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Shanghai Haohai Biological Technology Co., Ltd.*

上海昊海生物科技股份有限公司

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

(Stock code: 6826)

**(1) PROPOSED ADOPTION OF
THE 2021 RESTRICTED A SHARE INCENTIVE SCHEME
(2) THE PROPOSED ISSUE AND GRANT OF NEW A SHARES UNDER
THE INCENTIVE SCHEME PURSUANT TO SPECIFIC MANDATE
WHICH INVOLVES CONNECTED TRANSACTION**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
溢博資本有限公司

The Company is pleased to announce that, on 29 December 2021, the Board (with Directors who are Participants under the Incentive Scheme having abstained) approved the resolutions in relation to the proposed adoption of the Incentive Scheme and the proposed issue and grant of new A Shares under the Incentive Scheme pursuant to the Specific Mandate. The proposed Incentive Scheme is subject to Shareholders' approval by way of special resolution at the EGM and the Class Meetings. The Company may amend the Incentive Scheme if requested by the regulatory authorities in the PRC and/or Hong Kong. The Company proposes to grant A Shares under such scheme to the Participants, including certain connected persons of the Company.

The Company will convene the EGM and the Class Meetings for Independent Shareholders to consider and, if thought fit, approve the resolutions in relation to, among others, the proposed Incentive Scheme, the Assessment Management Measures, the Specific Mandate for issue and allotment of the Restricted Shares under the Incentive Scheme and the grant of the Restricted Shares (including the grant to the Connected Participants under the First Grant) under the Incentive Scheme. The notice of the EGM and the Class Meetings will be announced despatched to the Shareholders separately by the Company.

A circular containing, among other things, further details of the terms of the proposed Incentive Scheme, the proposed grant under the Incentive Scheme pursuant to the Specific Mandate, the recommendation from the Independent Financial Adviser and the letter from the Independent Board Committee on the issue and grant of Restricted Shares by the Company to the Connected Participants and the notices convening the EGM and the Class Meetings, is expected to be despatched to the Shareholders on or before 11 February 2022 in accordance with the listing rules of the place where the Company's securities are listed and the Articles of Association.

THE PROPOSED 2021 RESTRICTED A SHARE INCENTIVE SCHEME

The principal terms of the proposed Incentive Scheme are summarized as follows:

I. PURPOSE OF THE INCENTIVE SCHEME

To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the Company's core management personnel, core technical or operational personnel, fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, align the interests of the shareholders, the Company and the core staff members, bring their attention to the long-term development of the Company and ensure that the Company's development strategy and business goals shall be realized.

II. FORM AND SOURCE OF THE RESTRICTED SHARES TO BE GRANTED

The form of incentive adopted under the Incentive Scheme is Restricted Shares. The source of all Restricted Shares under the Incentive Scheme will be new ordinary A Shares to be issued by the Company to the Participants.

III. NUMBER OF THE RESTRICTED SHARES TO BE GRANTED

The total number of Restricted Shares to be granted under the Incentive Scheme will be not more than 1,800,000 A Shares, representing approximately 1.31% of the total number of issued A Shares and approximately 1.02% of the total issued share capital of the Company as at the date of this announcement, amongst which 350,000 A Shares, representing approximately 19.44% of the total number of Restricted Shares under the Incentive Scheme, will be reserved for the Reserved Grant in a subsequent period, which shall be within 12 months after the adoption of the Incentive Scheme.

The cumulative total number of underlying Shares involved under the fully effective share incentive schemes of the Company shall not exceed 20% of the total share capital of the Company as at the date the Incentive Scheme is submitted for approval at the EGM and the Class Meetings. The total number of Shares to be granted to any Participant under all the fully effective share incentive schemes of the Company shall not exceed 1% of the total share capital of the Company.

IV. PARTICIPANTS OF THE INCENTIVE SCHEME

A. Basis for determining the Participants

1. Legal basis for determining the Participants

The Participants are determined after taking into account the actual circumstances of the Company and in accordance with the PRC Company Law, the PRC Securities Law, the Management Measures, the Hong Kong Listing Rules, the STAR Market Listing Rules, the Memorandum on Information Disclosure of Companies Listed on the STAR Market of the Shanghai Stock Exchange No. 4 – Information Disclosure on Equity Incentives (《科創板上市公司信息披露業務指南第4號－股權激勵信息披露》) and other relevant laws, regulations and regulatory documents as well as the Articles of Association.

2. Positions held by the Participants in the Company

The Participants include Directors, members of the senior management, core technical staff and other persons considered by the Board (excluding the independent non-executive Directors and Supervisors) to be required to be incentivized of the Group. The list of Participants will be verified by the Board of Supervisors.

B. Scope of the Participants

The total number of the Participants for the First Grant proposed under the Incentive Scheme shall be 206, representing approximately 13.53% of the total number of 1,522 employees of the Group as at 30 June 2021.

None of the Participants are independent non-executive Directors, Supervisors, persons who individually or jointly hold or control 5% or more of the total issued share capital of the Company or their spouses, parents and children.

All such Director or member of the senior management being Participants must have been elected at a Shareholders' general meeting or engaged by the Board. All Participants must have entered into a labour or employment relationship with the Company or its subsidiaries during the assessment period of the Incentive Scheme.

The Participants for the Reserved Grant shall be determined within 12 months after the Incentive Scheme being considered and approved at the EGM and Class Meetings. The Company will announce relevant information about the Participants on the specialized website timely after the Board having made such proposal, independent non-executive Directors and the Board of Supervisors having expressed clear opinions, and the Company counsel having provided professional opinions and legal opinions. The Reserved Grant shall lapse if the Participants cannot be determined within the 12-month period. The basis for determining the Participants for the Reserved Grant shall refer to the basis for determining the Participants for the First Grant.

C. Persons who are prohibited to participate in the Incentive Scheme

1. The person has been determined as an inappropriate candidate by the SSE within the most recent 12 months;
2. The person has been identified as an inappropriate candidate by the CSRC and its delegated institutions within the most recent 12 months;
3. The person has been subject to administrative punishment or market ban measures by CSRC and its delegated institutions due to major illegal acts in the most recent 12 months;
4. The person has the circumstances stipulated in the PRC Company Law that he/she shall not act as a director or senior manager of any company;
5. Laws and regulations stipulate that the person shall not participate in the equity incentives of listed companies; or
6. Other circumstances as determined by the CSRC.

During the implementation process of the Incentive Scheme, if any of the above circumstances in relation to a Participant arises, the Company shall terminate his/her right to participate in the Incentive Scheme, and any granted Restricted Shares which have not yet been attributed shall not be attributed and shall lapse.

D. Allocation of Restricted Shares to be granted

The allocation of the Restricted Shares to be granted under the Incentive Scheme is set out in the table below:

Name of Participant(s)	Major position of Participant(s)	Number of Restricted Shares to be granted	Percentage to the total number of Restricted Shares	Percentage to the issued A Shares of the Company as at the date of this announcement	Percentage to the total share capital of the Company as at the date of this announcement
Dr. Hou Yongtai ⁽¹⁾	Executive Director, Chairman and core technical staff	50,000	2.78%	0.04%	0.03%
Mr. Wu Jianying ⁽¹⁾	Executive Director and general manager	70,000	3.89%	0.05%	0.04%
Mr. Tang Minjie ⁽¹⁾	Executive Director and chief financial officer	50,000	2.78%	0.04%	0.03%
Ms. Chen Yiyi ⁽¹⁾	Executive Director	50,000	2.78%	0.04%	0.03%
Ms. Ren Caixia	Deputy general manager and core technical staff	20,000	1.11%	0.01%	0.01%
Mr. Zhang Jundong	Deputy general manager and core technical staff	20,000	1.11%	0.01%	0.01%
Mr. Wang Wenbin	Deputy general manager and core technical staff	20,000	1.11%	0.01%	0.01%

Name of Participant(s)	Major position of Participant(s)	Number of Restricted Shares to be granted	Percentage to the total number of Restricted Shares	Percentage to the issued A Shares of the Company as at the date of this announcement	Percentage to the total share capital of the Company as at the date of this announcement
Ms. Tian Min ⁽²⁾	Secretary of the Board, the joint company secretary and a director of a subsidiary of the Company	15,000	0.83%	0.01%	0.01%
Ms. Jiang Lixia ⁽²⁾	An executive director of a subsidiary of the Company and core technical staff	20,000	1.11%	0.01%	0.01%
Mr. Du Peng	Core technical staff	12,000	0.67%	0.01%	0.01%
Mr. Liu Lu	Core technical staff	12,000	0.67%	0.01%	0.01%
Mr. Yueai Liu	Core technical staff	12,000	0.67%	0.01%	0.01%
Mr. Mak Cheung Kwai Anthony ⁽²⁾	A director of four subsidiaries of the Company	20,000	1.11%	0.01%	0.01%
Ms. Jin Sha ⁽²⁾	The chairperson of a subsidiary of the Company	15,000	0.83%	0.01%	0.01%
Ms. Huang Ling ⁽²⁾	A director of a subsidiary of the Company and a supervisor of two subsidiaries of the Company	12,000	0.67%	0.01%	0.01%
Mr. Robert John McGregor ⁽²⁾	A director of two subsidiaries of the Company	15,000	0.83%	0.01%	0.01%
Mr. David Simon Wyatt ⁽²⁾	A director of three subsidiaries of the Company	12,000	0.67%	0.01%	0.01%
Mr. Robert Edward Lewis ⁽²⁾	A director of a subsidiary of the Company	10,000	0.56%	0.01%	0.01%
Ms. Li Zirui ⁽²⁾	A supervisor of a subsidiary of the Company	2,000	0.11%	0.00%	0.00%
Ms. Sheng Ailian ⁽³⁾	Quality control supervisor of a subsidiary of the Company	2,000	0.11%	0.00%	0.00%
Other employees of the Group (186 Participants in total)		1,001,000	55.61%	0.73%	0.57%
First Grant (206 Participants in total)		1,450,000	80.56%	1.05%	0.82%
Reserved Grant		350,000	19.44%	0.25%	0.20%
Total		1,800,000	100%	1.31%	1.02%

Notes:

- (1) Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Tang Minjie and Ms. Chen Yiyi are executive Directors and therefore Connected Participants.
- (2) Ms. Jiang Lixia, Ms. Jin Sha, Ms. Tian Min, Ms. Huang Ling, Ms. Li Zirui, Mr. Robert John McGregor, Mr. David Simon Wyatt, Mr. Mak Cheung Kwai Anthony and Mr. Robert Edward Lewis are directors or supervisors of one or more subsidiaries of the Company and therefore Connected Participants.
- (3) Ms. Sheng Ailian, one of the employees of the Group, is the spouse of Mr. Wei Changzheng, a Supervisor and therefore a Connected Participant.
- (4) Any discrepancies in this table between the total shown and the sum of the amounts listed are due to rounding.

If a Participant, due to personal reasons, voluntarily waives the Restricted Shares which have been granted to him/her, the Board shall adjust the number of granted Restricted Shares accordingly, and allocate the portion of the Restricted Shares waived by such Participant to the Reserved Grant or allocate such portion amongst the Participants.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for the Connected Participants set out above, the other Participants under the First Grant are independent of the Company and its connected persons.

V. GRANT PRICE AND BASIS OF DETERMINATION OF THE GRANT PRICE

A. Grant Price of the Restricted Shares

The Grant Price of the First Grant shall be RMB95.00 per A Share. A Participant who has satisfied the conditions for grant and attribution may purchase new A Shares issued by the Company at such Grant Price. The Grant Price of the Reserved Grant shall be the same as the Grant Price of the First Grant, i.e. RMB95.00 per A Share.

B. Basis of determination of the Grant Price

Pursuant to the STAR Market Listing Rules and the Management Measures, the Grant Price shall not be lower than the par value of each share of the Company and in principle should not be lower than the higher of the following prices:

- (i) 50% of the average trading price of the A Shares for the 1 day immediately preceding the announcement of the draft Incentive Scheme, being RMB61.34 per A Share;
- (ii) 50% of the average trading price of the A Shares for the 20 days immediately preceding the announcement of the draft Incentive Scheme, being RMB66.69 per A Share;
- (iii) 50% of the average trading price of the A Shares for the 60 days immediately preceding the announcement of the draft Incentive Scheme, being RMB70.75 per A Share; and
- (iv) 50% of the average trading price of the A Shares for the 120 days immediately preceding the announcement of the draft Incentive Scheme, being RMB91.14 per A Share.

The Grant Price represents:

- (i) a premium of approximately 142.56% to the closing price of HKD47.95 per H Share as quoted on the Hong Kong Stock Exchange and a discount of approximately 22.64% to the closing price of RMB122.80 per A Share as quoted on the SSE on the trading day immediately preceding the date of this announcement;
- (ii) a premium of approximately 138.97% to the average closing price of HKD48.67 per H Share as quoted on the Hong Kong Stock Exchange and a discount of approximately 22.17% to the average closing price of RMB122.07 per A Share as quoted on the SSE on the 5 consecutive trading days immediately preceding the date of this announcement; and
- (iii) a premium of approximately 126.80% to the average closing price of HKD51.28 per H Share as quoted on the Hong Kong Stock Exchange and a discount of approximately 28.26% to the average closing price of RMB132.42 per A Share as quoted on the SSE on the 20 consecutive trading days immediately preceding the date of this announcement.

VI. VALIDITY PERIOD, GRANT DATE, ATTRIBUTION ARRANGEMENTS AND BLACK-OUT PERIODS

A. Validity period of the Incentive Scheme

The Incentive Scheme will become effective upon the Grant Date of the First Grant, and shall be valid until the date on which all Restricted Shares have been attributed or lapsed, such period shall not exceed 36 months.

B. Grant Date of the Restricted Shares

The Company will convene a Board meeting to determine whether the conditions of grant under the Incentive Scheme have been met and the Grant Date after the Incentive Scheme having been adopted and approved at the EGM and the Class Meetings. The Company shall grant the Restricted Shares for the First Grant to the Participants and complete the relevant procedures including making relevant announcement(s), within 60 days after the Incentive Scheme having been adopted and approved at the EGM and the Class Meetings and the conditions for the grant having been satisfied. If the Company is unable to complete the procedures within the 60-day period, the Company will make a timely announcement to disclose the reason for being unable to complete the procedures and declare the termination of the Incentive Scheme.

The Restricted Shares for the Reserved Grant shall be granted within 12 months after the Incentive Scheme being adopted and approved by the EGM and the Class Meetings. The Reserved Grant shall lapse if the Participants for the Reserved Grant cannot be determined within the said 12-month period.

The Grant Date must be a trading day. If the Grant Date falls on a non-trading day, then it shall be the next trading day immediately after such non-trading day.

C. Attribution arrangements under the Incentive Scheme

Subject to the attribution conditions having been fulfilled, the Restricted Shares may be attributed to the Participants in tranches 12 months after the Grant Date. An attribution date must be a trading day within the validity period of the Incentive Scheme, and shall not fall within any of the periods during which the listing rules of the place where the Company's securities are listed prohibit the attribution. Within the validity period of the Incentive Scheme, if the relevant provisions of the listing rules of the place where the Company's securities are listed on the attribution period change, the attribution date for the Participants shall conform to the provisions of the revised relevant laws, regulations and normative documents.

Attribution arrangements of the First Grant under the Incentive Scheme are as follows:

Tranche	Attribution Period	Attribution Percentage
First tranche	From the first trading day after the expiry of 12 months following the Grant Date of the First Grant until the last trading day within the 24 months following the Grant Date of the First Grant	50%
Second tranche	From the first trading day after the expiry of 24 months following the Grant Date of the First Grant until the last trading day within the 36 months following the Grant Date of the First Grant	50%

Attribution arrangements of the Reserved Grant under the Incentive Scheme are as follows:

Tranche	Attribution Period	Attribution Percentage
First tranche	From the first trading day after the expiry of 12 months following the Grant Date of the Reserved Grant until the last trading day within the 24 months following the Grant Date of the Reserved Grant	50%
Second tranche	From the first trading day after the expiry of 24 months following the Grant Date of the Reserved Grant until the last trading day within the 36 months following the Grant Date of the Reserved Grant	50%

Those Restricted Shares which have not been attributed during the period of their respective tranches as a result of failure to fulfil the attribution conditions are not allowed to be deferred to be attributed in the next attribution period(s) and shall lapse.

Upon attribution, the Restricted Shares will be registered with the CSDC under the Participant's name.

D. Black-out periods

There is no additional black-out period for the Restricted Shares under the Incentive Scheme upon attribution. The requirements of black-out are implemented in accordance with relevant laws, regulations and regulatory documents including the PRC Company Law and the PRC Securities Law, and the Articles of Association as follows:

1. Where the Participant is a director or a member of the senior management of the Company, the number of Shares which 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. No Shares held by him/her may be transferred within six months after his/her termination of office;
2. For Participants who are directors or members of the senior management of the Company and their spouses, parents or children, if they have sold the Shares held by them within 6 months after purchasing such Shares, or if they have purchased the Shares within 6 months after selling their Shares, the gains obtained therefrom shall be attributed to the Company and the Board shall forfeit the gains; and
3. During the validity period of the Incentive Scheme, if the relevant requirements under the relevant laws, administrative regulations, regulatory documents such as the PRC Company Law and the PRC Securities Law and the Articles of Association regarding the transfer of shares held by the directors and members of the senior management of the Company are changed, the transfer of the Shares held by the Participants shall comply with the relevant laws, regulations and regulatory documents including the PRC Company Law and the PRC Securities Law and the Articles of Association as amended at the time of transfer.

VII. CONDITIONS FOR GRANT AND ATTRIBUTION OF RESTRICTED SHARES

A. Conditions for grant of the Restricted Shares

The Company shall grant the Restricted Shares to the Participants upon satisfaction of all of the following granting conditions; or conversely, if any of the following granting conditions has not been satisfied, no Restricted Shares shall be granted to the Participants:

1. ***None of the following has occurred on the part of the Company:***
 - (a) An audit report on the financial and accounting report for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
 - (b) An audit report on internal control over financial reporting for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
 - (c) In the most recent 36 months upon listing, there have been cases of failure to distribute profits according to laws and regulations, the Articles of Association and public commitments;

- (d) Laws and regulations stipulate that equity incentives shall not be implemented; or
- (e) Other circumstances as determined by the CSRC.

2. *None of the following has occurred on the part of the Participants:*

- (a) The Participant has been determined as an inappropriate candidate by the SSE within the most recent 12 months;
- (b) The Participant has been identified as an inappropriate candidate by the CSRC and its delegated institutions within the most recent 12 months;
- (c) The Participant has been subject to administrative punishment or market ban measures by the CSRC and its delegated institutions due to major breach of laws and regulations in the most recent 12 months;
- (d) The Participant has the circumstances stipulated in the PRC Company Law that he/she shall not act as a director or member of the senior management of any company;
- (e) Laws and regulations stipulate that the Participant shall not participate in the equity incentives of listed companies; or
- (f) Other circumstances as determined by the CSRC.

B. Conditions for attribution of the Restricted Shares

For the Restricted Shares to be attributed to the Participant, among others, all of the following conditions need to be satisfied within the attribution period:

1. *None of the following has occurred on the part of the Company:*

- (a) An audit report on the financial and accounting report for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
- (b) An audit report on internal control over financial reporting for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
- (c) In the most recent 36 months upon listing, there have been cases of failure to distribute profits according to laws and regulations, the Articles of Association and public commitments;
- (d) Laws and regulations stipulate that equity incentives shall not be implemented; or
- (e) Other circumstances as determined by the CSRC.

In the event that any one of the circumstances specified above arises, the Restricted Shares that have been granted but have not yet been attributed to the Participant under the Incentive Scheme shall not be attributed and shall lapse.

2. *None of the following has occurred on the part of the Participants:*

- (a) The Participant has been determined as an inappropriate candidate by the SSE within the most recent 12 months;
- (b) The Participant has been identified as an inappropriate candidate by the CSRC and its delegated institutions within the most recent 12 months;
- (c) The Participant has been subject to administrative punishment or market ban measures by the CSRC and its delegated institutions due to major breach of laws and regulations in the most recent 12 months;
- (d) The Participant has the circumstances stipulated in the PRC Company Law that he/she shall not act as a director or member of the senior management of any company;
- (e) Laws and regulations stipulate that the Participant shall not participate in the equity incentives of listed companies; or
- (f) Other circumstances as determined by the CSRC.

In the event that any one of the circumstances specified above arises in relation to a certain Participant, the Company will terminate such Participant's right to participate in the Incentive Scheme and the Restricted Shares that have been granted but have not yet been attributed to such Participant under the Incentive Scheme shall not be attributed and shall lapse.

3. *Requirements of length of employment of the Participants*

The Participant must be employed by the Group for more than 12 months before each tranche of attribution of Restricted Shares.

4. *Performance assessment requirements at the Company level*

Under the Incentive Scheme, the Company's performance indicators will be evaluated on an annual basis for the financial years of 2022 to 2023, and the achievement of performance assessment target will be one of the attribution conditions for the Participants for the current year.

The performance assessment objectives and the attribution percentage under the Incentive Scheme in relation to both the First Grant and the Reserved Grant are set out below:

Tranche	Target Value	Trigger Value
First Tranche	The Company meeting any one of the following two targets:	The Company meeting any one of the following two targets:
	(a) The revenue for 2022 reaching RMB2.5 billion (b) The net profit for 2022 reaching RMB560 million	(a) The revenue for 2022 reaching RMB2 billion (b) The net profit for 2022 reaching RMB450 million
Second Tranche	The Company meeting any one of the following two targets:	The Company meeting any one of the following two targets:
	(a) The revenue for 2023 reaching RMB2.9 billion (b) The net profit for 2023 reaching RMB650 million	(a) The revenue for 2023 reaching RMB2.3 billion (b) The net profit for 2023 reaching RMB510 million

A = The assessment result in relation to revenue

B = The assessment result in relation to net profit

M = “Company level attribution factor” for the Restricted Shares for each assessment year

When either A or B equals or exceed the target value

$M=100\%$

When either A or B equals or exceed the trigger value

$M=80\% + (A/\text{revenue target value}) \times 20\%$
or
 $M=80\% + (B/\text{net profit target value}) \times 20\%$
(whichever is higher)

When both A and B are less than the trigger value

$M=0\%$

Note: For the purpose of the performance assessment requirements at the Company level, “revenue” refers to the audited consolidated revenue of the Company, while “net profit” is calculated based on the audited net profit attributable to the shareholders of the Company, but excluding the net profit affected by the expenses incurred on the share-based payment relating to the Incentive Scheme and other share incentive scheme.

During the attribution period, the Company will handle the registration of the attributed Restricted Shares for the Participants who have satisfied the attribution conditions. In the event that the above performance assessment requirements at the Company level have not been reached within the respective attribution tranche, the Restricted Shares that have been granted but are yet to be attributed to the Participants in such tranche shall not be attributed and shall lapse.

5. *Performance assessment requirements at the business unit level*

The business unit level assessment is carried out according to the internal performance assessment system of the Company. The assessment results of the business unit where Participants work are divided into three levels – “A”, “B” and “C”, and the corresponding attribution percentage is as follows:

Assessment Level	A	B	C
Business unit level attribution factor	100%	80%	0%

6. *Performance assessment requirements at the Participant’s individual level*

The individual assessment of Participants is carried out according to the internal performance assessment system of the Company. The results of the individual assessment of Participants are either “qualified” or “unqualified” and the corresponding attribution percentage is as follows:

Assessment Level	Qualified	Unqualified
Individual level attribution factor	100%	0%

Under the premise of the Company achieving above its aforementioned trigger value, the number of Restricted Shares to be attributed to the Participant in the current attribution tranche equals to the number of Restricted Shares to be attributed to the Participant under the Incentive Scheme in the current year × the Company level attribution factor × the business unit level attribution factor × the individual level attribution factor.

In any event if the Restricted Shares to be attributed to the Participant under the Incentive Scheme in the current tranche cannot be attributed or fully attributed due to assessment reasons, such Restricted Shares shall not be deferred to the next tranche for attribution and shall lapse.

The content of the assessment under the Incentive Scheme is implemented in accordance with the Assessment Management Measures.

C. Explanation on reasonableness of the performance appraisal indicators of the Restricted Shares

The Company is a scientific and technological innovation enterprise that applies biomedical material technology and genetic engineering technology for the research and development, production and sales of medical devices and drugs. It is committed to providing innovative medical products to the market through technological innovation and transformation, integration of domestic and foreign resources, and large-scale production. Through gradually achieving the import substitution of related medical products, the Company aims to become a leading enterprise in the field of biomedical materials. After more than ten years of continuous independent innovation and industrial integration, the Company has completed the industry reorganization of absorbable biomedical materials represented by medical sodium hyaluronate/sodium hyaluronate and medical chitosan, and has realized the industrialization of recombinant human epidermis growth factors of innovative genetic engineering drugs, has further led to industry-leading advantages in the four main business areas of ophthalmology, medical aesthetics and wound care, orthopedics, and anti-adhesion and hemostasis.

In order to achieve the Company's strategy and maintain its existing competitiveness, the assessment indicators of the Incentive Scheme at the Company level are revenue and net profit. Revenue is an indicator of the Company's main business operating conditions and market value growth. Net profit is an indicator of the Company's operating conditions and profitability. According to the performance assessment indicators of the Incentive Scheme, the target value for the Company's revenue in 2022 and 2023 is RMB2.5 billion and RMB2.9 billion respectively, and the trigger value for revenue in 2022 and 2023 is RMB2 billion and RMB2.3 billion respectively. The target value for net profit for 2022 and 2023 is RMB560 million and RMB650 million respectively, and the trigger value for net profit in 2022 and 2023 is RMB450 million and RMB510 million respectively. Based on comprehensive consideration of the macroeconomic environment, the Company's historical performance, industry development, market competition, the Company's future development plans and other relevant factors, the Company has set performance assessment indicators for this Incentive Scheme. The appraisal indicators set in the Incentive Scheme are challenging to enhance the Group's competitiveness and mobilize the enthusiasm of employees, ensure the realization of the Group's future development strategy and business objectives, and bring more efficient and lasting returns to the Shareholders.

In addition to the performance indicators at the Company level, the Company has also set up a performance appraisal system at the business unit level and the Participant's individual level, which allows a more accurate, comprehensive evaluation of the work performance of the Participants. The Company will determine whether the Participants meets the attribution conditions and the actual number to be attributed based on the annual performance evaluation results of both the business unit and the Participant's individual.

In summary, the appraisal system under the Incentive Scheme is integrated, comprehensive and operable. Meanwhile, the scientific and reasonable performance indicators restrain and challenge the Participants and can achieve the appraisal purpose of the Incentive Scheme.

VIII. IMPLEMENTATION, GRANT AND ATTRIBUTION PROCEDURES

A. Procedures for the implementation of the Incentive Scheme

1. The Remuneration and Appraisal Committee is responsible for formulating the Incentive Scheme and the Assessment Management Measures of the Company.
2. The Board shall resolve on the Incentive Scheme and the Assessment Management Measures formulated by the Remuneration and Appraisal Committee. When the Board resolves on the Incentive Scheme, related Directors who have an interest in the resolution shall abstain from voting.
3. The independent non-executive Directors and the Board of Supervisors will express opinions on whether the Incentive Scheme is conducive to the sustainable development of the Company, whether there are any circumstances apparently harmful to the interests of the Company and all Shareholders.
4. The Company will engage an independent financial consultant to give professional opinions on the feasibility of the Incentive Scheme, whether the Incentive Scheme is conducive to the sustainable development of the Company, whether there are any circumstances apparently harmful to the interests of the Company and all Shareholders. The Company will engage a legal advisor to issue a legal opinion on the Incentive Scheme.
5. Within two trading days after the Board having reviewed and approved the Incentive Scheme, the Company will make an announcement of Board resolutions, the draft and summary of the Incentive Scheme, the opinions of independent non-executive Directors, and the opinions of the Board of Supervisors.
6. The Company shall carry out self-investigation on the trading of Shares by insiders during the 6 months' period prior to the announcement of the Incentive Scheme to examine whether any insider trading exists.
7. Before convening the EGM and the Class Meetings, the Company shall announce the name and position of the Participants internally via the Company website or other channels for not less than 10 days. The Board of Supervisors shall review the list of the Participants and take sufficient consideration of the public response. The Company shall disclose the information regarding the review by the Board of Supervisors regarding the list of Participants and the publication responses 5 days prior to the consideration of the Incentive Scheme at the EGM and the Class Meetings.
8. When the EGM and the Class Meetings are convened to consider and, if thought fit, approve the Incentive Scheme, the independent non-executive Directors shall solicit proxy voting rights from all Shareholders regarding the resolutions related to the Incentive Scheme. The Incentive Scheme and relevant resolutions shall be considered and, if thought fit, approved by the Shareholders by way of special resolution at the EGM and the Class Meetings. Related Shareholders who have an interest in the resolution shall abstain from voting.

9. The Company will make an announcement of the Shareholders' resolutions, the Incentive Scheme as approved at the EGM and the Class Meetings, as well as the self-investigation report and legal opinion of the insiders trading of the Shares.

Where connected persons or other situations required by the listing rules of the place where the Company's securities are listed are involved, the Company shall comply with such local laws and regulations and meet the relevant requirements (including, if necessary, obtaining prior approval from the independent Shareholders).

10. The Board will grant the Restricted Shares for the First Grant to the Participants and make announcements and complete other relevant procedures pursuant to the authorization granted by the Shareholders within 60 days after the Incentive Scheme having been adopted and approved at the EGM and the Class Meetings and the conditions for the grant having been satisfied. The Board shall handle specific matters such as the attribution and registration of Restricted Shares in accordance with the authorization at the EGM and the Class Meetings.

B. Procedures for the grant of the Restricted Shares

1. The Board shall convene a meeting to grant the Restricted Shares to the Participants within 60 days after the Incentive Scheme having been adopted and approved at the EGM and the Class Meetings.
2. Before granting the Restricted Shares to the Participants, the Board shall convene a meeting to consider whether the Participants have satisfied the conditions for grant prescribed in the Incentive Scheme and make an announcement thereafter. The independent non-executive Directors and the Board of Supervisors shall also issue their explicit opinions at the same time. The legal advisor shall issue legal opinions as to whether the Participants have satisfied the conditions of the grant. The Board of Supervisors shall verify the Grant Date and the list of Participants and issue an opinion. When there is discrepancy between the Company's grant of the Restricted Shares to the Participants and the arrangement stipulated under the Incentive Scheme, the independent non-executive Directors, the Board of Supervisors (when the Participants change), legal advisor and independent financial consultants shall simultaneously express clear opinions.
3. The Company shall enter into an "Agreement on the Granting of Restricted Shares" with the Participants setting out their respective rights and obligations.
4. The Company shall keep a register for management of the Restricted Shares with reference to the "Agreement on the Granting of Restricted Shares" signed by the Participants and the subscription situation, and such register shall record the names of the Participants, the number of Restricted Shares granted, the Grant Date and the serial number of the relevant agreement on granting of the Restricted Shares.

5. The Company shall grant the Restricted Shares for the First Grant to the Participants and make an announcement within 60 days after the Incentive Scheme is considered and approved at the EGM and the Class Meetings and the conditions for the grant having been satisfied. If the Company fails to make an announcement in respect of the grant of the Restricted Shares within the 60-day period, the Incentive Scheme shall be terminated, and the Board shall promptly disclose the reasons for the failure to implement the Incentive Scheme and is prohibited from approving a share incentive scheme again within 3 months thereafter.
6. The Participants of the Reserved Grant shall be determined within 12 months after the Incentive Scheme being reviewed and approved by the EGM and the Class Meetings. The Reserved Grant shall lapse if such Participants cannot be determined within the said 12-month period.
7. Where connected persons or other situations required by the listing rules of the place where the Company's securities are listed are involved, the Company shall comply with such local laws and regulations and meet the relevant requirements (including, if necessary, any prior approval from the independent Shareholders).

C. Procedures for the attribution of the Restricted Shares

1. Prior to attribution, the Company shall confirm whether the Participants have satisfied the attribution conditions. The Board shall consider whether the attribution conditions under the Incentive Scheme have been satisfied and the independent non-executive Directors and Board of Supervisors shall issue their explicit opinions at the same time. The Company's legal advisor shall issue legal opinions as to whether the conditions for attributing the Restricted Shares have been satisfied.
2. The Participants who have fulfilled the attribution conditions shall pay the Grant Price for the subscription of the Restricted Shares into the account designated by the Company, which will be verified and confirmed by a certified public accountant. Participants who have not paid the Grant Price within the requisite period shall be deemed to have waived his/her right to subscribe for the Restricted Shares. The Company shall apply to the SSE for the attribution of the Restricted Shares to Participants, and apply to the CSDC for the registration and settlement matters after confirmation by the SSE. The Restricted Shares of the Participants who have not fulfilled the attribution conditions in the relevant tranche shall not be attributed and shall lapse. The Company shall make timely disclosure in respect of the implementation of the Incentive Scheme.
3. Participants may transfer their attributed Restricted Shares, however, the transfer of the Restricted Shares held by the Directors and members of the senior management of the Company should comply with the requirements of the relevant laws, regulations and regulatory documents.

In each of the above Board meetings, Directors who have an interest in the relevant resolution shall abstain from voting.

IX. METHOD AND PROCEDURE FOR ADJUSTMENT

A. Adjustment method of the number of the Restricted Shares

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

1. *Capital reserve converted into share capital, bonus stock distribution, stock split*

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

Where: Q_0 represents the number of Restricted Shares before the adjustment; n represents the ratio of increase per share resulting from the issue of shares by conversion of capital reserve, bonus issue or sub-division of shares (i.e. the number of shares increased per share upon issue of shares by conversion of capital reserve, bonus issue or sub-division of shares); Q represents the number of Restricted Shares after the adjustment.

2. *Rights issue*

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

Where: Q_0 represents the number of 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 number of Restricted Shares after the adjustment.

3. *Share consolidation*

$$Q = Q_0 \times n$$

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

4. *New issue of shares*

In the event of new issue of Shares by the Company, no adjustment shall be made to the number of Restricted Shares.

B. Adjustment method of the Grant Price of the Restricted Shares

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

1. Capital reserve converted into share capital, bonus stock distribution, stock split

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

Where: P_0 represents the Grant Price before the adjustment; n represents the ratio of increase per share resulting from the issue of shares by conversion of capital reserve, bonus issue or sub-division of shares to each Share; P represents the Grant Price after the adjustment.

2. Rights issue

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

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 Grant Price after the adjustment.

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 Grant Price after the adjustment.

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 Grant Price after the adjustment. P shall be greater than 1 after the dividend distribution.

5. New issue of shares

In the event of new issue of Shares by the Company, no adjustment shall be made to the Grant Price of the Restricted Shares.

C. Adjustment procedure

The Company's general meeting authorizes the Board to adjust the number of Restricted Shares and the Grant Price based on the reasons set forth in the Incentive Scheme. After the Board adjusts the number of Restricted Shares and the Grant Price in accordance with the above provisions, it shall promptly announce and notify the Participants. The Company shall employ lawyers to provide professional opinions to the Board on whether the above adjustments comply with the requirements under the Management Measures, the Articles of Association and the Incentive Scheme.

X. RIGHTS AND OBLIGATIONS OF THE COMPANY AND THE PARTICIPANTS AND DISPUTE SETTLEMENT MECHANISM

A. Rights and obligations of the Company

1. The Company has the right to interpret and implement the Incentive Scheme, to conduct performance appraisal on the Participants, and to supervise and examine whether the Participants are eligible for attribution. If the Participants fail to meet the attribution conditions as determined under the Incentive Scheme, upon approval by the Board, the Restricted Shares that have been granted to the Participants but have not yet been attributed shall not be attributed and shall lapse.
2. The Company has the right to require the Participants to work for the Company according to the requirements of the positions at which he/she is employed. If the Participant violates the law, violates professional ethics, divulges company secrets, violates the Company's rules and regulations, neglects his/her duty or malfeasance or has other acts that seriously damage the Company's interests or reputation, upon approval by the Board, the Restricted Shares that have been granted to the Participants but have not yet been attributed shall not be attributed and shall lapse, and the Company has the right to demand the Participant to return all the benefits obtained from the Incentive Scheme to the Company.
3. The Company shall withhold and pay the personal income tax and other taxes and fees payable by the Participants according to the relevant provisions of the national tax laws and regulations.
4. The Company undertakes not to provide loans and any other forms of financial assistance, including providing guarantee for their loans, to the Participants to obtain relevant Restricted Shares according to the Incentive Scheme.
5. The Company shall timely, truly, accurately and completely disclose the information disclosure documents related to the Incentive Scheme in accordance with the relevant laws, regulations and regulatory documents, ensure that there are no false records, misleading statements or material omissions, and timely fulfill the relevant reporting obligations of the Incentive Scheme.

6. In accordance with the Incentive Scheme and the relevant requirements of the CSRC, the SSE and registration and clearing companies, the Company shall handle the registration of the attribution of Restricted Shares for the Participants that meet the attribution conditions. However, the Company shall not be held liable if the Participants fails to complete the registration matters of the attribution of Restricted Shares and causes losses to the Participants due to the reasons on the part of the CSRC, the SSE and the registration and clearing companies.
7. Other relevant rights and obligations stipulated in laws, administrative regulations and regulatory documents.

B. Rights and obligations of the Participants

1. The Participants shall be diligent and responsible, abide by professional ethics, and make due contributions to the development of the Company in accordance with the requirements of the positions at which he/she is employed by the Company. The Participants shall accept assessment requirements at both the business unit level and the Participant's individual level carried out according to the internal performance assessment system of the Company. If the Participants refuse to accept such individual assessment, the Participant's right to participate in the Incentive Scheme shall be revoked, and the Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse.
2. The Participants have the right to receive the attributed Restricted Shares granted in accordance with the Incentive Scheme, and should lock-up and deal with his/her Restricted Shares in accordance with relevant provisions.
3. The source of funds for the Participants is their own financing.
4. Prior to the attribution, the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used to guarantee or repay debts.
5. Prior to the attribution, the Restricted Shares granted to the Participants under the Incentive Scheme do not carry any voting rights or right to participate in the distribution of bonus shares or share dividends.
6. The income received by the Participants as a result of the Incentive Scheme shall be subject to personal income tax and other taxes and fees in accordance with national tax regulations.
7. The Participants undertake that if there are false records, misleading statements or material omissions in the Company's information disclosure documents, resulting in non-compliance with the arrangement for granting or attributing rights and interests, the Participants shall fulfill their undertakings and return all the benefits obtained from the Incentive Scheme to the Company after confirming the existence of false records, misleading statements or major omissions in the relevant information disclosure documents.
8. If the Participant is no longer eligible to be a Participant under the Incentive Scheme as stipulated in Rule 10.4 of the STAR Market Listing Rules during the implementation of the Incentive Scheme, the Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse.

9. If a Participant resigns after attribution, the Participant shall comply with the relevant regulations of the Company on the restriction of competition. If the Participant violate the relevant regulations, the Participant shall return all the income derived from the Incentive Scheme to the Company and bear the same amount of liquidated damages as the income obtained. If losses are caused to the Company, the Participant shall also be liable to the Company for compensation. It shall be governed by the terms of the “Agreement on the Granting of Restricted Shares” entered into between the Company and the Participant.
10. The Participants agree to authorize the Company to handle the registration of the attribution of the Restricted Shares for the Participants.
11. Other relevant rights and obligations stipulated in laws, administrative regulations, regulatory documents and the Incentive Scheme.

C. Dispute settlement mechanism between the Company and the Participants

Any dispute between the Company and the Participants shall be resolved in accordance with the provisions of the Incentive Scheme and the “Agreement on the Granting of Restricted Shares”. In event of any dispute that is not clearly covered by such provisions, the Company and the Participants shall negotiate and resolve their disputes in accordance with national laws and the principles of fairness and reasonableness. Where any dispute cannot be settled by negotiation, it shall be resolved through litigation by submitting to the People’s Court with jurisdiction over the Company’s place of incorporation.

XI. AMENDMENT AND TERMINATION OF THE INCENTIVE SCHEME

A. Procedures for the amendment and termination of the Incentive Scheme

1. Procedure for the amendment of the Incentive Scheme

- (a) If the Company intends to make amendments to the Incentive Scheme before it is considered and approved by the Shareholders at the EGM and the Class Meetings, the amendments shall be considered and approved by the Board. If the Company intends to make amendments to the Incentive Scheme that has been adopted by Shareholders at the EGM and the Class Meetings, such amendments shall be submitted to the general meeting and class meetings of A Shareholders and H Shareholders for its approval and shall not include circumstances that would result in the acceleration of attribution or reduction of the Grant Price. Where other situations required by the listing rules of the place where the Company’s securities are listed are involved, the Company shall comply with such local laws and regulations.

- (b) The Company shall timely disclose the reasons and contents of the amendments. The independent non-executive Directors and the Board of Supervisors shall make clear opinions on whether the amended plan is conducive to the sustainable development of the Company and whether there are any situations that clearly harm the interests of the Company and all shareholders. The legal advisor shall express its professional opinions on whether the amended plan conforms to the provisions of the Management Measures and relevant laws and regulations, and whether there are any circumstances that clearly harm the interests of the Company and all the Shareholders.

2. *Procedure for the termination of the Incentive Scheme*

- (a) If the Company intends to terminate the Incentive Scheme before it is considered and approved at the EGM and the Class Meetings, the Board shall consider and approve and disclose such intended termination of the Incentive Scheme. 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, it shall be submitted to the Board and the general meeting and class meetings of A Shareholders and H Shareholders for approval and be disclosed.
- (b) The Company shall timely disclose the announcement of resolutions of the general meeting or the Board. The legal advisor shall express its professional opinions on whether the termination of Incentive Scheme conforms to the provisions of the Management Measures and relevant laws and regulations, and whether there are any circumstances that clearly harm the interests of the Company and all the Shareholders.

B. In the event of any changes occurred at the Company level

- 1. In the event that any of the circumstances below occurs, the Incentive Scheme shall be terminated, and the Restricted Shares that have been granted to the Participants under the Incentive Scheme but have not yet been attributed shall not be attributed and shall lapse:
 - (a) An audit report on the financial and accounting report for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
 - (b) An audit report on internal control over financial reporting for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
 - (c) In the most recent 36 months upon listing, there have been cases of failure to distribute profits according to laws and regulations, the Articles of Association and public commitments;
 - (d) Laws and regulations stipulate that equity incentives shall not be implemented; or
 - (e) Other circumstances as determined by the CSRC.

2. Merger or division of the Company, etc.

In case of merger or division of the Company, the Board shall decide whether to terminate the Incentive Scheme within five trading days from the date of merger or division.

3. Change of control of the Company

In the event of a change of control of the Company, the Board shall decide whether to terminate the Incentive Scheme within five trading days from the date of the change of the control.

4. If the Company fails to meet the conditions for granting or attributing the Restricted Shares due to false records, misleading statements or material omissions in the information disclosure documents, the Restricted Shares that have not yet been attributed shall not be attributed and shall lapse.

If the Restricted Shares that have been granted to the Participants have already been attributed, all the Participants shall return the granted rights and interests. If a Participant who is not responsible for the above matters suffers from losses due to the return of rights and interests, such Participant can recover such losses from the Company or the responsible targets in accordance with the relevant arrangements under the Incentive Scheme. The Board shall recover the proceeds from the Participants in accordance with the preceding paragraph and the relevant arrangements under the Incentive Scheme.

C. In the event of changes in the personal circumstances of the Participants

1. *Change in position of the Participants*

- (a) If the position of the Participant changes but he/she still works in the Company or its subsidiaries, the Restricted Shares granted to him/her shall still be carried out in accordance with the procedures stipulated in the Incentive Scheme.
- (b) If the Participant is a Supervisor or an independent Director or other person who cannot hold the Restricted Shares of the Company, the Restricted Shares that have been attributed shall not be handled. The Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse.
- (c) If the Participant violates the law, violates professional ethics, divulges company secrets, damages the interests or reputation of the Company due to dereliction of duty or malfeasance and resulting in a change of position, or causes the Company to terminate the labor relationship with the Participant due to the above-mentioned reasons, the Participants shall return all gains from the attribution of the Restricted Shares. The Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse. At the same time, in event of serious circumstances, the Company may also recover the losses suffered by the Company from the Participant in accordance with relevant laws and regulations.

2. *Resignation of the Participants*

- (a) If the contract of the Participant expires and he/she no longer renews the contract or resigns voluntarily, the Restricted Shares that have been attributed shall not be handled. In such case, the Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse.
- (b) If the Participant leaves the Company passively due to layoffs and other reasons and there are no behaviors such as failure to pass performance evaluation, negligence or violation of laws and disciplines, the Restricted Shares that have been attributed shall not be handled. In such case, the Restricted Shares that have been granted but have not yet been attributed shall not be attributed and shall lapse.

3. *Retirement of the Participants*

If the Participants that have retired are re-hired, the Restricted Shares that have been granted to them will be carried out in accordance with the procedures stipulated in the Incentive Scheme which takes effect before the retirement. If the Participants reject the Company's request for continued employment, or if the Participants retire and leave the Company, the Restricted Shares that have been granted but not yet attributed shall not be attributed and shall lapse and the Restricted Shares that have been attributed shall not be affected.

4. *Incapacity of the Participants*

- (a) If the Participants are incapacitated due to work injury and leave the Company, the Remuneration and Appraisal Committee shall decide that the Restricted Shares granted to the Participants shall be carried out in accordance with the procedures stipulated in the Incentive Scheme which takes effect before the occurrence thereof, and the personal performance evaluation results will no longer be included in the attribution conditions, or the Restricted Shares that have been attributed shall not be handled and his/her Restricted Shares that have been granted but not yet been attributed shall not be attributed and shall lapse.
- (b) If the Participants leave the Company, which is not due to the incapability arising from work injury, the Restricted Shares that have been attributed for the Participants shall not be handled. The Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse.

5. *Death of the Participants*

- (a) If the Participants die due to their duty, the Remuneration and Appraisal Committee shall decide that the Restricted Shares granted to them shall be held by the designated property heir or legal heir on their behalf, and shall be carried out in accordance with the procedures stipulated in the Incentive Scheme which takes effect before their death, and the results of their personal performance evaluation shall not be included in the attribution conditions; or the Restricted Shares that have been attributed shall not be handled and the Company shall cancel his/her Restricted Shares that have been granted but has not been attributed.
- (b) If the Participants die in the Company for other reasons, the Restricted Shares that have been attributed for the Participants shall not be handled. The Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse.

6. *Change of control of the subsidiary where the Participants work*

If the Participants work in a subsidiary controlled by the Company, and if the Company loses control over the subsidiary and the Participants still work in such subsidiary, the Restricted Shares that have been attributed shall not be handled. The Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse.

7. *Change in eligibility of the Participants*

If the Participant no longer meets the eligibility of the Participant due to any one of the following circumstances, the Restricted Shares that have been attributed shall not be handled, and the Restricted Shares that have been granted but have not yet been attributed shall not be attributed, and shall lapse:

- (a) The Participant has been determined as an inappropriate candidate by the SSE within the most recent 12 months;
- (b) The Participant has been identified as an inappropriate candidate by the CSRC and its delegated institutions within the most recent 12 months;
- (c) The Participant has been subject to administrative punishment or market ban measures by the CSRC and its delegated institutions due to major breach of laws and regulations in the most recent 12 months;
- (d) The Participant has the circumstances stipulated in the PRC Company Law that he/she shall not act as a director or member of the senior management of any company;
- (e) Laws and regulations stipulate that the Participant shall not participate in the equity incentives of listed companies; or
- (f) Other circumstances as determined by the CSRC.

8. Others

The Remuneration and Appraisal Committee shall be responsible for making decisions on other unspecified situations and the methods of handling them.

XII. ACCOUNTING TREATMENT AND IMPACT ON THE OPERATING PERFORMANCE

A. Accounting treatment

In accordance with the relevant requirements of the Accounting Standards for Business Enterprise No. 11-Share-based Payments (《企業會計準則第11號－股份支付》) and Accounting Standards for Business Enterprise No. 22-Recognition and Measurement of Financial Instruments (《企業會計準則第22號－金融工具確認和計量》), at each balance sheet date before the attribution date, the Company shall revise the number of the Restricted Shares which are expected to be attributed according to the change in the latest available number of persons eligible to obtain the Restricted Shares, completion of the performance indicators 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.

1. Grant Date

Since Restricted Shares cannot be attributed on the Grant Date, no related accounting treatment is required. The Company will use the Black-Scholes Model on the Grant Date to determine the fair value of Restricted Shares on the Grant Date in accordance with the Application Case of Share-Based Payments Standards – Grant of Restricted Shares.

2. Period from the Grant Date to the attribution date

Based on the best estimate of the number of attributable Restricted Shares, the services provided by the staff will be recognized as costs or expenses and the owners' equity – “Capital Reserve – Other Capital Reserve” will be recognized as well on each balance sheet date before the attribution date according to the fair value of the Restricted Shares on the Grant Date and the relevant attribution percentage of the Restricted Shares within the respective attribution tranche without recognizing subsequent changes in the fair value thereof.

3. Accounting treatment after the attribution date

No adjustment shall be made to the recognized costs or expenses and total owners' equity.

4. Attribution date

If the attribution conditions are met on the attribution date, the Restricted Shares can be attributed and the “Capital Reserve – Other Capital Reserve” recognized on each balance sheet date before the attribution date shall be carried over; if all or part of the Restricted Shares become invalid or are abolished due to failure to attribute, the owners' equity shall be reduced accordingly.

5. Determination of fair value of the Restricted Shares and rationality of valuation of significant parameters which involved in the valuation model

The Company uses the Black-Scholes Model as the pricing model to predict the fair value of the Restricted Shares under the First Grant of 29 December 2021 (formal calculation at the time of grant). The specific parameters are as follows:

- (a) underlying stock price: RMB121.53 (the closing price of the A Shares for the 1 trading day immediately preceding the announcement);
- (b) the validity period is 1 year and 2 years respectively (the period from the Grant Date to the first attribution date of each attribution tranche);
- (c) historical volatility: 16.06%, 19.95% (using the annualized volatility of Wind A Share Index (index code: 881001.WI) in recent one year and two years);
- (d) risk free interest rate: 1.50% and 2.10% (the benchmark interest rates for 1-year and 2-year deposits of financial institutions formulated by the People's Bank of China are adopted respectively).

B. Estimated impact on the operating performance in each accounting period due to the grant of the Restricted Shares

The Company will grant 1,800,000 Restricted Shares to the Participants, in which 1,450,000 Restricted Shares will be granted under the First Grant. The fair value of the Restricted Shares was estimated based on the closing data in relation to the A Shares on the SSE of the trading day prior to the publication of the Incentive Scheme, and the total equity expense of the First Grant was estimated to be RMB44,306,100. The total amount of above expenses as the incentive cost of the Incentive Scheme will be recognized over the course of the Incentive Scheme in attribution proportion in installments and will be charged to operating profit or loss. In accordance with accounting standards, the amount shall be based on the fair value of the Shares calculated on the “actual grant date”, assuming the Grant Date to be in January 2022, and the amortization of cost of the Restricted Shares from the years 2022 to 2024 shall be as follows:

Unit: RMB

Amortization cost of the Restricted Shares	Year 2022	Year 2023	Year 2024
44,306,100	29,716,500	13,598,900	990,700

Notes:

- 1. The above costs are projected costs, and actual costs are related to the Grant Price, the Grant Date, the closing price of the A Shares on the Grant Date, the number of Restricted Shares granted and the best estimate of the number of attributable equity instrument.
- 2. Shareholders' attention is drawn to the possible dilutive effect of the share-based payment described above.
- 3. The final influence of the above projected amortization expenses on the Company's operating results is subject to the audit report issued by the accountants.

The cost of the Incentive Scheme will be charged to cost expenses. Without considering the positive effect of the Incentive Scheme on the Company's performance, the Company estimates, based on current information, that the amortization of cost expenses of the Incentive Scheme will have an impact on net profit of each year within the validity period. Considering the positive effect of the Incentive Scheme on the Company's operation and development, which will stimulate the enthusiasm of the management and business team, improve operating efficiency and reduce operating costs, the Incentive Scheme will play a positive role in the Company's long-term performance.

PROPOSED FIRST GRANT OF RESTRICTED SHARES AND ISSUE OF NEW A SHARES UNDER THE INCENTIVE SCHEME PURSUANT TO SPECIFIC MANDATE

Subject to the approval of the Independent Shareholders at the EGM and the Class Meetings, the Board has resolved to grant not more than a total of 1,800,000 Restricted Shares, of which (i) 1,450,000 Restricted Shares will be granted to not more than 206 Participants under the First Grant, representing approximately 1.05% of the total number of issued A Shares and approximately 0.82% of the total issued share capital of the Company as at the date of this announcement and (ii) 350,000 Restricted Shares will be granted under the Reserved Grant, representing approximately 0.25% of the total number of issued A Shares and approximately 0.20% of the total issued share capital of the Company as at the date of this announcement, pursuant to the terms of the Incentive Scheme set out above. The Restricted Shares to be granted (including those under the First Grant and the Reserved Grant) will be issued and allotted pursuant to the Specific Mandate which may be granted at the EGM and the Class Meetings.

Among the Restricted Shares to be granted in the First Grant, 343,000 Restricted Shares in aggregate will be granted to 14 Connected Participants in total, and not more than 1,097,000 Restricted Shares will be granted to not more than 192 other Participants who are not connected persons of the Company as set out in the paragraph "D. Allocation of Restricted Shares to be granted" above.

In addition to the principal terms of the proposed Incentive Scheme summarized in the section "The Proposed 2021 Restricted A Share Incentive Scheme" above, further information in relation to the issue and allotment of the Restricted Shares under the Incentive Scheme (including the First Grant and the Reserved Grant) are set out below:

The total funds to be raised and the proposed use of proceeds: Not more than RMB171,000,000, being the aggregated Grant Price, will be paid by the Participants to subscribe for not more than 1,800,000 Restricted Shares under the Incentive Scheme. The proceeds obtained by the Company from the Incentive Scheme shall be applied towards the replenishment of the Group's liquidity.

Grant Price: The Grant Price of the Restricted Shares under both the First Grant and the Reserved Grant shall be RMB95.00 per A Share which was determined with reference to the basis set out in the paragraph "Grant Price and Basis of Determination of the Grant Price" above. A Participant who has satisfied the conditions for grant and attribution may purchase new A Shares issued by the Company at such Grant Price.

Aggregate nominal value: The par value of the A Shares of the Company is RMB1.00 per A Share. The aggregate nominal value of the Restricted Shares to be granted under the Incentive Scheme (including the First Grant and the Reserved Grant) is not more than RMB1,800,000.

Fund raising activities in the past 12 months: The Company has not conducted any fund raising activities involving the issuance of share capital within 12 months immediately preceding the date of this announcement.

REASONS FOR AND BENEFITS OF THE ADOPTION OF THE PROPOSED INCENTIVE SCHEME

The purpose of the Incentive Scheme is to further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the Company's core management personnel, core technical or operational personnel, fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, align the interests of the shareholders, the Company and the core staff members, bring their attention to the long-term development of the Company and ensure that the Company's development strategy and business goals shall be realized.

The Company is of the view that the adoption and implementation of the proposed Incentive Scheme is beneficial to the Company and its Shareholders as a whole. The Board is also of the view that the terms and conditions of the Incentive Scheme are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE COMPANY AND THE PARTICIPANTS

The Company is a joint stock limited liability company established in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange (stock code: 6826) and A Shares listed on the STAR Market of the Shanghai Stock Exchange (stock code: 688366). The businesses of the Group include the manufacture and sales of biological, medical hyaluronate and ophthalmology products, the research and development of biological engineering, pharmaceutical and ophthalmology products and the provision of related services.

The Connected Participants under the First Grant are Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Tang Minjie and Ms. Chen Yiyi, who are all executive Directors; Ms. Sheng Ailian, who is the spouse of Mr. Wei Changzheng, a Supervisor; and Ms. Jiang Lixia, Ms. Jin Sha, Ms. Tian Min, Ms. Huang Ling, Ms. Li Zirui, Mr. Robert John McGregor, Mr. David Simon Wyatt, Mr. Mak Cheung Kwai Anthony and Mr. Robert Edward Lewis, who are all directors or supervisors of one or more subsidiaries of the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for the Connected Participants set out above, the other Participants under the First Grant are independent of the Company and its connected persons.

IMPLICATIONS OF THE HONG KONG LISTING RULES

The Incentive Scheme is a discretionary scheme of the Company and does not constitute a share option scheme under Chapter 17 of the Hong Kong Listing Rules.

The Connected Participants include executive Directors (namely, Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Tang Minjie and Ms. Chen Yiyi), the spouse of a Supervisor (namely, Ms. Sheng Ailian) and directors or supervisors of one or more subsidiaries of the Company (namely, Ms. Jiang Lixia, Ms. Jin Sha, Ms. Tian Min, Ms. Huang Ling, Ms. Li Zirui, Mr. Robert John McGregor, Mr. David Simon Wyatt, Mr. Mak Cheung Kwai Anthony and Mr. Robert Edward Lewis). The Connected Participants are therefore connected persons of the Company. Accordingly, the issue and grant of the Restricted Shares to the Connected Participants under the Incentive Scheme constitutes non-exempt connected transactions of the Company, and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The resolutions in relation to the adoption of the proposed Incentive Scheme and the Assessment Management Measures, the issue and grant of the Restricted Shares to the Participants (including the issue and grant of the Restricted Shares to the Connected Participants) under the Incentive Scheme were considered and approved at the meeting of the Board held on 29 December 2021. Each of Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Tang Minjie and Ms. Chen Yiyi, who were all Directors, were Connected Participants. The said Directors abstained from voting on the resolutions in relation to the adoption of the proposed Incentive Scheme and the Assessment Management Measures, the issue and grant of the Restricted Shares to the Participants (including the issue and grant of the Restricted Shares to the Connected Participants) under the Incentive Scheme at the Board meeting as a result of their interests. Save as disclosed, none of the remaining Directors has a material interest in the above resolutions and they approved the above resolutions unanimously.

The Company will establish an Independent Board Committee (consisting of all independent non-executive Directors, namely, Ms. Li Yingqi, Mr. Jiang Zhihong, Mr. Su Zhi, Mr. Yang Yushe and Mr. Zhao Lei) to advise the Independent Shareholders of the Company in respect of the issue and grant of Restricted Shares by the Company to the Connected Participants under the Incentive Scheme. The Company has appointed Rainbow Capital (HK) Limited 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 Connected Participants under the Incentive Scheme.

In the event that any grantee under the Reserved Grant is a connected person of the Company, it will constitute a connected transaction of the Company. The Company will comply with the relevant requirements under Chapter 14A of the Hong Kong Listing Rules, including reporting, announcement and independent Shareholders' approval and appointment of the independent financial adviser requirements, for such subsequent grant that constitutes a connected transaction.

The Company will seek a Specific Mandate from the Shareholders at the EGM and Class Meetings for the issue and allotment of Restricted Shares under the Incentive Scheme (including the grant to the Connected Participants under the First Grant).

EGM AND CLASS MEETINGS

The Company will convene the EGM and the Class Meetings for Independent Shareholders to consider and, if thought fit, approve the resolutions in relation to, among others, the proposed Incentive Scheme, the Assessment Management Measures, the Specific Mandate for issue and allotment of the Restricted Shares under the Incentive Scheme and the grant of the Restricted Shares (including the grant to the Connected Participants under the First Grant) under the Incentive Scheme. The notice of the EGM and the Class Meetings will be published and despatched to the Shareholders separately by the Company.

A circular containing, among other things, further details of the terms of the proposed Incentive Scheme, the proposed grant under the Incentive Scheme pursuant to the Specific Mandate, the recommendation from the Independent Financial Adviser and the letter from the Independent Board Committee on the issue and grant of Restricted Shares by the Company to the Connected Participants and the notices convening the EGM and the Class Meetings, is expected to be despatched to the Shareholders on or before 11 February 2022 in accordance with the listing rules of the place where the Company's securities are listed and the Articles of Association.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Articles of Association”	the Articles of Association of the Company
“A Share(s)”	ordinary share(s) in the share capital of the Company with a par value of RMB1.00 each and listed on the STAR Market and traded in RMB
“A Shareholders’ Class Meeting”	the 2022 first class meeting of A Shareholders
“A Shareholder(s)”	holder(s) of A Shares
“Assessment Management Measures”	the assessment management measures adopted for the implementation of the Incentive Scheme
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of the Company
“Class Meetings”	the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting
“Company”	Shanghai Haohai Biological Technology Co., Ltd.* (上海昊海生物科技股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares and A Shares of which are listed and traded on the Main Board of the Hong Kong Stock Exchange (Stock Code: 6826) and the STAR Market (Stock Code: 688366), respectively

“Connected Participant(s)”	a Participant(s) who is a connected person of the Company
“connected person”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules, see also “Information of the Company and the Participants”
“CSDC”	China Securities Depository and Clearing Co., Ltd
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be held by the Company to consider and if, thought fit, approve the resolutions in relation to, among others, the proposed Incentive Scheme, the Assessment Management Measures, the Specific Mandate for issue and allotment of the Restricted Shares under the Incentive Scheme and the grant of the Restricted Shares (including the grant to the Connected Participants under the First Grant) under the Incentive Scheme
“First Grant”	the proposed grant of not more than 1,450,000 Restricted Shares, representing approximately 80.56% of the total number of Restricted Shares under the Incentive Scheme
“Grant Date”	the date on which the Company grants the Restricted Shares to the Participants
“Grant Price”	the price of each Restricted Share to be granted to the Participants
“Group”, “we”, “our” or “us”	the Company and its subsidiaries
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Share(s)”	the overseas-listed foreign share(s) in the share capital of the Company with a par value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Shareholder(s)”	holder(s) of H Shares
“H Shareholders’ Class Meeting”	the 2022 first class meeting of H Shareholders

“Incentive Scheme”	the 2021 restricted A share incentive scheme of the Company
“Independent Board Committee”	an independent board committee of the Company comprising all independent non-executive Directors who are independent from related matters to advise the Independent Shareholders in respect of the issue and grant of the Restricted Shares by the Company to the Connected Participants
“Independent Financial Adviser”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571), and the independent financial adviser of the Company appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the issue and grant of the Restricted Shares by the Company to the Connected Participants
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolutions in relation to the Incentive Scheme and the issue and grant of the Restricted Shares by the Company to the Connected Participants to be considered and, if thought fit, approved at the EGM and the Class Meetings
“Management Measures”	the Management Measures for Share Incentive Scheme Adopted by Listed Companies (《上市公司股權激勵管理辦法》)
“Participant(s)”	the participants of the Incentive Scheme
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Company Law”	the Company Law of the PRC
“PRC Securities Law”	the Securities Law of the PRC
“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the Company
“Reserved Grant”	the reserved grant of not more than 350,000 Restricted Shares, representing approximately 19.44% of the total number of Restricted Shares under the Incentive Scheme
“Restricted Share(s)”	A Share(s) to be granted to the Participants by the Company on such conditions and at the Grant Price stipulated under the Incentive Scheme, which are subject to the attribution conditions stipulated under the Incentive Scheme and can only be attributed and transferred after satisfactory with the attribution conditions
“RMB”	Renminbi, the lawful currency of the PRC
“SSE”	the Shanghai Stock Exchange

“Share(s)”	A Share(s) and/or H Share(s)
“Shareholder(s)”	A Shareholder(s) and/or H Shareholder(s)
“Specific Mandate”	the specific mandate to be sought from the Shareholders at the EGM and the Class Meetings to issue and allot not more than 1,800,000 A Shares as Restricted Shares under the Incentive Scheme
“STAR Market”	STAR Market of the SSE
“STAR Market Listing Rules”	Rules Governing the Listing of Stocks on the STAR Market of SSE (《上海證券交易所科創板股票上市規則》)
“Supervisor(s)”	Supervisor(s) of the Company

By order of the Board
Shanghai Haohai Biological Technology Co., Ltd.*
Hou Yongtai
Chairman

Shanghai, the PRC, 29 December 2021

As at the date of this announcement, the executive Directors are Dr. Hou Yongtai, Mr. Wu Jianying, Ms. Chen Yiyi and Mr. Tang Minjie; the non-executive Directors are Ms. You Jie and Mr. Huang Ming; and the independent non-executive Directors are Ms. Li Yingqi, Mr. Jiang Zhihong, Mr. Su Zhi, Mr. Yang Yushe and Mr. Zhao Lei.

* For identification purpose only