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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)**

**ANNOUNCEMENT**  
**(1) PROPOSED ADOPTION OF THE RESTRICTED**  
**SHARE INCENTIVE SCHEME; AND**  
**(2) CONNECTED TRANSACTION-THE ISSUE AND GRANT OF**  
**RESTRICTED SHARES UNDER THE INCENTIVE SCHEME**

**PROPOSED ADOPTION OF THE INCENTIVE SCHEME**

The Board is pleased to announce that, on 30 March 2020, the Board considered and approved the resolution in relation to the proposed adoption of the Incentive Scheme. The Incentive Scheme shall become effective upon consideration and approval at the EGM and the Class Meetings. Before the EGM and the Class Meetings are held for approving of the Incentive Scheme, the Company may amend the Incentive Scheme upon the request of the regulatory authorities of the PRC and/or Hong Kong.

**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 this announcement) under the Incentive Scheme.

## **EXTRAORDINARY GENERAL MEETING AND CLASS MEETINGS**

The Incentive Scheme and the issue and grant of Restricted Shares to Participants (whether a connected person or not) are subject to the approval of the EGM and Class Meetings by way of special resolutions, the review and approval of other regulatory bodies and the approval of the CSRC. A circular containing, among other things, further details of the terms of the Incentive Scheme and the issue and grant of Restricted Shares is expected to be despatched to the shareholders on or before 23 April 2020.

## **PROPOSED ADOPTION OF THE INCENTIVE SCHEME**

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## **PURPOSE AND PRINCIPLES 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.

## **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.

### **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.

#### **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 this 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 law Participant shall not exceed 1% of the total issued 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 (Participants Nos 1 to 10 below are connected person of the Company):

Name	Position	Number of shares to be granted ('0,000 shares)	Proportion in the total shares granted (%)	Proportion in the total share capital (%)
1. Chen Hongguo	Chairman	2,000	25.00%	0.69%
2. Hu Changqing	Vice Chairman	500	6.25%	0.17%
3. Li Xingchun	Vice Chairman	500	6.25%	0.17%
4. Li Feng	General Manager	300	3.75%	0.10%
5. Geng Guanglin	Vice General Manager	200	2.5%	0.07%
6. Dong Lianming	Chief Financial Officer	100	1.25%	0.03%
7. Yuan Xikun	Secretary of the Board	30	0.38%	0.01%
8. Li Xueqin	Vice General Manager	300	3.75%	0.10%
9. Li Weixian	Vice General Manager	200	2.50%	0.07%
10. Li Zhenzhong	Vice General Manager	200	2.50%	0.07%
Key technical (business) employees and other persons(110)		3,954	49.43%	1.36%
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 date of the announcement. 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 date of the announcement.

(2) Any discrepancies of totals and sums of figures listed in the above table between are due to rounding.

## **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.

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%
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%



Unlocking Period	Description of the Unlocking Period	Percentage of the Restricted Shares to be unlocked of total number of the Restricted Shares granted
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.

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 this announcement;
- (ii) 60% of the average closing prices of the shares of the Company on the last 30 trading days before the date of this 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 this announcement;
- (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 this 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.
- (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:

Unlocking Period	Performance target
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 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>
<b>Standard coefficient</b>	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 name	Stock code	Stock name
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 Guan hao 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)		

### 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.

## **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 this 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.

### **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 this 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.

### **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 (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 (RMB0,000)	2021 (RMB0,000)	2022 (RMB0,000)	2023 (RMB0,000)	2024 (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.
- (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 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, 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 authorized 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 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 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 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.

#### **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.

## **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.
- (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.

## **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 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 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.
- (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.

## (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 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 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.

**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 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.

Directors (excluding independent non-executive Directors, who will provide their opinion after considering the advice from the independent financial adviser of the Company) are of the opinion that the terms in respect of the issue and grant of Restricted Shares to the Participants who are connected persons are fair and reasonable, normal commercial terms and in the interests of the Company and the Shareholders (the identities of whom are set out in the section headed "SOURCE, NUMBER AND DISTRIBUTION OF RESTRICTED SHARES GRANTED UNDER THE INCENTIVE SCHEME – Allocation of the Restricted Shares to be Granted to the Participants" of this announcement) as a whole.



## **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 new A shares as 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. Special resolutions will be proposed by the Company at the EGM and the Class Meetings to consider and, if thought fit, approve the issue and grant of 80,000,000 Restricted Shares under the Incentive Scheme.

As 16 Participants are directors and senior management of the Company and its subsidiaries, and, accordingly, connected persons of the Company, 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. The Company will establish an independent board committee to advise the independent shareholders of the Company in respect of the issue and grant of Restricted Shares by the Company to the Participants who are connected persons. The Company has appointed Gram Capital as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in respect of the issue and grant of Restricted Shares by the Company to the Participants who are connected persons.

## **EXTRAORDINARY GENERAL MEETING AND CLASS MEETINGS**

The Incentive Scheme and the issue and grant of Restricted Shares to Participants (whether such participant is a connected person or not) are subject to the approval of the EGM and the Class Meetings by way of special resolutions, the review and approval of other regulatory bodies and the approval of the CSRC. A circular containing, among other things, (i) further details of the terms of the Incentive Scheme, (ii) details of the issue and grant of the Restricted Shares, (iii) the letter of the recommendations from the independent board committee to the independent Shareholders, (iv) the advice from the independent financial adviser to the independent board committee and independent Shareholders, and (v) the notice of the EGM and the Notice of the H shares class meeting is expected to be despatched to the shareholders on or before 23 April 2020.

## DEFINITIONS

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

“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)
“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
“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
“Company Law”	the Company Law of the PRC, as amended from time to time
“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
“Connected person”	has the meaning as stated in the Hong Kong Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Directors	the directors of the Company
“EGM”	the extraordinary general 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
“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

“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
“Group”	the Company and its subsidiaries
“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
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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)
“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 which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“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
“Securities Law”	the Securities Law of the People’s Republic of China
“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 Listing Rules”	the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange
“SSE”	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
“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
“%”	percentage

By Order of the Board  
**SHANDONG CHENMING PAPER HOLDINGS LIMITED\***  
**Chen Hongguo**  
*Chairman*

Shandong, China  
30 March 2020

*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.*

\* *For identification purposes only*