regulatory documents and the Articles of Association, a Participant shall comply with the relevant amended regulations upon transfer of his/her shares held by him/her.

#### **Chapter VII Grant Price and Basis of Determination of the Grant Price of Restricted Shares**

##### **I. Grant Price**

The Grant Price of the Restricted Shares shall be RMB2.85 per share. A Participant who has satisfied the conditions of grant may purchase new Restricted Shares issued by the Company to the Participants at such price.

##### **II. Basis of Determination of the Grant Price**

The Grant Price of the Restricted Shares granted by the Company via means of issuing additional shares shall be determined according to principle of fair market price, and shall not be lower than the higher of the following prices:

- (i) 60% of the closing price of the underlying shares of the Company on the last trading day immediately preceding the date of announcement of the draft Scheme;
- (ii) 60% of the average closing price of the underlying shares of the Company on the last 30 trading day immediately preceding the date of announcement of the draft Scheme;
- (iii) 60% of the average trading price (the total transaction value for the last trading days / total transaction volume for the last trading days) of the underlying shares of the Company on the last trading day immediately preceding the date of announcement of the draft Scheme;

- (iv) 60% of the average trading price (the total transaction value for the last 20 trading days / total transaction volume for the last 20 trading days) of the underlying shares of the Company on the last 20 trading day immediately preceding the date of announcement of the draft Scheme;
- (v) The nominal value of the underlying shares of Company, being RMB1 per share.

Based on the above pricing principles, the Grant Price of the Restricted Shares to be granted under the Incentive Scheme shall be RMB2.85 per share.

The Restricted Shares granted to the Participants shall be funded by themselves. The Company shall undertake not to provide loans, loan guarantee and any other form of financial assistances to the Participants for the acquisition of the underlying Shares under the Incentive Scheme.

### **Chapter VIII Conditions for Grant and Unlocking of the Restricted Shares**

#### **I. Conditions for grant of the Restricted Shares**

The Restricted Shares shall be granted to the Participants by the Company upon satisfaction of all the following conditions. In other words, the Restricted Shares cannot be granted to the Participants if any of the following conditions of grant is not satisfied.

- (i) There is no occurrence of any of the following events on the part of the Company:
  - 1. issue of an auditors' report with 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;
  - 2. issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
  - 3. failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  - 4. prohibition from implementation of a share incentive scheme by laws and regulations;
  - 5. other circumstances as determined by the CSRC.



- (ii) There is no occurrence of any of the following events on the part of the Participants:
1. having been determined to be an inappropriate candidate by the SSE in the past 12 months;
  2. having been determined to be an inappropriate candidate by the CSRC or its local counterparts in the past 12 months;
  3. having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local counterparts in the past 12 months due to material violation of laws and regulations;
  4. being prohibited from acting as a director or senior management member of the Company by the Company Law;
  5. being prohibited from participating in any share incentive scheme of listed companies by laws and regulations;
  6. other circumstances as determined by the CSRC.
- (iii) The Company is deemed to have achieved the performance target if all of the following conditions are satisfied:
- (1) Return on net assets for 2018 shall not be less than 5.0% and shall not be less than the industry average level or 50 fractiles of benchmark enterprise;
  - (2) Gross profit margin of sales for 2018 shall not be less than 20% and shall not be less than the industry average level or 50 fractiles of benchmark enterprise;
  - (3) Revenue from principal businesses as a percentage of total revenue for 2018 shall not be less than 90%.

## II. Conditions for unlocking of the Restricted Shares

During the Unlocking Period, the following conditions must be fulfilled before the Restricted Shares granted to the Participants can be unlocked pursuant to the Incentive Scheme:

- (i) There is no occurrence of any of the following events on the part of the Company:
1. issue of an auditors' report with 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;

2. issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
  3. failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  4. prohibition from implementation of a share incentive scheme by laws and regulations;
  5. other circumstances as determined by the CSRC.
- (ii) There is no occurrence of any of the following events on the part of the Participants:
1. having been determined to be an inappropriate candidate by the SSE in the past 12 months;
  2. having been determined to be an inappropriate candidate by the CSRC or its local counterparts in the past 12 months;
  3. having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local counterparts in the past 12 months due to material violation of laws and regulations;
  4. being prohibited from acting as a director or senior management member of the Company by the Company Law;
  5. being prohibited from participating in any share incentive scheme of listed companies by laws and regulations;
  6. other circumstances as determined by the CSRC.

Where the Company has any of the circumstances specified in the above sub-paragraph (i), all the Restricted Shares that have been granted to the Participants under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company as stipulated; where any Participant has any of the circumstances specified in the above sub-paragraph (ii), the Restricted Shares that have been granted to the Participant under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company as stipulated, except as otherwise provided in the Incentive Scheme.

## (iii) Performance appraisal at company level

The Restricted Shares granted under the Incentive Scheme shall be subject to annual performance appraisal for the three accounting years from 2021 to 2023 for unlocking, to fulfil the Company's performance indicators as the unlocking conditions for the Participants. The annual performance targets are shown in the following table:

<b>Unlocking Period</b>	<b>Performance target</b>
First Unlocking Period	<ul style="list-style-type: none"> <li>① Return on net assets for 2021 shall not be less than 5.5% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li> <li>② Gross profit margin of sales for 2021 shall not be less than 22% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li> <li>③ Revenue from principal businesses as a percentage of total revenue for 2021 shall not be less than 90%.</li> </ul>
Second Unlocking Period	<ul style="list-style-type: none"> <li>① Return on net assets for 2022 shall not be less than 6.0% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li> <li>② Gross profit margin of sales for 2022 shall not be less than 23% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li> <li>③ Revenue from principal businesses as a percentage of total revenue for 2022 shall not be less than 90%.</li> </ul>
Third Unlocking Period	<ul style="list-style-type: none"> <li>① Return on net assets for 2023 shall not be less than 6.5% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li> <li>② Gross profit margin of sales for 2023 shall not be less than 24% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</li> <li>③ Revenue from principal businesses as a percentage of total revenue for 2023 shall not be less than 90%.</li> </ul>

*Notes:*

- (1) The “return on net assets” refers to the return on weighted average net assets.
- (2) During the Validity Period of the Share Incentive Scheme, if the listed company purchases assets through issuing shares as a means of payment or utilizing raised funds in the future, the increased net assets and the net profit generated from such net assets shall not be included in the calculation of appraisal for future years.
- (3) If there are significant changes in the business structure of or extreme values with excessive performance variation in the benchmark enterprise samples during the annual appraisal process for granting and unlocking, the Board of the Company will remove or adjust the samples.

If the performance appraisal at company level is up to standards, the Restricted Shares granted to the Participants will be unlocked pursuant to the Incentive Scheme. If the performance indicators of the Company in a specific Unlocking Period are not up to standards, all the Restricted Shares held by the Participants for the period shall not be unlocked and shall be repurchased and cancelled by the Company at the repurchase price, i.e., the sum of the Grant Price and the interest rate for bank loans for the same period, in accordance with the Incentive Scheme.

- (iv) Performance appraisal at individual level of the Participants

The Participants shall be subject to annual performance appraisal in accordance with the Assessment Management Measures formulated by the Company, and the assessment results and unlocking ratio for the year shall be determined according to the annual average performance indicators of relevant departments where such Participant belongs to. The assessment results shall be categorised into two grades, namely up to standard and below standard. The reference for assessment is shown in the following table:

<b>Performance results</b>	<b>A ≥ 80 scores</b>	<b>A &lt; 80 scores</b>
Standard coefficient	1.0	0

Actually unlocked individual quota in current year = standard coefficient × individual quota planned to unlock in current year. The Participants are eligible to unlock the Restricted Shares for the current year only after they are up to standard in the assessment for the previous year. If the unlocking conditions in current period are not satisfied due to the failure to pass the performance appraisal at company level or individual level, no corresponding Restricted Shares shall be unlocked or deferred to the next period and will be repurchased and cancelled by the Company as stipulated.

- (v) Selection of benchmark enterprises in respect of granting and unlocking of the Restricted Shares

Based on the industry classification of the CSRC, the Company is a listed company in the “paper-making and paper products industry”. The Company selected 13 A-share listed companies with similar businesses, stable operations or certain industry representativeness as benchmark enterprises in the same industry. The names of benchmark enterprises are as follows:

Stock code	Stock short name	Stock code	Stock short name
002012.SZ	KAN	600308.SH	SDHT
002067.SZ	JING XING PAPER	600356.SH	HENGFENG PAPER
002078.SZ	SUN PAPER	600433.SH	GH
002521.SZ	QIFENG NEW MATERIAL	600567.SH	SHANYING PAPER
600069.SH	YINGE INVESTMENT	600963.SH	yyfp
600103.SH	qszy	600966.SH	sdbh
600235.SH	MFSP		

### III. Scientificity and reasonableness of the appraisal indicators

The indicators for the Restricted Share Incentive Scheme of the Company are categorised into two levels, i.e. performance appraisal at company level and performance appraisal at individual level.

The Company selects three indicators as performance indicators, i.e., return on weighted average net assets, gross profit margin of sales and revenue from principal businesses as a percentage of total revenue. The return on weighted average net assets is an important financial indicator that reflects the quality of the Company’s revenue, and the gross profit margin of sales is the basis for the Company’s operating profit and one of the important indicators reflecting the Company’s profitability, the adoption of which can intuitively reflect the Company’s profitability and industry competitiveness. The combination of the three indicators forms a well-established indicator evaluation system, comprehensively reflecting corporate operating benefit and efficiency. When setting the performance indicators, the Company mainly considered factors such as the industry in which it operates, current development status, future performance development level, overall strategy and business planning. From a perspective that is conducive to the Company’s sustainable development and feasibility, the Company reasonably set the aforesaid performance indicators at company level for the Restricted Share Incentive Scheme after reasonable forecast and consideration of the incentive effect of the Incentive Scheme.

In addition to the performance appraisal at company level, the Company has established a strict performance appraisal system for individuals, which evaluates the performance of the Participants in an accurate and all-round manner. The Company will determine whether the Participants meet the unlocking conditions based on their performance results for the previous year.

Given the above, performance indicators are scientific and reasonable, and appraisal system is all-round, comprehensive and operable for the Incentive Scheme of the Company, which are binding on the Participants and conducive to strengthening the responsibility of the core operation management team to fully mobilize their enthusiasm, thereby enhancing the Company's competitiveness and creating more efficient and sustainable value returns for shareholders to maximize the interests of all shareholders, and can serve the appraisal goal of the Incentive Scheme.

## **Chapter IX Methods and Procedures for Adjustment of the Incentive Scheme**

### **I. Methods of adjusting the number of the Restricted Shares**

In the event of any capitalisation issue, bonus issue, sub-division, rights issue or share consolidation of the Company in the period from the date of the announcement of the Incentive Scheme to the completion of registration of the Restricted Shares by the Participants, the number of the Restricted Shares shall be adjusted accordingly. The adjustment method is as follows:

#### ***1. Issue of shares by capitalisation issue, bonus issue and sub-division of shares***

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the ratio of increase per share resulting from capitalization issue, bonus issue and sub-division of shares (i.e. the increase in number of shares per share upon capitalisation issue, bonus issue and sub-division of shares);  $Q$  represents the adjusted number of the Restricted Shares.

#### ***2. Rights issue***

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

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue);  $Q$  represents the adjusted number of the Restricted Shares.

### 3. *Share consolidation*

$$Q = Q_0 \times n$$

Where:  $Q_0$  represents the number of the Restricted Shares before the adjustment;  $n$  represents the ratio of consolidation of shares (i.e. one share shall be consolidated into  $n$  shares);  $Q$  represents the adjusted number of the Restricted Shares.

### 4. *Additional issues*

Under the circumstance of additional issue of new shares, no adjustment will be made to the number of the Restricted Shares.

## II. Method of adjusting the Grant Price of the Restricted Shares

In the event of any capitalisation issue, bonus issue, sub-division, rights issue, share consolidation or dividend distribution of the Company in the period from the date of the announcement of the Incentive Scheme to the completion of registration of the Restricted Shares by the Participants, the Grant Price of the Restricted Shares shall be adjusted accordingly. The adjustment method is as follows:

### 1. *Issue of shares by capitalisation issue, bonus issue and sub-division of shares*

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

Where:  $P_0$  represents the Grant Price before the adjustment;  $n$  represents the ratio of increase per share resulting from capitalisation issue, bonus issue and sub-division of shares;  $P$  represents the adjusted Grant Price.

### 2. *Rights issue*

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

Where:  $P_0$  represents the Grant Price before the adjustment;  $P_1$  represents the closing price as at the record date;  $P_2$  represents the price of the rights issue;  $n$  represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue);  $P$  represents the adjusted Grant Price.

### 3. *Share consolidation*

$$P = P_0 \div n$$

Where:  $P_0$  represents the Grant Price before the adjustment;  $n$  represents the ratio of consolidation of shares;  $P$  represents the adjusted Grant Price.

#### **4. *Dividend distribution***

$$P = P_0 - V$$

Where:  $P_0$  represents the Grant Price before the adjustment;  $V$  represents the dividend per share;  $P$  represents the adjusted Grant Price.  $P$  shall be greater than 1 after the dividend distribution.

#### **5. *Additional issues***

Under the circumstance of additional issue of new shares, no adjustment will be made to the Grant Price of the Restricted Shares.

### **III. Adjustment procedures for the Incentive Scheme**

The general meeting of the Company shall authorize the Board to adjust the Grant Price and the number of Restricted Shares upon the occurrence of any of the above circumstances. The legal adviser shall give professional advice on whether such adjustment is in compliance with the Management Measures, the Articles of Association and the Restricted Share Incentive Scheme. After the resolution for adjustment is reviewed and passed by the Board, the Company shall disclose an announcement on the resolution by the Board timely, and announce the opinions of the legal adviser.

### **Chapter X Accounting Treatment on Restricted Shares**

In accordance with the requirements of the Accounting Standards for Business Enterprises No. 11 Share-based Payments, at each balance sheet date within the Lock-up Period, the Company shall revise the number of the Restricted Shares which are expected to be unlocked according to the change in the latest available number of persons eligible to unlock the Restricted Shares, completion of the performance targets and other subsequent information, and recognize the services acquired during such period in relevant costs or expenses and capital reserve at the fair value of the Restricted Shares on the Grant Date.

#### **I. Accounting treatment method**

##### **1. *Grant Date***

The share capital and capital reserve shall be determined according to the issuance of the Shares to the Participants by the Company.

##### **2. *Each balance sheet date within the Lock-up Period***

In accordance with the requirements of the accounting standards, at each balance sheet date within the Lock-up Period, the services provided by the staff will be recognized in the costs or expenses, and the equity or liability will be recognized at the same time.



### 3. *Unlocking date*

At the unlocking date, the shares can be unlocked if all conditions of unlocking are satisfied; if all or any part of the Shares are not unlocked and thus become invalid or cancelled, they shall be dealt with according to accounting standards and relevant requirements.

## II. **The expected impact of implementation of the Restricted Share Incentive Scheme on the operating performance in each accounting period**

The Company granted 80,000,000 Restricted Shares to Participants. Assuming the grant is made in early May 2020 and the price determination date is set on 30 March 2020, the total estimated amortization costs of Restricted Shares will be RMB 139,200,000 (which will be duly forecasted when granted). Such total amortization cost will be recognized by installments in proportion to the unlocking percentage during the implementation of Share Incentive Scheme. The incentive costs incurred by the Incentive Scheme will be recorded as expenses in the recurring profit and loss. The impact of Restricted Shares granted under the scheme on the cost in each accounting period is set out in the following table:

Number of Restricted Shares (0,000)	Total Share-based Payment (RMB0,000)	2020	2021	2022	2023	2024
		(RMB0,000)	(RMB0,000)	(RMB0,000)	(RMB0,000)	(RMB0,000)
8,000	13,920.00	1,740.00	5,220.00	4,292.00	1,972.00	696.00

*Note:* The above are the preliminary estimation based on the Company's information at present. The actual amount will be calculated by the fair value of the Restricted Shares on the Grant Date, subject to the annual audited report issued by the accounting firm.

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

## **Chapter XI. Procedures of Implementation of the Incentive Scheme**

### **I. Effective Procedures of the Incentive Scheme**

- (i) The Remuneration and Appraisal Committee under the Board is responsible for preparing the draft of the Incentive Scheme (including the relevant amendments) and submit to the Board for consideration.

- (ii) The Board shall resolve on the Incentive Scheme in accordance with the laws. When the Board reviews the Incentive Scheme, the Directors who are Participants of the Incentive Scheme or Directors who are related thereto shall abstain from voting.
- (iii) The independent directors and the Supervisory Committee shall express their opinions of whether the Incentive Scheme is beneficial to the sustainable development of the Company or whether there is any noticeable damage to the interests of the Company and all shareholders as a whole.
- (iv) The law firm engaged by the Company shall issue legal opinions on the Incentive Scheme and publish an announcement simultaneously with the draft of the Incentive Scheme. The Independent Financial Adviser shall issue professional opinions on the feasibility of the Scheme, whether it is beneficial to the sustainable development of the Company, whether it is detrimental to the interests of the Company and the impact on the interests of the Shareholders.
- (v) After the Incentive Scheme has been considered by the Board and the public announcement and announcement procedures have been fulfilled, the Incentive Scheme shall be submitted to the State-owned Assets Supervision and Administration Bureau of Shouguang City. Upon obtaining the relevant approvals, the Incentive Scheme shall be considered, approved and implemented at the general meeting, the A shares, B shares and H shares class meetings of the Company. It is also proposed at the general meeting to authorise the Board to be responsible for the implementation of the grant, unlocking and repurchase of the Restricted Shares.
  - 1. The Company shall, before the convening of the general meeting, the A shares, B shares and H shares class meetings, publish the names and positions of the Participants internally through the Company's website or other channels for a period of not less than 10 days. The Supervisory Committee shall verify the list of the Participants and fully listen to the public opinions. The Company shall disclose the explanation of the Supervisory Committee on the verification and publication of the Incentive List 5 days before the Incentive Scheme is considered at the general meeting, A shares, B shares and H shares class meetings.
  - 2. When voting on the Incentive Scheme at the general meeting of the Company, independent directors shall solicit proxy voting rights from all shareholders in respect of the Incentive Scheme, and the Company shall provide online voting method when onsite voting is provided.
  - 3. The contents of the Incentive Scheme as stipulated in Article 9 of the Administrative Measures shall be voted at the general meeting, and shall be approved by more than two-thirds of the voting rights held by the shareholders present at the meeting. The voting of shareholders other than the directors,

supervisors and senior management of the Company and shareholders individually or jointly holding more than 5% of the shares of the Company shall be separately counted and disclosed.

4. When the Incentive Scheme is considered at the general meeting of the Company, Shareholders who are Participants or Shareholders who are related to the Participants shall abstain from voting.
- (v) When the Incentive Scheme is considered and approved at the general meeting of the Company and the grant conditions stipulated in the Incentive Scheme are satisfied, the Company shall grant Restricted Shares to the Participants within the prescribed time. The Board shall be responsible for the implementation of the grant, unlocking and repurchase and cancellation of the Restricted Shares as authorised by the general meeting.

## II. Procedures of Grant of the Restricted Shares

- (i) Upon consideration and approval of the Incentive Scheme at the general meeting, the A shares, B shares and H shares class meetings, the Company shall sign the Agreement on Grant of Restricted Shares with the Participants to stipulate the rights and obligations of both parties. The Board shall handle the specific matters in relation to the grant of Restricted Shares in accordance with the authorisation granted at the general meeting.
- (ii) The Board shall consider and announce whether the conditions for the grant of the Share Options to the Participants as set out in the Incentive Scheme have been fulfilled before the Company grants the Share Options to the Participants.

The independent directors and the Supervisory Committee shall both express their views explicitly. The law firm shall issue legal opinions on whether the conditions for the grant of the entitlements to the Participants are satisfied or not.

- (iii) The Supervisory Committee shall verify and express opinions on the date of grant of the Restricted Shares and the list of Participants.
- (iv) In the event of any discrepancy between the grant of Share Options by the Company to the Participants and the arrangements under the Incentive Scheme, the independent directors, the Supervisory Committee (in case of any change of the Participants), law firms and independent financial advisers shall express their views explicitly.
- (v) Upon consideration and approval of the Incentive Scheme at the A Share, B Share and H Share class meetings, the Company shall grant the Restricted Shares to the Participants and complete the announcement and registration procedures within 60 days. The Board shall disclose the implementation thereof timely by the way of

announcement after the completion of registration of the Restricted Shares granted. The Board shall disclose the implementation thereof in a timely manner after the completion of the registration of the grant of Restricted Shares.

If the Company fails to complete the above work within 60 days, the Incentive Scheme shall be terminated, and the Board shall disclose the reason for such failure in a timely manner and shall not consider and disclose the Incentive Scheme again within 3 months (the period during which a listed company is prohibited from granting Restricted Shares under the Administrative Measures shall not be counted within 60 days).

- (vi) If the senior management of the Company, as the Participant, has reduced the shareholding of the Company within 6 months before the grant of Restricted Shares and no trading with inside information has been conducted after verification, the Company may postpone the grant of Restricted Shares to six months after the date of the last reduction in trading with reference to the short-swing trading provisions under the Securities Law.
- (vii) The Company shall make an application to the stock exchange before granting the Restricted Shares to the Participants. Upon confirmation by the stock exchange, the securities registration and clearing institution shall handle the registration and clearing matters.

### **III. Procedures for Unlocking of the Restricted Shares**

- (i) Prior to the date of unlocking, the Company shall confirm whether the Participants have satisfied the conditions for unlocking the Restricted Shares. The Board shall consider whether the conditions for unlocking the Restricted Shares under the Scheme have been satisfied and the independent Directors and the Supervisory Committee shall issue their relevant opinions. The Company's legal adviser shall issue legal opinions as to whether the conditions for unlocking the Restricted Shares have been satisfied.
- (ii) For the Participants who have satisfied the conditions for unlocking the Restricted Shares, the Company shall handle the matters of unlocking the Restricted Shares. For the Participants who have not satisfied the conditions, the Company shall repurchase and cancel the Restricted Shares corresponding to the unlocking held by them. The Company shall disclose the implementation thereof in a timely manner by way of announcement.
- (iii) Before the unlocking of Restricted Shares of the Participants, the Company shall apply to the SSE. Securities registration and clearing institution will conduct registration and settlement procedure thereof upon confirmation by such stock exchange.

- (iv) Participants may transfer their unlocked Restricted Shares whereas the transfer of the Restricted Shares held by the Directors and senior management members of the Company shall comply with the requirements of the relevant laws, regulations and regulatory documents.

#### **IV. Procedures for Amendments to the Incentive Scheme**

- (i) In the event that the Company intends to amend the Incentive Scheme before it is considered and approved at the general meeting, such amendment shall be considered and approved by the Board.
- (ii) If the Company intends to amend the Incentive Scheme after it is considered and approved at the general meeting, the A shares, B shares and H shares class meetings, such amendment shall be considered and approved at the general meeting, the A shares, B shares and H shares class meetings, and shall not include the following circumstances:
  - 1. Circumstances leading to early release of lock-up restrictions;
  - 2. Reducing the Grant Price.
- (iii) The Company shall fulfill its obligations to publish announcements in a timely manner; the independent directors and the Supervisors Committee shall express clear opinions on whether the amended proposal is beneficial to the sustainable development of the listed company and whether there is any noticeable damage to the interests of the listed company and all shareholders.
- (iv) The law firm shall issue professional opinions on whether the amended Scheme is in compliance with the requirements of the Administrative Measures and relevant laws and regulations and whether there is any noticeable damage to the interests of the Company and all shareholders.

#### **V. Procedures for Termination of the Incentive Scheme**

- (i) If any of the circumstances as stipulated in Article 7 of the Administrative Measures occurs to the Company, the implementation of the Incentive Scheme shall be terminated and no further new entitlements shall be granted to the Participants. The exercise of the outstanding entitlements granted to the Participants under the Incentive Scheme shall be terminated.
- (ii) In the event that a Participant is prohibited from being a Participant under Article 8 of the Administrative Measures and Article 35 of the Trial Measures, the Company shall not continue to grant his/her rights and interests and the granted but unexercised rights and interests shall be terminated.

- (iii) If the Company intends to terminate the implementation of the Incentive Scheme prior to the consideration of the Incentive Scheme at the general meeting, the A shares, B shares and H shares class meetings, such termination shall be considered and approved by the Board.
- (iv) If the Company intends to terminate the implementation of the Incentive Scheme after it is considered and approved at the general meeting, the A shares, B shares and H shares class meetings, such termination shall be considered and approved at the general meetings.
- (v) The law firm shall issue professional opinions as to whether the termination of the Incentive Scheme is in compliance with the requirements of the Administrative Measures and relevant laws and regulations and whether there is any noticeable damage to the interests of the Company and the Shareholders as a whole.
- (vi) Upon termination of the Incentive Scheme, the Company shall repurchase and cancel the Restricted Shares which have not been unlocked and shall be dealt with in accordance with the Company Law.
- (vii) Before the Company repurchasing the Restricted Shares, the Company shall apply to the SSE. Securities registration and clearing institution will conduct registration and settlement procedure thereof upon confirmation by such stock exchange.

## **Chapter XII Respective Rights and Obligations of the Company and the Participants**

### **I. Rights and Obligations of the Company**

- (i) The Company shall have the right to interpret and execute the Incentive Scheme and shall evaluate the Participants in accordance with the requirements of the Incentive Scheme. If the Participants fail to satisfy the unlocking conditions as stipulated under the Incentive Scheme, the Company shall repurchase and cancel the Restricted Shares of the Participants which have not been unlocked in accordance with the provisions of the Incentive Scheme.
- (ii) The Company undertakes not to provide loans, loan guarantees and other financial assistance in any form for the Participants to acquire the Restricted Shares under the Incentive Scheme.
- (iii) The Company shall perform its reporting, information disclosure and other obligations in a timely manner in relation to the Restricted Shares under the Incentive Scheme in accordance with the relevant requirements.

- (iv) The Company shall actively cooperate with the Participants who have satisfied the conditions for unlocking the Restricted Shares in accordance with the relevant requirements of the Incentive Scheme and the CSRC, the Shenzhen Stock Exchange and the CSDC. However, the Company shall not be liable for any loss suffered by the Participants arising from the failure of the Participants to unlock the Restricted Shares at their own discretion due to reasons caused by the CSRC, the Shenzhen Stock Exchange and CSDC.
- (v) The Company shall withhold and pay the individual income tax payable by the Participants in accordance with the provisions of the national tax regulations.
- (vi) The Company confirms that the Participants of the Scheme do not represent the rights of the Participants to continue to serve the Company and do not constitute the Company's commitment to the term of employment of the employees. The employment relationship between the Company and the Participants is still governed by the labor contract entered into between the Company and the Participants.
- (vii) Other relevant rights and obligations as stipulated by laws and regulations.

## **II. Rights and Obligations of the Participants**

- (i) The Participants shall comply with the requirements of their positions as stipulated by the Company, and shall be diligent and responsible, abide by professional ethics and make contribution to the development of the Company.
- (ii) The Participants shall lock up their granted Restricted Shares according to the requirements of the Incentive Scheme. Prior to the unlocking of the Restricted Shares, the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as guarantee or used for repayment of debts.
- (iii) The source of funds of the Participants shall be self-raised funds of the Participants.
- (iv) The Restricted Shares granted to the Participants shall be entitled to the rights of their shares after registration with the CSDC, including but not limited to the rights to dividends and allotment options of such shares. Shares acquired by the Participants as a result of the grant of Restricted Shares which have not been unlocked, such as bonus shares, capitalisation issue, rights issue and sub-division of shares, shall be subject to lock-up restrictions pursuant to the Incentive Scheme, and shall not be sold or otherwise transferred in the secondary market. The lock-up period of such shares shall be the same as that of the Restricted Shares.
- (v) Any gains of the Participants from the Incentive Scheme are subject to individual income tax and other taxes according to national tax regulations. The Participants agree that the Company shall withhold and pay the aforesaid individual income tax.

- (vi) The Participants undertake that, if false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant or arrangements for exercise of rights, the Participants concerned shall return to the Company all interests gained through the Incentive Scheme since the relevant information disclosure documents are confirmed to have false statements or misleading statements or material omissions.
- (vii) When the Company distributes cash dividends, the cash dividends to be received by the Participants in respect of the Restricted Shares granted to them shall be enjoyed by the Participants after withholding and paying personal income tax; if such portion of the Restricted Shares cannot be unlocked, the Company shall deduct such portion of cash dividends that the Participants are entitled to when repurchasing such portion of the Restricted Shares in accordance with the provisions of the Scheme and make corresponding accounting treatment.
- (viii) Upon consideration and approval of the Incentive Scheme at the general meeting, the A shares, B shares and H shares class meetings of the Company, the Company will enter into the Agreement on Grant of Restricted Shares with each of the Participants to specify their respective rights and obligations under the Incentive Scheme and other relevant matters.
- (ix) Other relevant rights and obligations as stipulated by laws and regulations.

### **III. Dispute or Quarrel Settlement System for the Company and the Participants**

Any disputes or disputes between the Company and the Participants arising from the implementation of the Incentive Scheme and/or the Equity Incentive Agreement entered into by the parties or in connection with the Incentive Scheme and/or an equity incentive agreement shall be resolved through negotiation, communication or mediation by the remuneration and assessment committee of the board. If relevant disputes are not solved through the abovementioned methods within 60 days from the date of occurrence of the disputes, either party is entitled to file a lawsuit with the People's Court with jurisdiction in the place where the Company is located.

#### **Chapter XIII Handling Unusual Changes to the Company and Participants**

##### **I. Handling Unusual Changes to the Company**

- (i) The Incentive Scheme shall be terminated immediately if any of the following events occurs to the Company, the Restricted Shares which have been granted to the Participants but not yet unlocked shall not be unlocked and shall be repurchased and cancelled by the Company;



1. issue of an auditor' s report with 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;
  2. issue of an auditor' s report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
  3. failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  4. prohibition from implementation of a share incentive scheme by laws and regulations;
  5. other circumstances under which the Incentive Scheme shall be terminated as determined by the CSRC.
- (ii) The Incentive Scheme shall remain effective if any of the following events occurs to the Company:
1. change in control of the Company;
  2. merger and spin-off of the Company.
- (iii) Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with grant conditions or unlocking arrangements for Restricted Shares, all the Restricted Shares that have not been unlocked shall be repurchased and cancelled by the Company uniformly and all outstanding Share Options shall be cancelled by the Company. In respect of the Restricted Shares granted to the Participants that have already been unlocked, the Participants concerned shall return all rights and interests granted to the Company. 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 Incentive Scheme.

The Board shall recover the gain received by the Participants in accordance with the aforesaid provisions and the relevant arrangements under the Incentive Scheme.

**II. Change in Personal Particulars of the Participants:**

- (i) When a Participant has a change in job positions, including demotion, but still works in the Company or a branch or a subsidiary of the Company or is assigned by the Company, the Restricted Share granted to him/her will be fully regulated by the procedures as specified in the Incentive Scheme before the change of his/her job positions. In case a Participant becomes a party who cannot hold Shares or Restricted Shares of the Company under relevant policy provisions, Restricted Shares that have been granted but not yet unlocked shall not be unlocked and shall be repurchased by the Company for cancellation at the Grant Price bearing interest at bank's loan rate for the same period.

However, when a Participant is dismissed or removed, or ceases to be a management personnel prior to the unlocking of the current quota of the Restricted Shares due to his/her incapability for the role, Restricted Shares that have been granted but not yet unlocked shall not be unlocked and shall be repurchased by the Company for cancellation at the Grant Price bearing interest at bank's loan rate for the same period.

- (ii) When a Participant leaves the Company due to voluntary resignation, cessation to renew upon expiration of contract, redundancy, and cancellation (termination) of labor contract by the Company for personal fault, Restricted Shares that have been granted to the Participant since the date he/she leaves the Company but not yet permitted to be unlocked shall not be unlocked, and shall be repurchased at the Grant Price plus interest with reference to the bank leading rate at the same period and cancelled by the Company. The Participant shall make full payment for income tax in respect of the unlocked portion of Restricted Shares before leaving the Company.
- (iii) When a Participant leaves the Company due to retirement, and the Restricted Shares granted to him/her have, in the year of retirement, reached the exercisable conditions subject to time restriction and performance assessment, the qualified portion of the shares may be exercised within half a year from the date of retirement while the unqualified portion will no longer be exercised. Restricted Shares that have not been unlocked shall be repurchased by the Company at the Grant Price bearing interest at bank's loan rate for the same period. The Participant shall make full payment for income tax in respect of the unlocked portion of Restricted Shares before leaving the Company.
- (iv) When any of the following events occurs to a Participant, the Company shall cease to grant any new interest to him/her and shall cancel his/her exercise qualification for interest not yet exercised. Restricted Shares that have been granted but not yet

unlocked shall be repurchased by the Company for cancellation at the Grant Price bearing interest at bank's loan rate for the same period, while the Company is entitled to request the return of gains from share incentive by the Participant:

1. there is such conduct as violates national laws and regulations, occupational ethics, or negligence of duty or professional misconduct, which causes severe damage to the interests or the reputation of the Company and causes financial losses or negative effect in society, direct or indirect, to the Company;
  2. where a Participant 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;
  3. where the Company has sufficient evidence to prove a Participant, during his/her terms of office, has taken illegal or unethical actions such as accepting bribes, asking for bribes, corruption, theft and divulging operational and technical secrets, entering into related transactions, which have material adverse impact on the Company's reputation and image, and cause financial losses or negative effect in society, direct or indirect, to the Company;
  4. where the Participant is prosecuted as a result of criminal offence;
  5. where the Participant causes improper losses to the Company as a result of violating relevant laws and regulations or the Articles of Association;
  6. where the Restricted Shares are not permitted to be granted to the Participants pursuant to rule 8 of Management Measures.
- (v) The resignation of Participants due to incapacity shall be treated depending on the following two circumstances:
1. If a Participant resigns due to incapacity resulting from performance of duties, the Restricted Shares granted to the Participant shall be fully subject to the procedures under the Incentive Scheme in accordance with the case prior to the incapacity, and all Unlocking Conditions shall be satisfied, except the individual performance appraisal results, which will no longer be included in the Unlocking Conditions;
  2. If a Participant resigns not due to incapacity resulting from performance of duties, the Restricted Shares which have been granted to the Participant but not yet unlocked shall not be unlocked, and shall be repurchased at the Grant Price plus interest with reference to the bank leading rate at the same period and cancelled by the Company.

- (vi) The death of Participants shall be treated depending on the following two circumstances:
1. If a Participant dies due to the performance of duties, the Restricted Shares which have been granted to the Participant shall be held by his/her designated heir or lawful heir on his/her behalf. The Restricted Shares granted to the Participant but not yet unlocked shall be subject to the procedures under the Incentive Scheme in accordance with the case prior to the death, and all Unlocking Conditions shall be satisfied, except the individual performance appraisal results, which will no longer be included in the Unlocking Conditions;
  2. If a Participant dies due to other reasons, the Restricted Shares which have been granted to the Participant but not yet unlocked shall not be unlocked and shall be repurchased and cancelled by the Company, and the repurchase price shall be the sum of the Grant Price plus the bank loan interest rate of the same term.
- (vii) Other circumstances not stated above and the handling method thereof shall be determined by the Board.

#### **Chapter XIV Principles of Repurchase and Cancellation of Restricted Shares**

If the Company repurchases and cancels the Restricted Shares under the requirements of the Incentive Scheme, the repurchase price represents the Grant Price plus the bank loan interest rate of the same term, unless otherwise provided by the Incentive Scheme.

##### **(i) Method for adjustment of repurchase quantity**

Upon completion of registration of the Restricted Shares granted to the Participants, in case of capitalisation issue, bonus issue, stock split, rights issue, share consolidation or any other matters affecting the total share capital or share price of the Company, in respect of the Restricted Shares granted but not yet unlocked, the repurchase quantity shall be adjusted in accordance with the following method:

##### **1. Capitalisation issue, bonus issue and stock split**

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

Where:  $Q_0$  represents the number of Restricted Shares prior to adjustment;  $n$  represents the rate of increase per share resulting from capitalisation issue, bonus issue and stock split (i.e. the increase in number of shares per share upon capitalisation issue, bonus issue and stock split);

$Q$  represents the number of Restricted Shares after adjustment.

**2. Rights issue**

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

Where:  $Q_0$  represents the number of Restricted Shares prior to adjustment;  $P_1$  represents the closing price on the record date;  $P_2$  represents the price of rights issue;  $n$  represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company prior to the rights issue);  $Q$  represents the number of restricted shares after adjustment.

**3. Share consolidation**

$$Q = Q_0 \times n$$

Where:  $Q_0$  represents the number of Restricted Shares prior to adjustment;  $n$  represents the ratio of share consolidation (i.e. one share shall be consolidated into  $n$  share);  $Q$  represents the number of restricted shares after adjustment.

**(ii) Method for adjustment of repurchase price**

Upon completion of registration of the Restricted Shares granted to the Participants, in case of capitalisation issue, bonus issue, stock split, rights issue, share consolidation, dividend distribution or any other matters that affecting the total share capital or share price of the Company, in respect of the Restricted Shares granted but not yet unlocked, the repurchase price shall be adjusted by the Company.

**1. Capitalisation issue, bonus issue and stock split**

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

Where:  $P$  represents the repurchase price per Restricted Shares after adjustment,  $P_0$  represents the Grant Price per Restricted Share;  $n$  represents the rate of increase per share resulting from capitalisation issue, bonus issue and stock split (i.e. the increase in number of shares per share upon capitalisation issue, bonus issue and stock split).

**2. Share consolidation**

$$P = P_0 \div n$$

Where:  $P$  represents the repurchase price per Restricted Shares after adjustment,  $P_0$  represents the Grant Price per Restricted Share;  $n$  represents the ratio of share consolidation per share (i.e. one share shall be consolidated into  $n$  share).

**3. Rights issue**

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

Where: P represents the repurchase price per Restricted Shares after adjustment,  $P_0$  represents the Grant Price per Restricted Share;  $P_1$  represents the closing price of shares on the record date;  $P_2$  represents the price of rights issue; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the share company prior to the rights issue).

**4. Dividend distribution**

$$P = P_0 - V$$

Where: P represents the repurchase price per Restricted Share after adjustment,  $P_0$  represents the Grant Price per Restricted Share prior to adjustment; V represents the amount of dividends per share; P must remain greater than 1 after adjustment.

**(iii) Procedures for adjustment of repurchase quantity or price**

1. The Board of the Company shall be authorized at the general meeting and the A shares, B shares and H shares class meetings of Company to adjust the repurchase quantity and price of Restricted Shares based on the reasons listed above. After the adjustment according to the above provisions, an announcement shall be made in a timely manner.
2. The adjustment to the repurchase quantity and price of Restricted Shares for other reasons shall be subject to resolution of the Board and consideration and approval at the general meeting and the A shares, B shares and H shares class meetings.

**(iv) Procedures of repurchase and cancellation**

1. Upon the occurrence of any circumstances specified in the Incentive Scheme giving rise to a repurchase and cancellation, the Company shall promptly convene a Board meeting to consider the repurchase plan and submit the same to the general meeting and the A shares, B shares and H shares class meetings for approval, and make a timely announcement.
2. When making a repurchase, the Company shall apply to the stock exchange for unlocking such Restricted Shares. Securities registration and clearing institution will conduct registration and settlement procedure thereof upon confirmation by such stock exchange.
3. The repurchase under the Incentive Scheme shall be subject to the requirements of the Company Law and other relevant laws and regulations.

**Chapter XV Other Matters of Significance**

- I. The Company shall not provide loans, guarantee for loans and financial support in any other forms, to the Participants with respect to the acquisition of the Restricted Shares under the Incentive Scheme.
- II. Where any terms of the Incentive Scheme are in conflict with any provision of the relevant PRC laws, regulations and administrative rules and regulatory documents, the provision of such laws, regulations and administrative rules and regulatory documents shall prevail. Where it is not explicitly provided in the Incentive Scheme, it shall be subject to or adjusted pursuant to the relevant PRC laws, regulations and administrative rules and regulatory documents.
- III. Where Participants are in violation of the Incentive Scheme, the Articles of Association or relevant PRC laws, regulations and administrative rules and regulatory documents, all gains arising from the disposal of the shares granted under the Incentive Scheme shall belong to the Company and the Board of the Company shall be responsible for the implementation.
- IV. Investors are advised to note that the Incentive Scheme shall be subject to the following statutory procedures:
  - (i) The Incentive Scheme being considered and approved by the State-owned Assets Supervision and Administration Bureau of Shouguang City;
  - (ii) The Share Incentive Scheme being approved at the general meeting and the A shares, B shares and H shares class meetings of the Company.
- V. The Incentive Scheme shall be interpreted by the Board of the Company.

The Board of SHANDONG CHENMING PAPER HOLDINGS LIMITED\*

30 March 2020

\* *For identification purposes only*

**SHANDONG CHENMING PAPER HOLDINGS LIMITED**

**ASSESSMENT MANAGEMENT MEASURES FOR THE IMPLEMENTATION OF THE  
2020 RESTRICTED A SHARE INCENTIVE SCHEME**

To ensure the smooth implementation of the 2020 restricted A share incentive scheme (hereinafter referred to as the “Share Incentive Scheme” or the “Incentive Scheme”) of Shandong Chenming Paper Holdings Limited (hereinafter referred to as the “Company”), further improve the corporate governance structure of the Company, form a sound and balanced value distribution system, motivate Directors of the Company (excluding independent Directors and Supervisors), senior management members, and key technical (business) employees of the Company (including branches/subsidiaries) to carry out their work with integrity and diligence, ensure the steady improvement of the Company’s performance, and to ensure the realisation of the Company’s development strategy and business objectives, these measures are specially formulated according to the relevant national regulations and the actual situation of the Company.

**I. Purpose of Appraisal**

To further improve the corporate governance structure of the Company, promote the establishment and improvement of the incentive and restraint mechanism, ensure the smooth implementation of the Share Incentive Scheme, and maximise the role of equity incentives, thereby ensuring the realisation of the Company’s development strategy and business objectives.

**II. Appraisal Principle**

The assessment and evaluation on the appraisal targets’ performance must be conducted in adherence to the principles of justice, openness, and fairness, and in strict compliance with these measures, so as to realise the close combination of the Share Incentive Scheme with the work performance and contribution of the Participants, thereby improving their work performance and maximise the interests of the Company and all shareholders as a whole.

**III. Scope of Assessment**

These measures apply to all Participants identified in this Incentive Scheme, including Directors of the Company (excluding independent Directors and Supervisors), senior management members, key technical (business) employees of the Company (including branches/subsidiaries), and the personnel whom the Board considers suitable to be incentivised.



**IV. Appraisal Agency**

1. The Remuneration and Assessment Committee under the Board of the Company is responsible for leading and organising the assessment and assessing all Participants.
2. The securities investment department, human resources department and financial management centre of the Company form a working group responsible for the specific implementation of the appraisal for the Incentive Scheme.

**V. Indicators and Standards for the Performance Appraisal**

The Participants' Restricted Shares to be unlocked for the current year are determined based on the appraisal results at both the company and individual levels.

**(I) Performance Appraisal at Company Level**

***1. Assessment conditions at the time of grant***

The appraisal conditions for the grant of Restricted Shares under this Incentive Scheme are that:

- (1) Return on net assets for 2018 shall not be less than 5.0% and shall not be less than the industry average level or 50 fractiles of benchmark enterprise;
- (2) Gross profit margin of sales for 2018 shall not be less than 20% and shall not be less than the industry average level or 50 fractiles of benchmark enterprise;
- (3) Revenue from principal businesses as a percentage of total revenue for 2018 shall not be less than 90%.

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**APPENDIX II ASSESSMENT MANAGEMENT MEASURES FOR THE IMPLEMENTATION  
OF THE 2020 RESTRICTED A SHARE INCENTIVE SCHEME**

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**2. Assessment conditions for unlocking**

The Restricted Shares granted under the Incentive Scheme shall be subject to annual performance appraisal for the three accounting years from 2021 to 2023 for unlocking, to fulfil the Company's performance indicators as the unlocking conditions for the Participants. The annual performance targets of the Company are shown in the following table:

<b>Unlocking Period</b>	<b>Performance target</b>
First Unlocking Period	<p>① Return on net assets for 2021 shall not be less than 5.5% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</p> <p>② Gross profit margin of sales for 2021 shall not be less than 22% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</p> <p>③ Revenue from principal businesses as a percentage of total revenue for 2021 shall not be less than 90%.</p>
Second Unlocking Period	<p>① Return on net assets for 2022 shall not be less than 6.0% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</p> <p>② Gross profit margin of sales for 2022 shall not be less than 23% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</p> <p>③ Revenue from principal businesses as a percentage of total revenue for 2022 shall not be less than 90%.</p>
Third Unlocking Period	<p>① Return on net assets for 2023 shall not be less than 6.5% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</p> <p>② Gross profit margin of sales for 2023 shall not be less than 24% and shall not be less than the industry average level or 75 fractiles of benchmark enterprise;</p> <p>③ Revenue from principal businesses as a percentage of total revenue for 2023 shall not be less than 90%.</p>

*Notes:*

- ① The "return on net assets" above refers to the return on weighted average net assets.
- ② During the Validity Period of the Share Incentive Scheme, if the listed company purchases assets through issuing shares as a means of payment or utilising raised funds in the future, the increased net assets and the net profit generated from such net assets shall not be included in the calculation of appraisal for future years.
- ③ If there are significant changes in the business structure of or extreme values with excessive performance variation in the benchmark enterprise samples during the annual appraisal process for granting and unlocking, the Board of the Company will remove or replace the samples.

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**APPENDIX II ASSESSMENT MANAGEMENT MEASURES FOR THE IMPLEMENTATION  
OF THE 2020 RESTRICTED A SHARE INCENTIVE SCHEME**

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If the performance appraisal at company level for the current period is up to standards, the Restricted Shares granted to the Participants will be unlocked pursuant to the Incentive Scheme. If the performance appraisal at company level for the current period is not up to standards, all Restricted Shares granted to the Participants for the corresponding appraisal year shall be repurchased and cancelled by the Company at the repurchase price in accordance with the Incentive Scheme.

**(II) Performance appraisal at individual level of the Participants**

1. The Participants shall be subject to annual performance appraisal in accordance with the Assessment Management Measures formulated by the Company, and the appraisal results and unlocking ratio for the year shall be determined according to the annual average performance indicators of the individual departments. The appraisal results shall be categorised into two grades, namely up to standard and below standard. The reference for assessment is shown below:

**Individual Performance Appraisal Table of Participants**

<b>Performance results</b>	<b>A ≥ 80 scores</b>	<b>A &lt; 80 scores</b>
Standard coefficient	1.0	0

Actually unlocked individual quota in current year = standard coefficient × individual quota planned to be unlocked during the current year.

2. When any of the following events occurs to a Participant, the Company shall cease the unlocking of such Participant for the current period:
  - ① there is non-compliance with regulations and disciplinary rules, which causes huge financial losses to the Company or negative effect in society;
  - ② where a Participant resigns for personal reason or his/her labour contract is cancelled (terminated) due to violation of the Company's rules and regulations;
  - ③ where a Participant is removed or dismissed, and no longer holds cadre position until the unlocking for the current period;
  - ④ there are circumstances in which the Securities Regulatory Commission finds that the unlocking is impermissible.

All the Restricted Shares which are unable to be unlocked by the Participants for the current period shall be repurchased and cancelled by the Company at the Grant Price bearing interest at bank's loan rate for the same period.

**VI. Appraisal period and frequency**

**1. *Appraisal period***

The previous accounting year when Restricted Shares were granted to the Participants or Restricted Shares were unlocked.

**2. *Appraisal frequency***

During the implementation of this Incentive Scheme, an appraisal is carried out once a year.

**VII. Appraisal procedures**

1. Under the guidance of the Remuneration and Assessment Committee under the Board, the Company's human resources department and other relevant departments are responsible for the implementation of specific evaluation work, the calculation of the appraisal scores of the Participants and the summary of the performance appraisal results, and the formulation of an appraisal report on this basis.
2. The Remuneration and Assessment Committee under the Board of the Company reviews and considers and makes resolution on the performance appraisal report.

**VIII. Management of appraisal results**

**1. *Feedback of appraisal results and appeal***

The appraisal target has the right to know the results of their own assessment. The Remuneration and Assessment Committee under the Board shall notify the appraisal target the appraisal results within 5 working days after the end of the appraisal work.

If an appraisal target object to his/her own appraisal results, the objection should first be resolved through communication between the two parties. If it cannot be resolved properly, the appraisal target may appeal to the Remuneration and Assessment Committee under the Board. The Remuneration and Assessment Committee shall review and determine the final appraisal result or grade within 10 working days.

**2. *Archive of appraisal results***

After the appraisal is over, the appraisal results will be kept as confidential information in the archives for a period of not less than five years.

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**APPENDIX II ASSESSMENT MANAGEMENT MEASURES FOR THE IMPLEMENTATION  
OF THE 2020 RESTRICTED A SHARE INCENTIVE SCHEME**

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**IX. Appendices**

1. The Board of the Company is responsible for the formulation, interpretation and revision of these measures.
2. These measures shall come into effect after being reviewed and approved by the shareholders' general meeting and the A, B, and H shareholders' general meetings of the Company, and subsequent to the implementation of the Share Incentive Scheme.

The Board of Shandong Chenming Paper Holdings Limited  
30 March 2020

## 1. RESPONSIBILITY STATEMENT

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

## 2. DIRECTORS AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them had taken or was deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

### (a) Long position in the Company

Name of Director	Type of Shares	Nature of interest	Number of Shares held	Percentage of issued share capital of the Company
Chen Hongguo	A Share	Beneficial owner	11,080,044	0.381%
Chen Hongguo	A Share	Family interest <sup>(1)</sup>	861,322	0.030%
Chen Hongguo	A Share	Associate interest <sup>(2)</sup>	231,000,000	7.953%
Hu Changqing	A Share	Beneficial owner	42,857	0.001%

Notes:

- (1) The family interest is held by the spouse of Chen Hongguo, Li Xueqin.
- (2) Chen Hongguo and his spouse, Li Xueqin, collectively hold 76.79% equity interests in Shouguang Henglian Enterprise Investment Co. Ltd., (hereinafter referred to as "Shouguang Henglian"), as a result, Shouguang Henglian is deemed to be controlled by Chen Hongguo. As a result, the 231,000,000 shares in Chenming Holdings (approximately 18.65% of the total share capital of Chenming Holdings) held by Shouguang Henglian is also deemed to be held by Chen Hongguo.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them had taken or deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date and to the best knowledge of the Directors and the chief executive of the Company, persons having interests and short positions in 5% or more in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and required to be recorded in the register of interests and short positions required to be kept by the Company pursuant to section 336 of the SFO were as follows:

#### Long Positions:

Type of shareholding	Name of Shareholder	Capacity and nature of interest	Number of Shares held	Percentage of such shareholding in the same type of issued share capital	Percentage of total issued share capital
A Shares	Chenming Holdings	Directly and beneficially owned	445,396,128	26.67%	15.33%
B Shares	Chenming Holdings	Indirectly and beneficially owned	210,717,563	29.83%	7.25%
B Shares	Chenming Holdings (Hong Kong) Limited	Directly and beneficially owned	210,717,563	29.83%	7.25%
H Shares	Chenming Holdings	Indirectly and beneficially owned	153,414,000	29.04%	5.28%
H Shares	Chenming Holdings (Hong Kong) Limited	Directly and beneficially owned	153,414,000	29.04%	5.28%
H Shares	The National Social Security Fund Council	Directly and beneficially owned	40,614,750	7.69%	1.40%

Save as disclosed above, as at the Latest Practicable Date, there were no other parties who had interests or short positions in the Sharers or underlying Shares of the Company which would fall to be recorded in the register required to be kept under section 336 of SFO.

#### **4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company or any member of the Group which is not terminable within one year without payment of compensation (other than statutory compensation).

#### **5. MATERIAL CHANGE**

As of the Latest Practicable Date, the Directors are not aware of any other material changes since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up, up to the Latest Practicable Date.

#### **6. COMPETING BUSINESS**

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors nor Supervisors, nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

#### **7. DIRECTORS AND SUPERVISORS' INTERESTS IN THE GROUPS ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date:

- (a) none of the Directors or Supervisors was materially interested in any contract or arrangement, which was significant in relation to the business of the Group; and
- (b) so far as the Directors are aware, none of the Directors or Supervisors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.



## 8. MATERIAL LITIGATION

As at the Latest Practicable Date, the Company is involved in the following litigations.

Basic information about litigation (arbitration)	Amount (RMB'0,000)	Will liability be incurred	Progress of litigation (arbitration)	Judgment result of the litigation (arbitration) and its effect	Judgment execution of the litigation (arbitration)	Disclosure date	Disclosure index
Statutory demand and Winding-up Petition	RMB167.86 million and the interest thereon, US\$3,548.9 million and the interest thereon, HK\$3,303.9 million and the interest thereon	Yes	<ol style="list-style-type: none"> <li>The Court of First Instance in the High Court of the HKSAR completed the hearing held from 21 February 2017 to 23 February 2017.</li> <li>The office address of the Company in Hong Kong received the notice in relation to the injunction order with a case number of HCMP3060/2016 to the legal representative of the Company from the Court of First Instance in the High Court of the HKSAR on 15 June 2017.</li> <li>On 26 June 2017, there was an ex-parte hearing in chambers in the High Court of the HKSAR in which the petitioner applied for an interim injunction order to prohibit the Company from distribution of the 2016 final dividend to the holders of H shares.</li> <li>On 30 June 2017, the Hon Mr. Justice Harris of the High Court of the HKSAR discharged the interim injunction order on the same date after the hearing.</li> <li>The decision was handed down by the Hon Mr. Justice Harris of the High Court of the HKSAR on 7 July 2017.</li> <li>The winding-up petition was scheduled to be heard before the High Court of the HKSAR at 9:30 a.m. on 23 August 2017.</li> <li>The Company through its legal adviser applied to the Court of HKSAR for the validation order relating to the transfer of fully paid-up shares of the Company on 19 July 2017 (case no. HCCW175/2017). The hearing of the application of the validation order was scheduled to be heard at 9:30 a.m. on 19 October 2017.</li> <li>The winding-up petition was heard by the Hon Mr. Justice Harris of the High Court of the HKSAR on 28 August 2017.</li> </ol>	<ol style="list-style-type: none"> <li>The office address of the Company in Hong Kong received the notice in relation to the injunction order with a case number of HCMP3060/2016 to the legal representative of the Company from the Court of First Instance in the High Court of the HKSAR on 15 June 2017: (1) the amended originating summonses for the injunction order be dismissed; and (2) an order nisi be made on the costs of the legal proceedings. The Company paid the costs to the defendant (including the fees payable to two counsels). The High Court of the HKSAR anticipated the reasons for decision of the case would be handed down on 7 July 2017.</li> <li>On 15 June 2017, the office address of the Company in Hong Kong received a winding-up petition dated 15 June 2017 filed by the defendant to the High Court of the HKSAR.</li> <li>The decision was handed down by the Hon Mr. Justice Harris of the High Court of the HKSAR on 7 July 2017.</li> <li>Having considered the reasons for decision and the consequences to the Company once the winding up petition is given, the Company applied for an appeal against the decision to the High Court of HKSAR on 12 July 2017. The hearing was scheduled to be heard before the Court of Appeal of the High Court of the HKSAR at 10:00 a.m. on 11 May 2018.</li> <li>The High Court of HKSAR granted the Validation Order to the Company. Therefore, the transfer of fully paid-up shares of the Company since the Winding Up Petition (i.e. 15 June 2017) would not be deemed void because of the Winding Up Petition.</li> </ol>	Not applicable	24 February 2017, 16 June 2017, 22 June 2017, 29 June 2017, 3 July 2017, 17 July 2017, 19 July 2017, 31 July 2017, 24 August 2017, 28 August 2017, 11 September 2017, 19 October 2017	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> , announcement number: 2017-015, 2017-067, 2017-069, 2017-070, 2017-071, 2017-076, 2017-084, 2017-128, 2017-103, 2017-106

Basic information about litigation (arbitration)	Amount (RMB'0,000)	Will liability be incurred	Progress of litigation (arbitration)	Judgment result of the litigation (arbitration) and its effect	Judgment execution of the litigation (arbitration)	Disclosure date	Disclosure index
Statutory demand and Winding-up Petition		Yes	<p>9. On 5 July 2017, the Company initiated legal proceedings for a civil complaint against Arjowiggins HKK2 Limited ("HKK2") and related parties (the "Civil Complaint") at the Intermediate People's Court of Weifang City in Shandong Province of the People's Republic of China ("Weifang Court"). The Civil Complaint was admitted to be heard by Weifang Court on 8 July 2017.</p> <p>Justice Mimmie Chan of the Court of First Instance of the High Court of the HKSAR on 19 January 2018 in chambers (open to public) ordered that the Company be restrained from further proceeding with the Civil Complaint that it had filed on 5 July 2017 against HKK2 and the related parties before Weifang Court.</p> <p>The Company withdrew the Civil Complaint from Weifang Court on 22 February 2018.</p>	<p>6. The Court ordered an adjournment of the Winding-up Petition, on the Company's undertaking that it would procure a third party to pay into court the amount of the Statutory Demand plus interest to 27 August 2018, totalling approximately HK\$389 million within 14 days. The costs of the Winding-up Petition were kept.</p> <p>7. The Company had procured payment by a third party into the High Court of the HKSAR in the sum of HK\$389,112,432.44 (this sum being the Hong Kong dollar equivalent of the amount set out in the Statutory Demand and interest thereon from 19 October 2016 to 27 August 2018).</p>			

## 9. EXPERT

- (a) The following sets out the qualifications of the expert who have given its opinions or advice as contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

- (b) As at the Latest Practicable Date, Gram Capital had no shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the Latest Practicable Date, Gram Capital had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2019 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

- (d) Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.
- (e) The letter and recommendation given by Gram Capital is given as at the date of this circular for incorporation herein.

**10. MISCELLANEOUS**

- (a) The registered office of the Company is at No. 595 Shengcheng Road, Shouguang City, Shandong Province, 262700, PRC.
- (b) The company secretary of the Company is Mr. Chu Hon Leung, a solicitor, obtained a bachelor's degree in commerce from Macquarie University, Sydney, Australia. He obtained his Graduate Diploma in Law from The College of Law, London, United Kingdom. He graduated from the City University of Hong Kong and obtained his Postgraduate Certificate in Laws. He was a solicitor in local and international law firms in Hong Kong, and an in-house legal counsel of a leading PRC asset management company. He has been admitted as a practising solicitor in Hong Kong since 2009.
- (c) The Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited is situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the office of Messrs Li and Partners at 22/F, World-Wide House, Central, Hong Kong, during normal office hours on Monday to Friday from the date of this circular up to and including the date of the EGM and the H Shareholders' Class Meeting:

- (a) the audited consolidated accounts of the Company for the last two financial years ended 31 December 2018 and 31 December 2019, respectively;
- (b) the memorandum and articles of association of the Company;
- (c) the letter from the Board to the Shareholders, the text of which is set out in the section headed "Letter from the Board" of this circular;
- (d) the letter of recommendation from the independent board committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

- (e) the letter of advice from Gram Capital to the independent board committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from Gram Capital” of this circular;
- (f) the written consent from Gram Capital referred to in the paragraph headed “Qualification and Consent of Expert” in this Appendix.