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If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in 麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*, you should at once hand this circular together with the enclosed reply slip for attendance and proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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麗珠醫藥集團股份有限公司 LIVZON PHARMACEUTICAL GROUP INC.*

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

(Stock code: 1513)

**(1) PROPOSED ADOPTION OF
THE 2018 SHARE OPTIONS INCENTIVE SCHEME
(2) PROPOSED ADOPTION OF THE ADMINISTRATIVE
MEASURES FOR APPRAISAL SYSTEM OF
THE 2018 SHARE OPTIONS INCENTIVE SCHEME
(3) PROPOSED ADOPTION OF
THE SUBSIDIARY SHARE OPTION SCHEME
(4) PROPOSED GRANT OF SUBSIDIARY SHARE OPTIONS UNDER
THE SUBSIDIARY SHARE OPTION SCHEME TO MR. FU DAOTIAN
(5) THE INCREASE OF THE REGISTERED CAPITAL OF THE COMPANY
(6) THE AMENDMENTS TO THE ARTICLES OF
ASSOCIATION OF THE COMPANY**

The letter from the Board is set out on pages 8 to 31 of this circular.

The Company will hold the EGM and the H Shareholders' Class Meeting at the Conference Room on the 3rd Floor of Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai, Guangdong Province, China at 2:00 p.m. and 4:00 p.m. (or immediately after the conclusion of the EGM and the A Shareholders' Class Meeting or any adjournment thereof) respectively on Wednesday, 5 September 2018. Initial Notices convening the EGM and the H Shareholders' Class Meeting were given by the Company on 18 July 2018, and reply slips for attendance and proxy forms (the "Initial Proxy Forms") for the EGM and the H Shareholders' Class Meeting were despatched by the Company on 18 July 2018. The Supplemental Notices and revised proxy forms (the "Revised Proxy Forms") for the EGM and H Shareholders' Class Meeting were despatched by the Company on 18 August 2018. The aforesaid documents are also available for download on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.livzon.com.cn).

If you would like to attend the EGM and the H Shareholders' Class Meeting in person or by proxy, please complete the reply slips in accordance with the instructions printed thereon and lodge the same to the H Share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in person, by post or by fax in any event on or before Thursday, 16 August 2018. Any Shareholder who intends to appoint a proxy to attend the EGM and H Shareholders' Class Meeting and has not lodged the Initial Proxy Forms which were sent together with the Initial Notices is required to complete and lodge the Revised Proxy Forms which were sent together with the Supplemental Notices in accordance with the instructions printed thereon and lodging of the Initial Proxy Forms is not required. Shareholder(s) who have lodged the Initial Proxy Forms are also required to complete and lodge the Revised Proxy Forms in accordance with the instructions printed thereon. For the H Shareholders, the Revised Proxy Forms should be lodged to the Company's H Share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. The Revised Proxy Forms should be lodged no less than 24 hours before the time appointed for the holding of the EGM and H Shareholders' Class Meeting (or any adjournment thereof). Completion and lodge of the Revised Proxy Forms will not preclude you from attending and voting at the EGM and H Shareholders' Class Meeting or any adjournment thereof in person if you so wish.

18 August 2018

* For identification purpose only

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DEFINITIONS

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

“A Share(s)”	the domestic shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shenzhen Stock Exchange (stock code: 000513)
“A Shareholder(s)”	holder(s) of the A Share(s)
“A Shareholders’ Class Meeting”	the 2018 third class meeting of A Shareholders of the Company to be convened at 3 p.m. (or immediately after the conclusion or adjournment of the EGM) on Wednesday, 5 September 2018, if thought fit, to approve, among other matters, (1) the proposed adoption of the Incentive Scheme and its related matters and (2) the proposed adoption of the Administrative Measures for Appraisal System
“Administrative Measures for Appraisal System”	Administrative Measures for the Appraisal System of the 2018 Share Options Incentive Scheme, which is set out in Appendix II to this circular
“Administrator”	the board of directors of Livzon Biologics or one or more committees appointed by the board of directors of Livzon Biologics or another committee (within its delegated authority) to administer all or certain aspects of the Subsidiary Share Option Scheme. Any such committee shall be comprised solely of one or more directors of Livzon Biologics or such number of directors of Livzon Biologics as may be required under applicable law
“Affiliate(s)”	any corporation (other than Livzon Biologics) in an unbroken chain of corporations beginning with Livzon Biologics if, at the time of the determination, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain

DEFINITIONS

“Articles of Association”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company
“Business Day”	a day (excluding Saturday and Sunday) on which the Hong Kong Stock Exchange (in respect of the Subsidiary Share Option Scheme, the stock exchange on which shares of Livzon Biologics are traded) generally is open for the business of dealing in securities
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and any amendments thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor
“close associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Company”	麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*, a joint stock company incorporated in the PRC in accordance with the Company Law on 25 January 1985 with limited liability, its shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Company Law”	Company Law of the PRC (中華人民共和國公司法), as adopted at the Fifth Session of the Standing Committee of the Eighth National People’s Congress of the PRC on 29 December 1993, effective from 1 July 1994, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“core connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“EGM”	the 2018 third extraordinary general meeting of the Company to be convened at 2 p.m. on Wednesday, 5 September 2018, if thought fit, to approve, among other matters, (1) the proposed adoption of the Incentive Scheme and its related matters; (2) the proposed adoption of the Administrative Measures for Appraisal System; (3) the proposed adoption of the Subsidiary Share Option Scheme; (4) the Proposed Grant of the Subsidiary Share Options to Mr. Fu Daotian; (5) the proposed increase of the registered capital of the Company; and (6) the proposed amendments to the Articles of Association of the Company
“Eligible Participant(s)”	means directors, employees, advisers and consultants of Livzon Biologics or any of the Affiliates who, in the sole opinion of the Administrator, have contributed or will contribute to Livzon Biologics and/or any of the Affiliates
“First Grant”	the grant of up to 17,550,000 Share Options to the Incentive Participants pursuant to the Incentive Scheme
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas-listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange (stock code: 1513)
“H Shareholder(s)”	holder(s) of the H Share(s)

DEFINITIONS

“H Shareholders’ Class Meeting”	the 2018 third class meeting of H Shareholders of the Company to be convened at 4 p.m. (or immediately after the conclusion or adjournment of the EGM and the A Shareholders’ Class Meeting) on Wednesday, 5 September 2018, if thought fit, to approve, among other matters, (1) the proposed adoption of the Incentive Scheme and its related matters and (2) the proposed adoption of the Administrative Measures for Appraisal System
“HK\$”	HK dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Incentive Participants”	the directors, senior management, mid-level management and relevant core personnel (excluding independent directors and supervisors) of the Company to be granted the Share Options pursuant to the Incentive Scheme
“Incentive Scheme”	the 2018 Share Options Incentive Scheme (Revised Draft), which is set out in Appendix I to this circular
“Initial Notices”	the initial notices convening the EGM and H Shareholders’ Class Meeting which were despatched on 18 July 2018
“Latest Practicable Date”	15 August 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for the inclusion in this circular
“Livzon Biologics”	Livzon Biologics Limited, a company incorporated in the Cayman Islands with limited liability and a non-wholly owned subsidiary of the Company

DEFINITIONS

“Livzon Biologics Listing Date”	the date on which the Ordinary Shares commence listing on the Hong Kong Stock Exchange or such other stock exchange on which the issued share capital of Livzon Biologics is primarily listed
“Livzon MAB”	珠海市麗珠單抗生物技術有限公司 Livzon MABPharm Inc.*, a company established in the PRC with limited liability
“Ordinary Shares”	the ordinary shares of Livzon Biologics of par value US\$0.00001 per share
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this circular, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Grant of the Subsidiary Share Options to Mr. Fu Daotian”	the proposed grant of 1,666,666 Subsidiary Share Options under the Subsidiary Share Option Scheme to Mr. Fu Daotian to subscribe 1,666,666 Ordinary Shares in Livzon Biologics
“Reserved Grant”	the grant of up to 1,950,000 Share Options to the Incentive Participants pursuant to the Incentive Scheme
“RMB”	Renminbi, the lawful currency of the PRC
“Series A Preferred Shares”	the series A preferred shares of Livzon Biologics of par value US\$0.00001 per share
“Shareholder(s)”	the shareholder(s) of the Company
“Share Option(s)”	the right to be granted by the Company to an Incentive Participant to acquire certain number of A Shares of the Company in a particular period of time and subject to certain terms and conditions under the Incentive Scheme
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)

DEFINITIONS

“Subsidiary Share Option(s)”	the option(s) to subscribe for the Ordinary Share(s) of Livzon Biologics pursuant to the Subsidiary Share Option Scheme
“Subsidiary Share Option Acceptance Date”	the date upon which an offer for any Subsidiary Share Option must be accepted by the relevant Eligible Participant, being a date specified in the relevant offer document of the Subsidiary Share Options
“Subsidiary Share Option Commencement Date”	the commencement date as specified in the relevant offer document of the Subsidiary Share Options or, if the Subsidiary Share Option Period does not commence on the Subsidiary Share Option Commencement Date, the date of commencement of the Subsidiary Share Option Period
“Subsidiary Share Option Expiry Date”	the date of the expiry of the Subsidiary Share Option as may be determined by the board of directors of Livzon Biologics which shall not be later than the last day of the Subsidiary Share Option Period in respect of such Subsidiary Share Option
“Subsidiary Share Option Offer Date”	the date on which such Subsidiary Share Option is offered to an Eligible Participant which must be a Business Day
“Subsidiary Share Option Period”	the period to be notified by the board of directors of Livzon Biologics to each grantee within which the Subsidiary Share Option may be exercisable provided that such period of time shall not exceed a period of 10 years commencing on the Subsidiary Share Option Offer Date
“Subsidiary Share Option Scheme”	the share option scheme to be adopted by Livzon Biologics, a summary of the principal terms of which are set out in Appendix III to this circular
“Subsidiary Share Option Scheme Adoption Date”	5 September 2018, the date on which the Subsidiary Share Option Scheme is to be adopted if such resolution is approved by the Shareholders at the EGM

DEFINITIONS

“Subsidiary Special Resolution”	a resolution passed at a meeting of the grantees of the Subsidiary Share Option Scheme (being only those grantees holding the Subsidiary Share Options, all or any part of which is unexercised as at the time of the meeting at which the resolution is proposed) duly convened and held and carried by a majority consisting of not less than three-fourths of the votes cast upon a show of hands or if a poll is duly demanded, by a majority consisting of not less than three-fourths of the votes cast on a poll
“Supplemental Notices”	the supplemental notices convening the EGM and H Shareholders’ Class Meeting which were despatched on 18 August 2018

* *For identification purpose only*

LETTER FROM THE BOARD



麗珠醫藥集團股份有限公司
LIVZON PHARMACEUTICAL GROUP INC.*

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

(Stock code: 1513)

Executive Directors:

Mr. Tao Desheng (*Vice Chairman and President*)
Mr. Fu Daotian (*Vice President*)
Mr. Xu Guoxiang (*Vice President*)

Non-executive Directors:

Mr. Zhu Baoguo (*Chairman*)
Mr. Qiu Qingfeng

Independent non-executive Directors:

Mr. Xu Yanjun
Mr. Guo Guoqing
Mr. Wang Xiaojun
Mr. Xie Yun
Mr. Zheng Zhihua

Registered office:

Headquarters Building,
38 Chuangye North Road,
Jinwan District, Zhuhai,
Guangdong Province,
China

**Principal place of business
in Hong Kong:**

Flat 1301, 13/F,
China Evergrande Centre,
38 Gloucester Road, Wanchai,
Hong Kong

18 August 2018

To the Shareholders

Dear Sir/Madam,

- (1) PROPOSED ADOPTION OF
THE 2018 SHARE OPTIONS INCENTIVE SCHEME
(2) PROPOSED ADOPTION OF THE ADMINISTRATIVE
MEASURES FOR APPRAISAL SYSTEM OF
THE 2018 SHARE OPTIONS INCENTIVE SCHEME
(3) PROPOSED ADOPTION OF
THE SUBSIDIARY SHARE OPTION SCHEME
(4) PROPOSED GRANT OF SUBSIDIARY SHARE OPTIONS UNDER
THE SUBSIDIARY SHARE OPTION SCHEME TO MR. FU DAOTIAN
(5) THE INCREASE OF THE REGISTERED CAPITAL OF THE COMPANY
(6) THE AMENDMENTS TO THE ARTICLES OF
ASSOCIATION OF THE COMPANY**

I. INTRODUCTION

The purpose of this circular is to provide you with relevant information regarding the (1) Incentive Scheme; (2) the Administrative Measures for Appraisal System; (3) the Subsidiary Share Option Scheme; (4) the Proposed Grant of Subsidiary Share Options to Mr. Fu Daotian; (5) the

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LETTER FROM THE BOARD

increase of the registered capital of the Company; and (6) the amendments to the Articles of Association to enable you to make informed decisions in voting on the relevant resolutions to be proposed at the EGM and the H Shareholders' Class Meeting.

II. PROPOSED ADOPTION OF THE INCENTIVE SCHEME

Reference is made to the announcements of the Company dated 17 July 2018 and 17 August 2018 in relation to the proposed adoption of the Incentive Scheme. Full text of the terms of the Incentive Scheme is set out in Appendix I to this circular.

Purpose of the Incentive Scheme

The Incentive Scheme has been formulated to further establish and improve the Company's long-term incentive mechanism, attract and retain outstanding employees, fully motivate the directors, senior management, mid-level management and relevant core personnel (i.e. the other employees who have made valuable contributions or possess of key technical expertise) of the Company and effectively integrate Shareholders' interests, the Company's interests and individual interests of the core team members so that the parties will make joint efforts for the Company's long-term development.

Source of Underlying Shares of the Incentive Scheme

The source of the underlying shares of the Incentive Scheme comprise the Company's A Shares to be issued to the Incentive Participants by the Company. Only new A Shares of the Company will be issued upon exercise of the Share Options to be granted under the Incentive Scheme and no H Shares of the Company will be issued under the Incentive Scheme. The A Shares to be issued upon exercise of the Share Options will be subject to all the provisions of the Articles of Association for the time being in force and will rank pari passu with the fully paid A Shares in issue and accordingly will entitle the holders to voting, dividend, transfer and other lights, including those arising from liquidation of the Company.

Number of Underlying Shares of the Incentive Scheme

As at the date of this circular, the Company had a total issued share capital of 719,050,240 shares (comprising 473,000,842 A Shares and 246,049,398 H Shares). Incentive Participants are proposed to be granted 19,500,000 Share Options under the Incentive Scheme, which involve a total of 19,500,000 A Shares, representing approximately 2.71% of the Company's total issued share capital and approximately 4.12% of the A Share in issue as at the date of this circular (assuming there is no change in the issued share capital of the Company between the date of this circular and the date of the EGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting). Specifically, 17,550,000 Share Options will be granted initially, representing 90.00% of the total Share Options available under the Incentive Scheme, and accounting for approximately 2.44% of the Company's total issued share capital and approximately 3.71% of the A Shares in issue as at the date of this circular; and 1,950,000 Share Options will be reserved, representing 10.00% of the total Share Options available under the Incentive Scheme, and accounting for approximately 0.27% of the Company's total issued share capital and approximately 0.41% of the A Shares in issue as at the date of this circular.

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The total number of A Shares which may be issued upon exercise of all Share Options to be granted under the Incentive Scheme shall not in aggregate exceed 10% of the Company's A Share as at the date of approval of the Incentive Scheme. The maximum number of A Shares which may be issued upon exercise of all Share Options to be granted under the Incentive Scheme and all outstanding options granted of any other share option scheme (if any) shall not exceed 30% of the Company's A Share in issue from time to time. Other than the proposed Incentive Scheme, the Company has not adopted or proposed to adopt any other share option schemes.

Conditions Precedent for the Adoption of the Incentive Scheme

The Incentive Scheme shall be effective upon the approval by the Shareholders at the EGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting.

Scope of the Incentive Participants

The Incentive Participants for the First Grant comprise a total of 1,116 persons who are the Directors, senior management, mid-level management and relevant core personnel of the Company. The Incentive Participants shall exclude independent 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 Incentive Participants aforementioned, Directors and senior management must be elected by the general meetings or appointed by the Board of the Company. All Incentive Participants shall have employment or service relationship with the Company (including its branch companies and subsidiaries) at the time of grant of interest under the Incentive Scheme.

Incentive Participants for the Reserved Grant shall be determined within 12 months from the date on which the Incentive Scheme is considered and passed at the EGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting. The reserved entitlements shall become invalid where the Incentive Participants for the Reserved Grant are not determined after 12 months from the aforesaid date. The criteria for determining the Incentive Participants for the Reserved Grant shall be the same as the criteria for the First Grant.

Details of the scope of the Incentive Participants are set out in the paragraph headed "Chapter IV. Basis for Determining the Incentive Participants and the Scope of Incentive Participants – II. Scope of the Incentive Participants" of Appendix I to this circular.

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Allocation of Share Options to be Granted to the Incentive Participants

The allocation details of the Share Options to be granted to each Incentive Participant under the Incentive Scheme are as follows:

Name	Position	Number of Share Options to be granted <i>(0'000 share options)</i>	Percentage to the total number of Share Options to be granted	Percentage to the current total share capital
Tao Desheng	Vice Chairman and President	19.50	1.00%	0.03%
Xu Guoxiang	Director and Vice President	19.50	1.00%	0.03%
Fu Daotian	Director and Vice President	15.60	0.80%	0.02%
Tang Yanggang	Executive Vice President	15.60	0.80%	0.02%
Yang Daihong	Vice President	15.60	0.80%	0.02%
Si Yanxia	Vice President	15.60	0.80%	0.02%
Zhou Peng	Vice President	10.40	0.53%	0.01%
Yang Liang	Secretary of the board of directors and Company Secretary	9.10	0.47%	0.01%
Mid-level management and relevant core personnel of the Company (1,108 persons)		1,634.10	83.80%	2.27%
Reserved Grant		195.00	10.00%	0.27%
Total (1,116 persons)		<u>1,950.00</u>	<u>100%</u>	<u>2.71%</u>

None of the Directors is a trustee of the Incentive Scheme or has a direct or indirect interest in the trustee.

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Exercise Arrangement and Exercise Conditions of the Share Options

Pursuant to the Incentive Scheme, the exercise of the Share Options are subject to a vesting period of 12 months from the registration date of grant. Upon satisfaction of the exercise conditions (including performance target requirements) as set out in the paragraph headed “Chapter VIII. Conditions of Grant and Exercise of the Share Options – II. Exercise Conditions of the Share Options” of Appendix I to this circular, the Incentive Participants may exercise their Share Options granted under (a) the First Grant in three tranches within 36 months after the expiry of the 12-month period from the registration completion date of the First Grant and (b) the Reserved Grant (i) in three tranches within 36 months after the expiry of the 12-month period from the registration completion date of the Reserved Grant if the Reserved Grant is completed in 2018 or (ii) in two tranches within 24 months after the expiry of the 12-month period from the registration completion date of the Reserved Grant if the Reserved Grant is completed in 2019. Details of the exercise schedule and arrangement are set out in the paragraph headed “Chapter VI. Validity Period, Date of Grant, Vesting Period, Exercise Date and Lock-up Period of the Incentive Scheme – IV. Exercise Date of the Incentive Scheme” of Appendix I to this circular. Such arrangement may provide incentives to the Incentive Participants to remain employed with the Group during the 12-month period and thereby enable the Group to benefit from the continued services of such Incentive Participants during such period. In addition, the performance target requirements provide incentives to the Incentive Participants to motivate their pro-activeness and creativity in using their best endeavours to facilitate the growth and development of the Company.

Exercise Price of the Share Options and Basis for Determination

(a) *Basis for Determination of the Exercise Price of the Share Options under the First Grant*

The exercise price of the Share Options under the First Grant shall not be lower than the par value of the A Shares, and shall be the higher of the following:

- (1) the average price of the A Shares of the Company for the last trading day preceding the date of announcement of the Incentive Scheme (i.e. 17 July 2018) (the total transaction value of the A Shares for the last trading day/total trading volume of the A Shares for the last trading day), being RMB47.01 per A Share;
- (2) the average price of the A Shares of the Company for the last 20 trading days preceding the date of announcement of the Incentive Scheme (the total transaction value of the A Shares for the last 20 trading days/total trading volume of the A Shares for the last 20 trading days), being RMB45.54 per A Share.

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(b) Basis for Determination of the Exercise Price of the Share Options under the Reserved Grant

Before each grant of the Share Options under the Reserved Grant, the Company shall hold a board meeting to pass the relevant resolution, and shall disclose a summary of such grant. The exercise price of the Share Options under the Reserved Grant shall not be lower than the par value of the A Shares, and shall be the higher of the following:

- (1) the average price of the A Shares of the Company for the last trading day preceding the date of announcement of the board resolution on the grant of the Share Options under the Reserved Grant;
- (2) the average price of the A Shares of the Company for the last 20, 60 or 120 trading days preceding the date of announcement of the board resolution on the grant of the Share Options under the Reserved Grant.

The Company will publish further announcements disclosing the details of the subsequent grant of the Share Options under the Reserved Grant, including among other, the number of Share Options and the exercise price in accordance with the Hong Kong Listing Rules.

Waiver from Strict Compliance with the Hong Kong Listing Rules

The Incentive Scheme constitutes a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules. According to Note (1) to Rule 17.03(9) of the Hong Kong Listing Rules, the exercise price of the relevant options must be at least the higher of (i) the closing price of the securities as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the securities as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant. The Company has therefore obtained a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Hong Kong Listing Rules in respect of the exercise price of the Share Options that may be granted under the Incentive Scheme on the following grounds:

- (1) as all the shares to be issued pursuant to the exercise of the Share Options under the Incentive Scheme are A Shares, it would be inappropriate for the Company to follow the relevant Hong Kong Listing Rules requirement to use the closing prices of the Company's H Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets as references to determine the exercise price of the Share Options to be granted under the Incentive Scheme;

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- (2) as confirmed by the Company's PRC legal adviser, the proposed basis for determination of the exercise price of the Share Options to be granted under the Incentive Scheme is in compliance with the requirements under the Administrative Measures on Share Incentives of Listed Companies (上市公司股權激勵管理辦法) as prescribed by the CSRC;
- (3) as confirmed by the Company's PRC legal adviser, the Incentive Scheme is not subject to any approval, reporting or registration requirements with the CSRC under the applicable PRC laws and regulations;
- (4) the exercise price of the Share Options to be granted under the Incentive Scheme will reflect the prevailing market price of the to be granted A Shares of the Company at the time or with reference to the time the terms of the grant are fixed, that such principle is in line with the rationale behind Note (1) to Rule 17.03(9) of the Hong Kong Listing Rules; and
- (5) the Incentive Scheme is subject to approval by the Shareholders at the EGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting to the effect that the Shareholders will have the opportunity to consider and assess the principal terms of the Incentive Scheme which include the proposed exercise price and basis for determination of the exercise price of the Share Options to be granted under the Incentive Scheme.

For details of the basis for determination of the exercise price of the Share Options under the Incentive Scheme, please refer to paragraph headed "Chapter VII. Exercise Price of the Share Options and Basis for Determination" in Appendix I to this circular.

III. PROPOSED ADOPTION OF THE ADMINISTRATIVE MEASURES FOR APPRAISAL SYSTEM

Under the Incentive Scheme, the Incentive Participants shall meet the performance target before the exercise of the Share Options. A special resolution will be proposed at the EGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting to approve the adoption of the Administrative Measures for Appraisal System, the full text of which is set out in Appendix II to this circular.

IV. PROPOSED ADOPTION OF THE SUBSIDIARY SHARE OPTION SCHEME

Livzon Biologics is a non-wholly owned subsidiary of the Company, which indirectly holds 51% of its issued share capital as at the date of this circular. Livzon Biologics is an investment holding company which indirectly holds Livzon MAB, which principally engages in technological research and development of biopharmaceutical products.

LETTER FROM THE BOARD

As at the date of this circular, the board of directors and shareholders of Livzon Biologics have given their conditional approval for the proposed adoption of the Subsidiary Share Option Scheme. The Subsidiary Share Option Scheme constitutes a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules. Pursuant to Rule 17.02(1)(a) of the Hong Kong Listing Rules, the adoption of the Subsidiary Share Option Scheme is conditional upon the approval of the Shareholders at the EGM.

The shares of Livzon Biologics to be issued under the Subsidiary Share Option Scheme may consist in whole or in part of authorised but unissued shares of Livzon Biologics. The Company will, where applicable, comply with the relevant requirements of Chapter 14 of the Hong Kong Listing Rules in connection with the deemed disposal as a result of the exercise of the Subsidiary Share Options, which may reduce the percentage equity interest of the Company in Livzon Biologics. In addition, the grant of the Subsidiary Share Options to an Eligible Participant who is a connected person of the Company (if any) shall comply with the relevant requirements of Chapter 14A of the Hong Kong Listing Rules.

None of the Directors is a trustee of the Subsidiary Share Option Scheme or has a direct or indirect interest in the trustee.

A summary of the principal terms of the Subsidiary Share Option Scheme is set out in Appendix III to this circular.

Purpose of the Subsidiary Share Option Scheme

The purpose of the Subsidiary Share Option Scheme is to enable Livzon Biologics to grant Subsidiary Share Options to the Eligible Participants as incentives, attraction, motivation or rewards for their contribution or potential contribution to Livzon Biologics and/or any of the Affiliates.

The Directors believe that the discretion given to the board of directors of Livzon Biologics under the Subsidiary Share Option Scheme to impose any performance targets as conditions in any Subsidiary Share Option granted will serve to achieve the purpose stated above. In addition, the vesting period requirement will serve as an incentive for the respective grantees for their continuing commitment and contribution to the growth of Livzon Biologics in the future.

Source and number of Ordinary Shares of Livzon Biologics in respect of Subsidiary Share Options may be granted

The shares to be issued upon exercise of a Subsidiary Share Option will be the Ordinary Shares in Livzon Biologics, not the shares of the Company.

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The maximum number of Ordinary Shares of Livzon Biologics in respect of which the Subsidiary Share Options may be granted under the Subsidiary Share Option Scheme shall be 11,111,111 (being 8.919% of the number of Ordinary Shares of Livzon Biologics in issue as at the Subsidiary Share Option Scheme Adoption Date) and, when aggregate with the maximum number of Ordinary Shares of Livzon Biologics in respect of any options to be granted under any other share option schemes shall not in aggregate exceed 10% of the outstanding Ordinary Shares of Livzon Biologics in issue on the date of approval of the Subsidiary Share Option Scheme at the EGM by the Shareholders (excluding for this purpose any options which have lapsed in accordance with the terms of the Subsidiary Share Option Scheme and any other share option schemes). As at the date of this circular, Livzon Biologics had 100,000,000 shares in issue comprising of 100,000,000 Ordinary Shares, 24,574,830 Ordinary Shares and 12,500,000 Series A Preferred Shares will be issued by Livzon Biologics pursuant to a share subscription agreement prior to the Subsidiary Share Option Scheme Adoption Date. For further details, please refer to the announcement of the Company dated 22 June 2018.

The total maximum number of Ordinary Shares of Livzon Biologics which may be issued upon exercise of all outstanding Subsidiary Share Options granted and yet to be exercised under the Subsidiary Share Option Scheme and any other options granted and yet to be exercised under any other share option schemes shall not exceed 30% of the outstanding Ordinary Shares of Livzon Biologics in issue from time to time. No Subsidiary Share Option may be granted under the Subsidiary Share Option Scheme and no option may be granted under any other share option schemes if this will result in the aforesaid limit being exceeded.

Conditions precedent to the Subsidiary Share Option Scheme becoming effective

The adoption of the Subsidiary Share Option Scheme is conditional upon the passing of the necessary resolutions by the board of directors and shareholders of Livzon Biologics and the Company.

As at the date of this circular, the Subsidiary Share Option Scheme has been conditionally approved by the board of directors and shareholders of Livzon Biologics. Subject to the approval of the Shareholders for the adoption of the Subsidiary Share Option Scheme at the EGM, the Subsidiary Share Option Scheme will take effect on the Subsidiary Share Option Scheme Adoption Date.

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Document available for inspection

A copy of the Subsidiary Share Option Scheme will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Room 1301, 13/F., China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong during the 14-day period immediately preceding the EGM (including the date of the EGM) and at the EGM.

V. PROPOSED GRANT OF SUBSIDIARY SHARE OPTIONS UNDER THE SUBSIDIARY SHARE OPTION TO MR. FU DAOTIAN

Subject to the Subsidiary Share Option Scheme becoming effective, the board of directors of Livzon Biologics proposed that 1,666,666 Subsidiary Share Options be granted to Mr. Fu Daotian, a director and general manager of Livzon MAB, an indirect owned subsidiary of Livzon Biologics and the Director and vice president of the Company, to subscribe for 1,666,666 Ordinary Shares of Livzon Biologics, representing approximately 1.34% of the Ordinary Shares of Livzon Biologics in issue as at the Subsidiary Share Option Scheme Adoption Date.

As at the Latest Practicable Date, other than the 1,666,666 Subsidiary Shares Options proposed to be granted to Mr. Fu Daotian, no other options entitled to subscribe for any shares in Livzon Biologics has been granted to Mr. Daotian.

Reasons for the Proposed Grant of the Subsidiary Share Options to Mr. Fu Daotian

The Subsidiary Share Options conditionally granted to Mr. Fu Daotian is to provide him with the opportunity to acquire proprietary interests in Livzon Biologics and to encourage him to work towards enhancing the value of Livzon Biologics and its shares for the benefit of Livzon Biologics and its shareholder(s) as a whole.

Being a director and general manager of Livzon MAB, an indirect owned subsidiary of Livzon Biologics and the Group's principal entity in technological research and development for biopharmaceutical products, Mr. Fu Daotian's devotion and performance are the keys to the success of Livzon MAB and hence Livzon Biologics. The Board considers that the Proposed Grant of the Subsidiary Share Options to Mr. Fu Daotian is an appropriate way to reward and encourage his continuous contributions towards Livzon Biologics and Livzon MAB.

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Terms of the Proposed Grant of the Subsidiary Share Options to Mr. Fu Daotian

The terms of the Proposed Grant of the Subsidiary Share Options to Mr. Fu Daotian are set out below:

Number of Ordinary Shares of Livzon Biologics in respect of the Subsidiary Share Options to be granted	:	1,666,666 Ordinary Shares of Livzon Biologics
Valid period of the Subsidiary Share Options granted	:	10 years from the Subsidiary Share Option Offer Date (both dates inclusive), subject to the vesting conditions as stated in the offer letter and the provisions for termination contained in the Subsidiary Share Option Scheme.
Exercise price	:	US\$4.00 per Ordinary Share of Livzon Biologics, which was determined, subject to the adjustments as provided in the Subsidiary Share Option Scheme, with reference to the value of Livzon Biologics, its business performance and Mr. Fu Daotian's contributions to Livzon Biologics. The exercise price was also in line with the per share consideration of US\$4.00 paid by Livzon International Limited, an indirect wholly-owned subsidiary of the Company, and the per share consideration of US\$4.00 paid by YF Pharmab Limited, an independent third party, for an additional 4.13% interests in Ordinary Shares of Livzon Biologics and 9.12% interests of Livzon Biologics in Series A Preferred Shares, respectively, issuable pursuant to a subscription agreement dated 22 June 2018. Given YF Pharmab Limited, an independent third party, also agreed to the per share consideration of US\$4.00, the board of directors of Livzon Biologics and the Board consider an exercise price of US\$4.00 per share represents the fair market value of the underlying Subsidiary Ordinary Share.
Vesting conditions	:	Mr. Fu Daotian shall be entitled to exercise the Subsidiary Share Options granted in the following manner:

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- (a) up to 25% of the Ordinary Shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the first anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period;
- (b) up to 50% of the Ordinary Shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the second anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period;
- (c) up to 75% of the Ordinary Shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the third anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period; and
- (d) up to 100% of the Ordinary Shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him at any time during the period commencing from the fourth anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period.

Performance target	:	There is no performance target to be fulfilled before the Subsidiary Share Options can be exercised.
Payment upon acceptance of the Subsidiary Share Options granted	:	Mr. Fu Daotian shall pay HK\$0.10 or its RMB equivalent to Livzon Biologics by remittance or in cash as consideration for the grant.

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Implications under the Hong Kong Listing Rules

Pursuant to Rule 17.03(4) of the Hong Kong Listing Rules, as the proposed grant of 1,666,666 Subsidiary Share Options to Mr. Fu Daotian will result in the Ordinary Shares of Livzon Biologics to be issued upon exercise of all Subsidiary Share Options to be granted to Mr. Fu Daotian exceeding 1% of the Ordinary Shares of Livzon Biologics in issue in a 12-month period, the proposed grant of 1,666,666 Subsidiary Share Options to Mr. Fu Daotian shall be approved by the Shareholders at the EGM at which Mr. Fu Daotian and his associates shall abstain from voting in respect of such resolution. As at the Latest Practicable Date, Mr. Fu Daotian did not hold any A Shares or H Shares of the Company.

The Proposed Grant of the Subsidiary Share Options to Mr. Fu Daotian is also conditional upon approval of the Subsidiary Share Option Scheme by the Shareholders at the EGM.

VI. THE INCREASE OF THE REGISTERED CAPITAL OF THE COMPANY

Reference is made to the circular of the Company dated 27 April 2018 which, amongst others, include the details of the 2017 Annual Profit Distribution Plan. As the 2017 Annual Profit Distribution Plan of the Company (which proposed to distribute cash dividend of RMB20.00 (tax inclusive) for every 10 shares to all Shareholders and to issue 3 Bonus Shares for every 10 shares to all Shareholders by way of conversion of capital reserve, based on the total share capital of the Company of 553,231,369 shares as at 31 December 2017. If the total share capital of the Company changes during the period from the promulgation to implementation of the 2017 Annual Profit Distribution Plan, the aggregate distribution will be adjusted based on the total share capital as at the registration date of shareholding as determined by implementation of the 2017 Annual Profit Distribution Plan, with the distribution ratio unchanged) has been considered and approved at the annual general meeting for the year 2017, the 2018 second class meeting of A shareholders and the 2018 second class meeting of H shareholders held on 21 May 2018, and was completed on 17 July 2018, therefore the Company's total issued share capital increased from 553,115,570 Shares (including 363,846,802 A Shares and 189,268,768 H Shares) to 719,050,240 Shares (including 473,000,842 A Shares and 246,049,398 H Shares), and the registered capital of the Company increased from RMB553,115,570 to RMB719,050,240.

As a result, the Company will propose a special resolution at the EGM to consider and approve the increase of the registered capital of the Company to reflect the changes in the total number of issued Shares and registered capital of the Company as a result of the completion of the 2017 Annual Profit Distribution Plan.

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VII. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In view of the increase of registered capital of the Company as a result of the 2017 Annual Profit Distribution Plan as detailed in section VI above, the following amendments regarding the terms of share capital and registered capital of the Company in the Articles of Association are proposed:

1. Article 6

Original content:

“**Article 6** The registered capital of the Company is RMB553,115,570.”

revised as:

“**Article 6** The registered capital of the Company is RMB719,050,240.”

2. Article 21

Original content:

“**Article 21** Following the establishment of the Company, after public issuance of shares, rights issue, creation of bonus shares by transfer of capital reserve and undistributed profit and repurchase of foreign-invested shares, the share capital structure of the Company is changed as follows: 295,721,852 ordinary shares, of which 183,728,498 shares are domestic-listed domestic-invested shares, representing 62.13% of the total number of issued ordinary shares of the Company and 111,993,354 shares are domestic-listed foreign-invested shares, representing 37.87% of the total number of issued ordinary shares of the Company.

As approved by a special resolution passed at the shareholders' general meeting and authorized by securities regulatory bodies under the State Council, the Company's domestic-listed foreign-invested shares are converted into overseas-listed foreign-invested shares listed on The Hong Kong Stock Exchange by way of introduction for trading.

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After the aforesaid domestic-listed foreign-invested shares converted into overseas-listed foreign-invested shares are listed on The Hong Kong Stock Exchange by way of introduction for trading, the share capital structure of the Company is as follows: 295,721,852 ordinary shares, of which 111,993,354 shares are held by holders of overseas-listed foreign-invested shares (H Shares) and 183,728,498 shares are held by holders of domestic-listed domestic-invested shares, representing 37.87% and 62.13% of the total number of issued ordinary shares of the Company respectively.

As approved by a special resolution passed at the shareholders' general meeting and filed with no objection by the China Securities Regulatory Commission, after the completion of the first grant under the Restricted Shares Incentive Scheme by the Company, the share capital structure of the Company is changed as follows: 304,382,252 ordinary shares, of which 192,388,898 shares are domestic-listed domestic-invested shares and 111,993,354 shares are overseas-listed foreign-invested shares (H Shares), representing 63.21% and 36.79% of the total number of issued ordinary shares of the Company respectively.

As approved by a special resolution passed at the shareholders' general meeting, bonus shares created by transfer of capital reserve are issued to all shareholders by the Company. After the bonus shares are created by transfer, the share capital structure of the Company is changed as follows: 395,696,927 ordinary shares, of which 250,105,567 shares are domestic-listed domestic-invested shares and 145,591,360 shares are overseas-listed foreign-invested shares (H Shares), representing 63.21% and 36.79% of the total number of issued ordinary shares of the Company respectively.

Approved by the board of directors of the Company with authorization of the shareholders' general meeting, after the Company has completed the repurchase and cancellation of locked restricted shares granted to incentive participants no longer satisfying the conditions for incentive and the grant of reserved restricted shares, the share capital structure of the Company is changed as follows: 396,889,547 ordinary shares, of which 251,298,187 shares are domestic-listed domestic-invested shares and 145,591,360 shares are overseas-listed foreign-invested shares (H Shares), representing 63.32% and 36.68% of the total number of issued ordinary shares of the Company respectively.

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Approved by the board of directors of the Company with authorization of the shareholders' general meeting, after the Company has completed the repurchase and cancellation of locked restricted shares granted to incentive participants no longer satisfying the conditions for incentive, the share capital structure of the Company is changed as follows: 396,631,923 ordinary shares, of which 251,040,563 shares are domestic-listed domestic-invested shares and 145,591,360 shares are overseas-listed foreign-invested shares (H Shares), representing 63.29% and 36.71% of the total number of issued ordinary shares of the Company respectively.

Approved by the board of directors of the Company with authorization of the shareholders' general meeting, after the Company has completed the registration of the non-public issuance of A shares, the share capital structure of the Company is changed as follows: 425,730,126 ordinary shares, of which 280,138,766 shares are domestic-listed domestic-invested shares and 145,591,360 shares are overseas-listed foreign-invested shares (H Shares), representing 65.80% and 34.20% of the total number of issued ordinary shares of the Company respectively.

Approved by the board of directors of the Company with authorization of the shareholders' general meeting, after the Company has completed the repurchase and cancellation of locked restricted shares granted to incentive participants no longer satisfying the conditions for incentive, the share capital structure of the Company is changed as follows: 425,596,852 ordinary shares, of which 280,005,492 shares are domestic-listed domestic invested shares and 145,591,360 shares are overseas-listed foreign-invested shares (H Shares), representing 65.79% and 34.21% of the total number of issued ordinary shares of the Company respectively.

Approved by the board of directors of the Company with authorization of the shareholders' general meeting, after the Company has completed the repurchase and cancellation of locked restricted shares granted to incentive participants no longer satisfying the conditions for incentive, the share capital structure of the Company is changed as follows: 425,562,592 ordinary shares, of which 279,971,232 shares are domestic-listed domestic-invested shares and 145,591,360 shares are overseas-listed foreign-invested shares (H Shares), representing 65.79% and 34.21% of the total number of issued ordinary shares of the Company respectively.

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As approved by a special resolution passed at the shareholders' general meeting, after the Company has completed the bonus issue by way of capitalising capital reserve to all shareholders, the share capital structure of the Company is changed as follows: 553,231,369 ordinary shares, of which 363,962,601 shares are domestic-listed domestic-invested shares and 189,268,768 shares are overseas-listed foreign-invested shares (H Shares), representing 65.79% and 34.21% of the total number of issued ordinary shares of the Company respectively.

Approved by the board of directors of the Company with authorization of the shareholders' general meeting, after the Company has completed the repurchase and cancellation of locked restricted shares granted to incentive participants no longer satisfying the conditions for incentive, the share capital structure of the Company is changed as follows: 553,141,271 ordinary shares, of which 363,872,503 shares are domestic-listed domestic invested shares and 189,268,768 shares are overseas-listed foreign-invested shares (H Shares), representing 65.78% and 34.22% of the total number of issued ordinary shares of the Company respectively.

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revised as:

“**Article 21** Following the establishment of the Company, after public issuance of shares, rights issue, creation of bonus shares by transfer of capital reserve and undistributed profit and repurchase of foreign-invested shares, the share capital structure of the Company is changed as follows: 295,721,852 ordinary shares, of which 183,728,498 shares are domestic-listed domestic-invested shares, representing 62.13% of the total number of issued ordinary shares of the Company and 111,993,354 shares are domestic-listed foreign-invested shares, representing 37.87% of the total number of issued ordinary shares of the Company.

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As approved by a special resolution passed at the shareholders' general meeting, after the Company has completed the bonus issue by way of capitalising capital reserve to all shareholders, the share capital structure of the Company is changed as follows: 719,050,240 ordinary shares, of which 473,000,842 shares are domestic-listed domestic-invested shares and 246,049,398 shares are overseas-listed foreign-invested shares (H Shares), representing 65.78% and 34.22% of the total number of issued ordinary shares of the Company respectively.”

Save for the proposed amendments to the Articles of Association set out above, other provisions in the Articles of Association remain unchanged.

The Company confirms that there is nothing unusual about the proposed amendments to the Articles of Association and will not have any adverse effect to the existing businesses and operations of the Group. Based on the confirmations made by the Company's PRC legal adviser and Hong Kong legal adviser, the proposed amendments of the Articles of Association do not violate the PRC laws and are in compliance with the Hong Kong Listing Rules.

The proposed amendments to the Articles of Association are subject to the approval of Shareholders by way of special resolution at the EGM.

The Articles of Association and aforesaid proposed amendments are written and prepared in Chinese, thus the English version is mere translation for reference purpose only. If there are any inconsistency between the English translation and the Chinese version, the Chinese version shall prevail.

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VIII. CONVENING THE EGM, A SHAREHOLDERS' CLASS MEETING AND H SHAREHOLDERS' CLASS MEETING

The Initial Notices convening the EGM and H Shareholders' Class Meeting to be held at Conference Room on the 3rd Floor of Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai, Guangdong Province, China on Wednesday, 5 September 2018 at 2:00 p.m. and 4:00 p.m. (or immediately after the conclusion or adjournment of the EGM and the A Shareholders' Class Meeting), respectively were given by the Company on 18 July 2018. The reply slips and Initial Proxy Forms for the EGM and H Shareholders' Class Meeting were also despatched by the Company on 18 July 2018. The Supplemental Notices and the Revised Proxy Forms for the EGM and H Shareholders' Class Meeting were despatched by the Company on 18 August 2018. The aforesaid documents are also available on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and of the Company (www.livzon.com.cn).

If you would like to attend the EGM and the H Shareholders' Class Meeting in person or by proxy, please complete the reply slips for attendance in accordance with the instructions printed thereon and return them to the H Share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in person, by post or by fax in any event on or before Thursday, 16 August 2018. Any Shareholder who intends to appoint a proxy to attend the EGM and H Shareholders' Class Meeting and has not lodged the Initial Proxy Forms which were sent together with the Initial Notices is required to complete and lodge the Revised Proxy Forms which were sent together with the Supplemental Notices in accordance with the instructions printed thereon and lodging of the Initial Proxy Forms is not required. Shareholder(s) who have lodged the Initial Proxy Forms are also required to complete and lodge the Revised Proxy Forms in accordance with the instructions printed thereon. For the H Shareholders, the Revised Proxy Forms should be lodged to the Company's H Share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. The Revised Proxy Forms should be lodged no less than 24 hours before the time appointed for the holding of the EGM and H Shareholders' Class Meeting (or any adjournment thereof). Completion and lodge of the Revised Proxy Forms will not preclude you from attending and voting at the EGM and H Shareholders' Class Meeting or any adjournment thereof in person if you so wish.

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Please note that Mr. Guo Guoqing, an independent non-executive Director, has sent the revised proxy form for the solicitation of voting rights by independent non-executive director (the “**Revised Independent Director’s Proxy Form**”) in accordance with the relevant regulations of the PRC to solicit votes from the Shareholders on the special resolutions in respect of the Incentive Scheme and its related matters at the EGM, A Shareholders’ Class Meeting and H Shareholders’ Class Meeting. Should you wish to appoint Mr. Guo Guoqing as your proxy to vote for you and on your behalf at the EGM and/or the H Shareholders’ Class Meeting on the special resolutions regarding the Incentive Scheme and its related matters, please complete, sign and return the Revised Independent Director’s Proxy Forms to the H Share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by hand or by post, no later than 24 hours before the time appointed for holding of the EGM and/or H Shareholders’ Class Meeting or any adjournment thereof. Alternatively, if you wish to appoint any person other than Mr. Guo Guoqing as your proxy to vote for you and on your behalf at the EGM and/or the H Shareholders’ Class Meeting on the special resolutions regarding the Incentive Scheme and its related matters, you may simply disregard the Revised Independent Director’s Proxy Forms and complete and return the Revised Proxy Forms instead. The report on the public solicitation of voting rights by the independent non-executive Directors prepared by Mr. Guo Guoqing has also been published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.livzon.com.cn) by an announcement of the Company dated 18 August 2018.

The Incentive Participants, who are also the Shareholders, and their respective associates shall abstain from voting on the proposed special resolution in respect of the adoption of the Incentive Scheme and its related matters. Mr. Fu Daotian and his associates shall abstain from voting in respect of the resolution approving the Proposed Grant of the Subsidiary Share Options to Mr. Fu Daotian. As at the Latest Practicable Date, Mr. Fu Daotian did not hold any A Shares or H Shares of the Company. To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, none of the Shareholders is required to abstain from voting on any proposed resolution at the EGM, A Shareholders’ Class Meeting and H Shareholders’ Class Meeting.

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IX. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the qualification of the Shareholders who are entitled to attend and vote at the EGM and H Shareholders' Class Meeting, the register of members of the Company will be closed from Monday, 6 August 2018 to Wednesday, 5 September 2018, both days inclusive, during which period no transfer of shares will be registered.

X. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, all resolutions put forward at the EGM and the H Shareholders' Class Meeting will be voted on by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Poll results will be announced by the Company in accordance with Rule 13.39(5) of the Hong Kong Listing Rules after the EGM and the H Shareholders' Class Meeting.

XI. RECOMMENDATION

The Board, including the independent non-executive Directors, considers that (1) the terms of the Incentive Scheme; (2) the terms of the Administrative Measures for Appraisal System; (3) the terms of the Subsidiary Share Option Scheme; (4) the Proposed Grant of Subsidiary Share Options to Mr. Fu Daotian; (5) the increase of the registered capital of the Company; and (6) the amendments to the Articles of Association are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM and H Shareholders' Class Meeting.

XII. ADDITIONAL INFORMATION

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

LETTER FROM THE BOARD

XIII. RESPONSIBILITY STATEMENT

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

By order of the Board
麗珠醫藥集團股份有限公司
Livzon Pharmaceutical Group Inc.*
Yang Liang
Company Secretary

Zhuhai, China
18 August 2018

* *For identification purpose only*

The following is the full text of the Incentive Scheme:



麗珠醫藥集團股份有限公司
LIVZON PHARMACEUTICAL GROUP INC.*

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 1513)

2018 SHARE OPTIONS INCENTIVE SCHEME (REVISED DRAFT)

DECLARATION

The Company and all its directors and supervisors warrant that no false statements, misleading representation or material omissions are contained in the Incentive Scheme and its summary, and severally and jointly accept legal liability for the truthfulness, accuracy and completeness of the contents thereof.

SPECIAL NOTICE

- I. The Incentive Scheme has been formulated in accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Administrative Measures on Share Incentives of Listed Companies and other applicable laws, regulations and regulatory documents as well as the Articles of Association of Livzon Pharmaceutical Group Inc.
- II. Livzon Pharmaceutical Group Inc. (hereinafter referred to as "**Livzon Group**" or the "**Company**") intends to grant 19,500,000 Share Options to the Incentive Participants, which involve A Shares denominated in RMB representing approximately 2.71% of the Company's total share capital of 719,050,240 shares as at the date of announcement of the Incentive Scheme. Specifically, 17,550,000 Share Options will be granted initially (the "**First Grant**"), representing 90.00% of the total Share Options available under the Incentive Scheme, and accounting for approximately 2.44% of the Company's total share capital of 719,050,240

* For identification purpose only

shares as at the date of announcement of the Incentive Scheme; and 1,950,000 Share Options will be reserved (the “**Reserved Grant**”), representing 10.00% of the total Share Options available under the Incentive Scheme, and accounting for approximately 0.27% of the Company’s total share capital of 719,050,240 shares as at the date of announcement of the Incentive Scheme.

- III.** In the event of any capitalisation issue, bonus issue, share sub-division, share consolidation, rights issue or other events occurring during the period from the date of the announcement of the Incentive Scheme to the date on which the Incentive Participants complete the Exercise of the Share Options, the number of Share Options shall be adjusted accordingly.
- IV.** The Exercise Price of the Share Options of the First Grant under the Incentive Scheme shall be RMB47.01 per A Share.

In the event of any capitalisation issue, bonus issue, share sub-division, share consolidation, rights issue or other events occurring during the period from the date of the announcement of the Incentive Scheme to the date on which the Incentive Participants complete the Exercise of the Share Options, the Exercise Price of the Share Options shall be adjusted accordingly.

- V.** The Incentive Participants under the First Grant of the Incentive Scheme comprise a total of 1,116 persons who are the directors, senior management, mid-level management and relevant core personnel of the Company (including its branch companies and subsidiaries, the same below) holding office in the Company.
- VI.** The Validity Period of the Incentive Scheme shall commence from the registration date of grant of the Share Options and end on the date on which all the Share Options granted to the Incentive Participants have been exercised or otherwise cancelled, which shall not be longer than 60 months.
- VII.** None of the following circumstances under which a share incentive scheme shall not be implemented as stipulated in Article 7 of the Administrative Measures on Share Incentives of Listed Companies has occurred to the Company:
- (i) Issue of the Company’s financial and accounting report for the most recent accounting year in which a certified public accountant gives an adverse opinion or indicates its inability to give an opinion;

- (ii) Issue of an audit report containing an adverse opinion or indication of its inability to give an opinion by a certified public accountant with respect to the internal control of the financial report for the most recent accounting year;
- (iii) Failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
- (iv) Prohibition from implementation of a share incentive scheme by laws and regulations;
- (v) Other circumstances as determined by the CSRC.

VIII. The Incentive Participants under the Incentive Scheme shall exclude any supervisors and independent directors of the Company. None of the 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 have participated in the Incentive Scheme. All Incentive Participants meet the requirements stipulated in Article 8 of the Administrative Measures on Share Incentives of Listed Companies, and none of the following circumstances which led them not allowed as the Incentive Participants exist:

- (i) Having been declared an inappropriate candidate by SSE in the past 12 months;
- (ii) Having been declared an inappropriate candidate by the CSRC or its local counterparts in the past 12 months;
- (iii) Having been imposed with administrative penalties or prohibited from market entry by the CSRC or its local counterparts in the past 12 months due to material violation of laws and regulations;
- (iv) Being prohibited from acting as a director or a member of senior management of the Company by the Company Law;
- (v) Being prohibited from participating in any share incentive scheme of listed companies by laws and regulations;
- (vi) Other circumstances as determined by the CSRC.

- IX.** The Company undertakes that it shall not provide loans, and any other forms of financial assistance to the Incentive Participants for their exercise of the Share Options under the Incentive Scheme, including provision of guarantees for their loans.
- X.** The Incentive Participants undertake, in the event that the Incentive Participants become unqualified to be granted or to exercise relevant entitlements due to false statements, misleading representation or material omissions contained in the relevant information disclosure documents of the Company, to return all entitlements received from the Incentive Scheme to the Company after the date of confirmation that there are false statements, misleading representation or material omissions contained in the relevant information disclosure documents.
- XI.** The implementation of the Incentive Scheme is subject to approval at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders of the Company as well as other applicable regulatory approval which may be required.
- XII.** Within 60 days (hereinafter this shall not include the period during which no entitlements shall be granted by a listed company as stipulated in the Administrative Measures on Share Incentives of Listed Companies) from the approval of the Incentive Scheme at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, the Company shall hold a board meeting in accordance with relevant requirements to grant relevant Share Options to the Incentive Participants, and complete announcement, registration and other procedures, failing which the Incentive Scheme will be terminated and the Share Options which have not been granted will lapse.
- XIII.** The implementation of the Incentive Scheme will not cause the shareholding structure of the Company to fail to meet listing requirements.

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CHAPTER I. DEFINITIONS

Unless the context specifies otherwise, the following expressions shall have the following meanings herein:

A Share(s)	the domestic shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shenzhen Stock Exchange (stock code: 000513)
A Shareholder(s)	holder(s) of the A Shares
Administrative Measures	the Administrative Measures on Share Incentives of Listed Companies
Articles of Association	the articles of association of Livzon Pharmaceutical Group Inc.*
Company Law	the Company Law of the People's Republic of China
CSRC	China Securities Regulatory Commission
Date of Grant	the date on which the Company grants the Share Options to an Incentive Participant, which must be a trading day
exercise	the behaviour of an incentive participant exercising his/her share options pursuant to a share incentive scheme. Under the Incentive Scheme, the exercise means the behaviour of an Incentive Participant acquiring the A Shares of the Company in accordance with the conditions stipulated under the Incentive Scheme
Exercise Conditions	the conditions to be fulfilled for an Incentive Participant to exercise the Share Options under the Incentive Scheme
Exercise Date	the date on which an Incentive Participant is entitled to exercise, which must be a trading day

Exercise Price	the price determined under the Incentive Scheme for an Incentive Participant to acquire the A Shares of the Company
H Share(s)	the overseas-listed foreign shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange (stock code: 1513)
H Shareholder(s)	holder(s) of the H Shares
Hong Kong	Hong Kong Special Administrative Region
Incentive Participants	the directors, senior management, mid-level management and relevant core personnel of the Company to be granted the Share Options pursuant to the Incentive Scheme
Incentive Scheme	the 2018 Share Options Incentive Scheme of Livzon Pharmaceutical Group Inc.
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
PRC or China	the People's Republic of China, which, for purpose of this Incentive Scheme, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
RMB	Renminbi
Share Options	the right to be granted by the Company to an Incentive Participant to acquire certain number of A Shares of the Company according to pre-determined conditions in a particular period of time
Securities Law	the Securities Law of the People's Republic of China

SSE	Shenzhen Stock Exchange
Stock Exchange	The Stock Exchange of Hong Kong Limited
Validity Period	the period commencing from the registration completion date of the grant of the Share Options and ending on the date of elapse of the Share Options

Notes:

1. Unless otherwise stated, the financial data and financial indicators referenced herein shall mean the financial data prepared on a consolidation basis and the financial indicators calculated based on such financial data, respectively.
2. Some figures shown as totals herein may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.

CHAPTER II. PURPOSES AND PRINCIPLES OF THE INCENTIVE SCHEME

The Incentive Scheme has been formulated to further establish and improve the Company's long-term incentive mechanism, attract and retain outstanding employees, fully motivate the directors, senior management, mid-level management and relevant core personnel of the Company and effectively integrate shareholders' interests, the Company's interests and individual interests of the core team members so that the parties will make joint efforts for the Company's long-term development. The Incentive Scheme has been developed on the precondition of fully safeguarding shareholders' interests pursuant to the the principle of benefits being in proportion to contributions and in accordance with provisions of the relevant laws, regulations and regulatory documents including the Company Law, the Securities Law and the Administrative Measures, as well as the Articles of Association.

CHAPTER III. ADMINISTRATIVE BODY OF THE INCENTIVE SCHEME

- I.** The general meeting, as the ultimate authority of the Company, shall be responsible for considering and approving the implementation, modification and termination of the Incentive Scheme. The general meeting may, within its powers and authority, authorise the board of directors to handle certain matters relating to the Incentive Scheme.
- II.** The board of directors shall act as the executive and administrative body for the Incentive Scheme and be responsible for the implementation of the Incentive Scheme. The remuneration and assessment committee (hereinafter referred to as the “**Remuneration Committee**”) under the board of directors shall be responsible for drafting and revising the Incentive Scheme, and submitting the Incentive Scheme to the board of directors for review and approval. Upon approval by the board of directors, the Incentive Scheme shall be further submitted to the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders for consideration and approval. The board of directors may handle other matters relating to the Incentive Scheme within its scope of authority as delegated by the general meeting.
- III.** The supervisory committee and independent directors shall act as the supervisory authority for the Incentive Scheme, and shall issue opinions as to whether the Incentive Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the shareholders as a whole. The supervisory committee shall supervise the implementation of the Incentive Scheme as to whether it is in compliance with the relevant laws, regulations, regulatory documents and operational rules of the SSE, and shall be responsible for verifying the list of Incentive Participants. The independent directors shall solicit voting rights by proxy from all shareholders in respect of the Incentive Scheme.

Where amendments have been made to the Incentive Scheme before the Incentive Scheme is passed at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, the independent directors and the supervisory committee shall issue independent opinions as to whether the amended Incentive Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the shareholders as a whole.

Before any entitlements are granted to an Incentive Participant, the independent directors and the supervisory committee shall issue clear opinions on the conditions to be fulfilled for the Incentive Participant to receive such entitlements as set out in the Incentive Scheme. In the event of any discrepancy between the entitlements granted to an Incentive Participant and the arrangement under the Incentive Scheme, the independent directors and the supervisory committee (where there is a change of the Incentive Participants) shall simultaneously issue clear opinions thereon.

Before the exercise by an Incentive Participant, the independent directors and the supervisory committee shall issue clear opinions as to whether the conditions stipulated under the Incentive Scheme for the Incentive Participant to exercise such entitlements have been fulfilled.

CHAPTER IV. BASIS FOR DETERMINING THE INCENTIVE PARTICIPANTS AND THE SCOPE OF THE INCENTIVE PARTICIPANTS

I. Basis for determining the Incentive Participants

1. Legal basis for determining the Incentive Participants

The Incentive Participants of the Incentive Scheme are determined after taking into account the circumstances of the Company and in accordance with the requirements of the relevant laws, regulations and regulatory documents of the PRC including the Company Law, the Securities Law and the Administrative Measures, as well as the Articles of Association.

2. Functional basis for determining the Incentive Participants

The Incentive Participants of the Incentive Scheme shall include the directors, senior management, mid-level management and relevant core personnel (excluding independent directors and supervisors) of the Company.

II. Scope of the Incentive Participants

The Incentive Participants of the Incentive Scheme for the First Grant comprise a total of 1,116 persons who are the directors, senior management, mid-level management and relevant core personnel of the Company.

The Incentive Participants of the Incentive Scheme shall exclude independent directors and supervisors, as well as 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 Incentive Participants aforementioned, directors and senior management must be elected by the general meetings or appointed by the board of directors of the Company. All Incentive Participants shall have employment or service relationship with the Company (including its branch companies and subsidiaries) at the time of grant of interest under the Incentive Scheme.

Incentive Participants for the Reserved Grant shall be determined within 12 months from the date on which the Incentive Scheme is considered and passed at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders. Following the proposals from the board of directors, issue of clear opinions by the independent directors and the supervisory committee as well as issue of professional opinions and legal opinions by the legal adviser, the Company shall promptly and accurately disclose the relevant information in relation to such Incentive Participants on the designated website pursuant to the relevant requirements. The reserved entitlements shall become invalid where the Incentive Participants for the Reserved Grant are not determined after 12 months from the aforesaid date. The criteria for determining the Incentive Participants for the Reserved Grant shall be the same as the criteria for the First Grant.

III. Verification of the Incentive Participants

- (i) After the Incentive Scheme is reviewed and approved by the board of directors, the Company shall internally publish the names and the positions of the Incentive Participants for a period of not less than 10 days.
- (ii) The supervisory committee of the Company shall verify the list of the Incentive Participants and thoroughly consider opinions from the public. The Company shall publish the opinions of the supervisory committee on the verification and the public opinions in relation to the list of the Incentive Participants three to five days before the Incentive Scheme is considered at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders of the Company. Any adjustments to the lists of the Incentive Participants made by the board of directors shall also be subject to verification by the supervisory committee of the Company.

CHAPTER V. SOURCE, NUMBER AND ALLOCATION OF THE SHARE OPTIONS

I. Source of shares of the Incentive Scheme

The underlying shares under the Incentive Scheme comprise the Company's A Shares to be issued to the Incentive Participants by the Company.

II. Number of the Share Options to be granted

Incentive Participants are proposed to be granted 19,500,000 Share Options under the Incentive Scheme, which involve a total of 19,500,000 A Shares, representing approximately 2.71% of the Company's total issued share capital of 719,050,240 shares as at the date of announcement of the Incentive Scheme. Specifically, 17,550,000 Share Options will be granted initially, representing 90.00% of the total Share Options available under the Incentive Scheme, and accounting for approximately 2.44% of the Company's total issued share capital of 719,050,240 shares as at the date of announcement of the Incentive Scheme; and 1,950,000 Share Options will be reserved, representing 10.00% of the total Share Options available under the Incentive Scheme, and accounting for approximately 0.27% of the Company's total issued share capital of 719,040,250 shares as at the date of announcement of the Incentive Scheme.

III. Allocation of the Share Options to be granted to the Incentive Participants

The allocation details of the Share Options to be granted to each Incentive Participant under the Incentive Scheme are as follows:

Name	Position	Number of Share Options to be granted (0'000 share options)	Percentage to the total number of Share Options to be granted	Percentage to the current total share capital
Tao Desheng	Vice Chairman and President	19.50	1.00%	0.03%
Xu Guoxiang	Director and Vice President	19.50	1.00%	0.03%
Fu Daotian	Director and Vice President	15.60	0.80%	0.02%
Tang Yanggang	Executive Vice President	15.60	0.80%	0.02%
Yang Daihong	Vice President	15.60	0.80%	0.02%
Si Yanxia	Vice President	15.60	0.80%	0.02%
Zhou Peng	Vice President	10.40	0.53%	0.01%
Yang Liang	Secretary of the board of directors and Company Secretary	9.10	0.47%	0.01%
Mid-level management and relevant core personnel of the Company (1,108 persons)		1,634.10	83.80%	2.27%
Reserved Grant		195.00	10.00%	0.27%
Total (1,116 persons)		<u>1,950.00</u>	<u>100%</u>	<u>2.71%</u>

Note: The number of A Shares to be granted to any of the Incentive Participants above under the fully effective Incentive Scheme shall not exceed 1% of the total issued share capital of the Company as at the date of approval by the Shareholders of the Incentive Scheme. The cumulative total number of A Shares involved under the fully effective Incentive Scheme shall not exceed 10% of the total issued share capital of the Company as at the date of approval by the Shareholders of the Incentive Scheme.

**CHAPTER VI. VALIDITY PERIOD, DATE OF GRANT, VESTING PERIOD,
EXERCISE DATE AND LOCK-UP PERIOD OF THE INCENTIVE SCHEME**

I. Validity Period of the Incentive Scheme

The Validity Period of the Incentive Scheme shall commence from the registration date of the grant of the Share Options and end on the date on which all the Share Options granted to the Incentive Participants have been exercised or otherwise cancelled, which shall not be longer than 60 months.

II. Date of Grant of the Incentive Scheme

The Date of Grant shall be determined by the board of directors after the Incentive Scheme is considered and passed at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders of the Company, and must be a trading day. The Company shall grant the Share Options and complete the announcement and registration procedures within 60 days from the date on which the Incentive Scheme is considered and passed at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders of the Company, failing which the Incentive Scheme will be terminated and the Share Options which have not been granted will lapse. The Date of Grant of the Share Options under the Reserved Grant will be determined by the board of directors of the Company within 12 months from the date on which the Incentive Scheme is considered and passed at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders.

III. Vesting period of the Incentive Scheme

The vesting period of the Share Options to be granted under the Incentive Scheme is 12 months from the registration date of grant.

IV. Exercise Date of the Incentive Scheme

The Share Options so granted may be exercised after 12 months from the registration date of the relevant grant. The Exercise Date must be a trading day and shall not fall within any of the following periods:

- (i) the period commencing from 30 days prior to the publication of periodic reports of the Company after the publication of the reports, or in the event of delay in publishing the reports for special reasons, 30 days prior to the original date of publication and one day prior to the date of publication;

- (ii) the period commencing from 10 days prior to the publication of the announcement of results forecast and preliminary results of the Company after the publication of such announcement;
- (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 of the Company or the date on which relevant decision-making procedures start and ending on the second trading day following the publication in accordance with laws;
- (iv) other periods as stipulated by the CSRC and the SSE.

The Incentive Participants shall exercise their Share Options granted under the First Grant by three tranches within the next 36 months following the 12-month period from the registration date of the relevant grant. The following table sets forth the exercise period and the exercise schedule for each tranche:

Exercise arrangement	Duration	Exercise proportion
First exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 12-month period from the registration completion date of the First Grant and ending on the last trading day of the 24-month period from the registration completion date of the First Grant	40%
Second exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 24-month period from the registration completion date of the First Grant and ending on the last trading day of the 36-month period from the registration completion date of the First Grant	30%
Third exercise period for Share Options under the First Grant	Commencing on the first trading day after expiry of the 36-month period from the registration completion date of the First Grant and ending on the last trading day of the 48-month period from the registration completion date of the First Grant	30%

If the Reserved Grant is completed in 2018, the exercise schedule of the Reserved Grant will be the same as that of the First Grant; If the Reserved Grant is completed in 2019, the following table sets forth the exercise schedule for each tranche of the Reserved Grant:

Exercise arrangement	Duration	Exercise proportion
First exercise period for Share Options under the Reserved Grant	Commencing on the first trading day after expiry of the 12-month period from the registration completion date of the Reserved Grant and ending on the last trading day of the 24-month period from the registration completion date of the Reserved Grant	50%
Second exercise period for Share Options under the Reserved Grant	Commencing on the first trading day after expiry of the 24-month period from the registration completion date of the Reserved Grant and ending on the last trading day of the 36-month period from the registration completion date of the Reserved Grant	50%

V. Lock-up period of the Incentive Scheme

The lock-up arrangement under the Incentive Scheme shall be implemented in accordance with the requirements of the Company Law, the Securities Law and the relevant laws, regulations and regulatory documents as well as the Articles of Association. Specific contents are as follows:

- (i) Where an Incentive Participant is a director or a member of the senior management of the Company, the number of shares of the Company which may be transferred by the Incentive Participant each year during his term of office shall not exceed 25% of the total number of the shares of the Company held by him. No shares of the Company held by him shall be transferred within six months after his termination of office.

- (ii) Where an Incentive Participant is a director or a member of the senior management of the Company and he disposes of any shares of the Company within six months after acquisition or buys back such shares within six months after disposal, all gains arising therefrom shall be accounted to the Company and the Board will collect all such gains.
- (iii) Shareholding reduction by an Incentive Participant shall be in compliance with relevant requirements including the Several Provisions on Shareholding Reduction by Shareholders, Directors, Supervisors and Senior Management of Listed Companies (《上市公司股東、董監高減持股份的若干規定》) and the Implementation Rules for Shareholding Reduction by Shareholders, Directors, Supervisors and Senior Management of Listed Companies on Shenzhen Stock Exchange (《深圳證券交易所上市公司股東及董事、監事、高級管理人員減持實施細則》).
- (iv) If, during the Validity Period of the Incentive Scheme, there is any amendment to the requirements regarding transfer of shares by a director and a member of the senior management of the Company under the Company Law, the Securities Law and other relevant laws, regulations, regulatory documents and the Articles of Association, such amended requirements thereunder shall apply to the shares transferred by the Incentive Participants during the relevant times.

CHAPTER VII. EXERCISE PRICE OF THE SHARE OPTIONS AND BASIS FOR DETERMINATION

I. Exercise Price of the Share Options under the First Grant

The Exercise Price of the Share Options under the First Grant shall be RMB47.01 per A Share, i.e., each Share Option granted to an Incentive Participant may, upon fulfillment of the Exercise Conditions, be exercised to purchase one A Share of the Company at the price of RMB47.01 per A Share during the Validity Period.

II. Basis for determining the Exercise Price of the Share Options under the First Grant

The Exercise Price of the A Share Options under the First Grant shall not be lower than the par value of the A shares, and shall be the higher of the following:

- (i) the average price of the A Shares of the Company for the last trading day preceding the date of announcement of the Incentive Scheme (i.e. 17 July 2018) (the total transaction value of the A Shares for the last trading day/total trading volume of the A Shares for the last trading day), being RMB47.01 per A Share;
- (ii) the average price of the A Shares of the Company for the last 20 trading days preceding the date of announcement of the Incentive Scheme (the total transaction value of the A Shares for the last 20 trading days/total trading volume of the A Shares for the last 20 trading days), being RMB45.54 per A Share.

III. Basis for determining the Exercise Price of the Share Options under the Reserved Grant

Before each grant of the Share Options under the Reserved Grant, the Company shall hold a board meeting to pass the relevant resolution, and shall disclose a summary of such grant. The Exercise Price of the Share Options under the Reserved Grant shall not be lower than the par value of the A shares, and shall be the higher of the following:

- (i) the average price of the A Shares of the Company for the last trading day preceding the date of announcement of the board resolution on the grant of the Share Options under the Reserved Grant;
- (ii) the average price of the A Shares of the Company for the last 20, 60 or 120 trading days preceding the date of announcement of the board resolution on the grant of the Share Options under the Reserved Grant.

CHAPTER VIII. CONDITIONS OF GRANT AND EXERCISE OF THE SHARE OPTIONS**I. Conditions of grant of the Share Options**

Share Options may be granted to the Incentive Participants by the Company upon satisfaction of all of the following conditions. In other words, Share Options cannot be granted to Incentive 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:
 - (a) 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;
 - (b) 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;
 - (c) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
 - (d) prohibition from implementation of a share incentive scheme by laws and regulations;
 - (e) any other circumstances as determined by the CSRC.
- (ii) There is no occurrence of any of the following events on the part of the Incentive Participants:
 - (a) being subject to any identification as an ineligible personnel by a stock exchange in the last 12 months;
 - (b) being subject to any identification as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;

- (c) imposition of administrative penalties or measures prohibiting the Incentive Participants from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;
- (d) circumstances under which the Incentive Participant is prohibited from acting as a director and a member of the senior management of the Company pursuant to the Company Law;
- (e) circumstances under which the Incentive Participants are not allowed by the laws and regulations to participate in share incentive schemes of a listed company;
- (f) any other circumstances as determined by the CSRC.

II. Exercise Conditions of the Share Options

During the exercise period, the Share Options granted to the Incentive Participants can only be exercised upon satisfaction of all of the following conditions:

- (i) There is no occurrence of any of the following events on the part of the Company:
 - (a) 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;
 - (b) 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;
 - (c) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
 - (d) prohibition from implementation of a share incentive scheme by laws and regulations;
 - (e) any other circumstances as determined by the CSRC.

- (ii) There is no occurrence of any of the following events on the part of the Incentive Participants:
- (a) being subject to any identification as an ineligible personnel by a stock exchange in the last 12 months;
 - (b) being subject to any identification as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;
 - (c) imposition of administrative penalties or measures prohibiting the Incentive Participant from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;
 - (d) circumstances under which the Incentive Participant is prohibited from acting as a director and a member of the senior management of the Company pursuant to the Company Law;
 - (e) circumstances under which the Incentive Participants are not allowed by the laws and regulations to participate in share incentive schemes of a listed company;
 - (f) any other circumstances as determined by the CSRC.

If any of the events specified in (i) above occurs on the part of the Company, all Share Options granted to the Incentive Participants according to the the Incentive Scheme but not exercised shall be cancelled by the Company; If any of the events specified in (ii) above occurs on the part of an Incentive Participant, the Share Options granted to the Incentive Participant according to the Incentive Scheme but not exercised shall be cancelled by the Company.

- (iii) Performance targets at the Company level

The Share Options granted under the Incentive Scheme are subject to annual assessment for exercise during the three accounting years in the exercise period, such that achieving of the performance targets by the Incentive Participant is a condition to exercise the Share Options.

The performance targets of the First Grant are as follows:

Exercise period	Performance target
First exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2018 shall not be lower than 15%;
Second exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2019 shall not be lower than 15%;
Third exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2020 shall not be lower than 15%.

If the Reserved Grant is completed in 2018, the performance targets of the Reserved Grant shall be the same as that of the First Grant; If the Reserved Grant is completed in 2019, the following table sets forth the performance targets for each year of the Reserved Grant:

Exercise period	Performance target
First exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2019 shall not be lower than 15%;
Second exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2020 shall not be lower than 15%.

The calculation of the above indicators “net profit”, “compound growth rate of the net profit” are based on the net profit attributable to the shareholders of the listed company (deducting non-recurring gain or loss) and the net profit as affected by the share-based payment expenses of the Incentive Scheme is excluded as the basis for calculation.

In the event the Company fails to meet the performance targets above, all Share Options which are exercisable by the Incentive Participants in the respective assessment year shall not be exercised and shall be cancelled by the Company.

(iv) Performance targets at individual level

The assessment of the Incentive Participants at individual level shall be conducted according to the Company's current requirements for remuneration and assessment, and the comprehensive appraisal results of the Incentive Participants for each assessment year will be graded as follows:

Appraisal results	Excellent	Good	Qualified	Fail
Exercise percentage	100%	100%	80%	0%

If the performance target at the Company level for the respective year is met, the actual personal exercise amount of an Incentive Participant for the respective year = exercise percentage \times the scheduled personal exercise amount of the Incentive Participant for the respective year.

The Company shall cancel the Share Options granted to the Incentive Participant which cannot be exercised in the respective year.

III. The scientificity and reasonableness of the appraisal indicators

The Share Option appraisal indicators of Livzon Group are categorised into two levels, i.e. performance appraisal at the Company level and performance appraisal at individual level.

The performance indicator at the Company level is the compound growth rate of the net profit, which is a reasonable forecast based on the realisation of the Company's performance in previous years and taking into account the development trends of the industry for the coming three years. The performance targets are finally resolved as follows: on the basis of net profit in 2017, the compound growth rate of the net profit for each year from 2018 to 2020 is not less than 15%.

Besides of performance appraisal at the Company level, Livzon Group has established a strict performance appraisal system at individual level for the Incentive Participants, which evaluates comprehensively the performance of Incentive Participants in an accurate and all-round manner. The Company will determine whether the Incentive Participants meet the exercise conditions based on their performance appraisal results for the previous year.

Given the above, the appraisal system for the Incentive Scheme of the Company is all-round, comprehensive and operable, and the appraisal indicators are scientific and reasonable, which are binding on the Incentive Participants and can serve the appraisal goal of the Incentive Scheme.

**CHAPTER IX. METHOD AND PROCEDURES
FOR ADJUSTMENT FOR THE INCENTIVE SCHEME**

I. Method for adjustment of Share Option's number

In the event of any capitalisation issue, bonus issue, sub-division, rights issue or consolidation of Share capital of the Company prior to any exercise of Share Options, the number of Share Options shall be adjusted in the following manner accordingly:

1. Capitalisation issue, bonus issue and sub-division of share capital

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

Where: Q_0 represents the number of Share Options prior to adjustment; n represents the rate of increase per A Share resulting from capitalisation issue, bonus issue and sub-division of share capital (i.e. the increase in number of Shares per Share upon capitalisation issue, bonus issue and sub-division of the share capital); Q represents the number of Share Options after 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 Share Options prior to adjustment; P_1 represents the closing price of A Shares on the record date; P_2 represents the subscription price of the rights issue of A Shares; n represents the ratio of the rights issue (i.e. the ratio of the number of Shares to be issued under the rights issue of A Shares to the total share capital of the Company prior to the rights issue); Q represents the number of Share Options after adjustment.

3. Share consolidation

$$Q = Q_0 \times n$$

Where: Q_0 represents the number of Share Options prior to adjustment; n represents the ratio of share consolidation (i.e. one A Share shall be consolidated into n share of A Share); Q represents the number of Share Options after adjustment.

4. New issue of shares

In the event of new issue of A Shares, no adjustment shall be made to the number of Share Options.

II. Method for adjustment of Share Option's Exercise Price of the Share Options

In the event of any capitalisation issue, bonus issue, sub-division, rights issue or consolidation of Share capital of the Company prior to any exercise of Share Options, the Exercise Price of Share Options shall be adjusted in the following manner accordingly:

1. Capitalisation issue, bonus issue and sub-division of share capital

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

Where: P_0 represents the Exercise Price of Share Options prior to adjustment; n represents the rate of increase per A Share resulting from capitalisation issue, bonus issue and sub-division of share capital; P represents the Exercise Price of Share Options after adjustment.

2. Rights issue

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

Where: P_0 represents the Exercise Price of Share Options prior to adjustment; P_1 represents the closing price of A Shares on the record date; P_2 represents the subscription price of the rights issue of A Shares; n represents the ratio of the rights issue (i.e. the ratio of the number of Shares to be issued under the rights issue of A Shares to the total share capital of the Company prior to the rights issue); P represents the Exercise Price of Share Options after adjustment.

3. Share consolidation

$$P = P_0 \div n$$

Where: P_0 represents the Exercise Price of Share Options prior to adjustment; n represents the ratio of share consolidation; P represents the Exercise Price of Share Options after adjustment.

4. *New issue of shares*

In the event of new issue of A Shares, no adjustment shall be made to the Exercise Price of Share Options.

III. Adjustment procedures for the Incentive Scheme

The board of directors of the Company shall pass a resolution for adjusting the number and the Exercise Price of Share Options upon occurrence of any of the abovementioned circumstances. The Company shall engage a legal adviser to give professional advice to the board of directors on whether such adjustment is in compliance with the Administrative Measures, the Articles of Association and the Incentive Scheme. After the resolution for above-mentioned adjustment is reviewed and passed by the board of directors, the Company shall disclose an announcement on the resolution by the board of directors timely, and announce the opinions of the legal adviser.

CHAPTER X. ACCOUNTING TREATMENT OF THE SHARE OPTIONS

According to the relevant requirements of Enterprise Accounting Standard No. 11 – Share-based Payments, the Company will update the expected amount of Share Options exercisable on each balance sheet date during the vesting period based on subsequent information such as the latest available number of Incentive Participants who are entitled to exercise and the completion status of performance targets. Services received during the period will be accounted in relevant costs or fees and capital reserve based on the fair value of the Share Options on the date of grant.

I. Fair value and determination of Share Options

On 15 February 2006, the Ministry of Finance issued Enterprise Accounting Standard No. 11—Share-based Payments and Enterprise Accounting Standard No. 22—Financial Instruments: Recognition and Measurement, which came into effect among listed companies on 1 January 2007. According to the relevant requirements regarding the recognition of fair value under Enterprise Accounting Standard No. 22—Financial Instruments: Recognition and Measurement, an appropriate valuation model shall be selected for the calculation of the fair value of Share Options.

The Company selected the Black-Scholes Model to calculate the fair value of Share Options and on 17 July 2018 used this model to make an estimation on the fair value of the 17,550,000 Share Options granted under the First Grant (official calculation will be conducted at the time of grant). Specific parameters are listed as follows:

- (i) Price of A Shares: RMB47.27 per share (closing price of A Shares on 17 July 2018)
- (ii) Validity Period: 1 year, 2 years and 3 years, respectively (period commencing from registration completion date of the grant and ending on the first date of exercise for each respective period)
- (iii) Historic volatility: 18.59%, 17.01% and 27.48% (based on the volatility rate of the SSE Composite Index in the latest one year, two years and three years, respectively)
- (iv) Risk-free interest rate: 1.50%, 2.10% and 2.75% (based on one-year, two-year, three-year deposit rate, respectively, of financial institutes announced by the People's Bank of China)
- (v) Dividend yield: 3.0670%, 1.9084% and 1.6662% (calculated based on the average of the dividend rate of the Company for the latest one year, two years and three years preceding to the Incentive Scheme announcement, respectively)

The calculation results of the value of the Share Options are subject to a number of assumptions of the parameters used hereinabove and the limitation of the valuation model adopted and therefore, the estimated value of the Share Options may be subjective and uncertain.

II. Amortisation method of Share Option expenses

The Company will determine the fair value of the Share Options on the date of grant according to the related valuation tools and ultimately recognise the share based payment expenses for the Incentive Scheme. Such payment expenses will be amortised by instalments as per exercise proportion during the implementation of the Incentive Scheme. The costs of Share Options incurred under the Incentive Scheme will be recorded as expenses in recurring profits and losses.

According to the requirement of Chinese Accounting Standards, based on the Company's schedule and assuming that the Company will grant the Share Options in the early of September 2018, the impact of Share Options granted under the First Grant of the the Incentive Scheme on accounting cost for each period is as follows:

Share Options of the First Grant (0'000)	Total costs to be amortised (RMB0'000)	2018 (RMB0'000)	2019 (RMB0'000)	2020 (RMB0'000)	2021 (RMB0'000)
1,755	9,455.94	1,679.83	4,295.36	2,407.86	1,072.89

Based on the current circumstances, the Company estimates that, regardless of the stimulation effects of the Incentive Scheme on the performance of the Company, amortisation of the costs of the Share Options will affect the net profit of each year during the Validity Period, but not significantly. In view of the positive effect of the Incentive Scheme on the development of the Company, including mobilisation of enthusiasm of the management, improvement of operation efficiency and reduction in agency costs, improvement of performance of the Company brought by the Incentive Scheme will outweigh the increase in costs.

The accounting treatment of the Share Options under the Reserved Grant will be the same as the accounting treatment of the Share Options under the First Grant.

**CHAPTER XI. PROCEDURES OF IMPLEMENTATION OF
THE INCENTIVE SCHEME**

- I.** The implementation of the Incentive Scheme is subject to approval at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders of the Company as well as other applicable regulatory approval which may be required. During the voting process of the Incentive Scheme at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, independent directors shall collect proxy voting rights regarding the Incentive Scheme from all shareholders, and the Company will provide the choice of voting on site and via the Internet (Note: voting via the Internet is available to A Shareholders only).

II. Procedures of Granting the Share Options

- (i) Upon consideration and approval of the Incentive Scheme at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, the Company will sign the share incentive agreement with the Incentive Participants whereby the rights and obligations of and the relationship between the parties are stipulated.
- (ii) The board of directors shall consider and review and announce whether the conditions of a grant to an Incentive Participant as set out in the Incentive Scheme have been satisfied before the Company makes a grant to such Incentive Participant.

The independent directors and the board of supervisors shall both express their views explicitly. The legal advisors shall issue legal opinions on whether the conditions for the granting of Share Options are fulfilled or not.

- (iii) The board of supervisors shall verify the grant date of the Share Options and the list of Incentive Participants and issue their views on such verification.
- (iv) If there is any discrepancy between the grant of Share Options to Incentive Participants and the arrangement of the Incentive Scheme, the independent directors, the board of supervisors (in case of change of the Incentive Participants), legal advisors, independent financial advisor shall all express their views explicitly.

- (v) The Company shall grant Incentive Participants with Share Options and complete the announcement and registration procedures within 60 days after the Incentive Scheme is considered and approved at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders. The board of directors of the Company shall disclose the implementation status thereof timely by way of announcement after the completion of registration of the Share Options granted. In the event the Company fails to complete the procedures mentioned above within such 60 days, the Incentive Scheme shall be terminated, and the board of directors shall disclose the reason for such failure timely and shall not be allowed to review a share incentive scheme in the next three months.

Incentive Participants eligible for the Share Options under the Reserved Grant shall be confirmed within 12 months after the Incentive Scheme is considered and approved at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders. If Incentive Participants are not confirmed within 12 months, the reserved entitlements will lapse.

- (vi) The Company shall make an application to relevant stock exchange first before any Share Option is granted, and securities registration and clearing institution will conduct registration procedure thereof upon confirmation by such stock exchange.

III. Procedures for the Exercise of the Share Options

- (i) The Company shall confirm whether an Incentive Participants satisfy the Exercise Conditions before the date of exercise. The board of directors shall consider and review whether the Exercise Conditions as set out in the Incentive Scheme have been satisfied. The independent directors and the board of supervisors shall both express their views explicitly. The legal advisors shall issue legal opinions on whether the conditions for the exercising of Share Options by the Incentive Participants are fulfilled or not. For the Incentive Participants who satisfy the Exercise Conditions, the board of directors of the Company may decide that the Company shall handle the issues concerning the exercise of the Share Options collectively or the Incentive Participants shall exercise the Share Options at their own discretion, and for the Incentive Participants who fail to satisfy the Exercise Conditions, the Company will cancel their Share Options corresponding to the respective exercise. The Company shall disclose the implementation status thereof timely by way of announcement.
- (ii) An Incentive Participant may transfer the shares of the Company obtained pursuant to the exercise of the Share Options, but the transfer of shares held by the directors and senior management must be in compliance with requirements of relevant laws, regulations and regulatory documents.

- (iii) The Company shall make an application to the stock exchange first before any Share Option is exercised, and a securities registration and clearing institution will conduct registration procedure thereof upon confirmation by such stock exchange.

IV. Amendment and termination procedures of the Incentive Scheme

1. Amendment procedures of the Incentive Scheme

- (i) If the Company intends to amend the Incentive Scheme before it is considered at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, such amendment shall be considered and approved by the board of directors.
- (ii) If the Company intends to amend the Incentive Scheme after it is considered and approved at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, such amendment shall be considered and determined at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders given that such amendment shall not result in the following:
 - (a) accelerating the exercise of the Share Options;
 - (b) reducing the Exercise Price.

2. Termination procedures of the Incentive Scheme

- (i) If the Company intends to terminate the implementation of the Incentive Scheme before it is considered at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, such termination shall be considered and approved by the board of directors.
- (ii) If the Company intends to terminate the implementation of the Incentive Scheme after it is considered and approved at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, such termination shall be considered and approved at general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders.

If the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders or the board of directors of the Company have considered and passed a resolution terminating the implementation of the Incentive Scheme, they shall not consider and review a share incentive scheme within three months from the date of announcement of such resolution.

**CHAPTER XII. RESPECTIVE RIGHTS AND OBLIGATIONS OF
THE COMPANY OR THE INCENTIVE PARTICIPANTS**

I. Rights and obligations of the Company

- (i) The Company shall have the right to construe and execute the Incentive Scheme and shall appraise the performance of the Incentive Participants based on the requirements under the Incentive Scheme. If an Incentive Participant fails to fulfill the Exercise Conditions required under the Incentive Scheme, the Company will cancel the Share Options, which have not been exercised by the Incentive Participant, in accordance with the principles under the Incentive Scheme.
- (ii) The board of directors shall be authorised to allocate and adjust the total amount of the Share Options among the Incentive Participants in accordance with the established methods and procedures before the grant of the entitlements.
- (iii) The Company undertakes not to provide loans and financial support in any other forms, including providing guarantee for loans, to the Incentive Participants with respect to the exercise of Share Options under the Incentive Scheme.
- (iv) The Company shall discharge its obligations in a timely manner in relation to report and information disclosure under the Incentive Scheme in accordance with the relevant requirements.
- (v) The Company shall actively support the Incentive Participants who have fulfilled the Exercise Conditions to exercise their Share Options in accordance with the relevant requirements including those of the Incentive Scheme, CSRC, SSE, China Securities Depository and Clearing Corporation Limited. However, the Company disclaims any liability for any loss suffered by an Incentive Participant arising from the incapability to exercise as he desires due to reasons relating to CSRC, SSE or China Securities Depository and Clearing Corporation Limited.

II. Rights and obligations of the Incentive Participants

- (i) An Incentive Participant shall comply with the requirements of his position as stipulated by the Company, and shall work diligently and responsibly, strictly observe professional ethics, and make contribution to the development of the Company.
- (ii) Source of funds shall be self-financed by the Incentive Participants.

- (iii) Any gains of the Incentive Participants generated from the Incentive Scheme are subject to individual income tax and other taxes according to PRC tax laws.
- (iv) The Incentive Participants undertakes, where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant or arrangements for exercise of the Share Options, the Incentive Participants concerned shall return to the Company all interests gained through the Incentive Scheme calculated from the date when it is confirmed that the relevant information disclosure documents of the Company contain false statements or misleading statements or material omissions.
- (v) Share Options granted to the Incentive Participants shall not be transferred or assigned or used as guarantee or for repayment of debts.
- (vi) Upon consideration and approval of the Incentive Scheme at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders, the Company will sign the share incentive agreement with each Incentive Participant whereby the rights and obligations of and the relationship between the parties are stipulated.
- (vii) Other relevant rights and obligations as stipulated by laws, regulations and the Incentive Scheme.

CHAPTER XIII. HANDLING UNUSUAL CHANGES TO THE COMPANY OR THE INCENTIVE 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 Share Options which have been granted to the Incentive Participants but not yet exercised shall not be exercised any more and shall be cancelled by the Company:
 - (a) change in control of the Company;
 - (b) merger and spin-off of the Company;
 - (c) 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;

- (d) 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;
 - (e) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
 - (f) prohibition from implementation of a share incentive scheme by laws and regulations;
 - (g) other circumstances under which the Incentive Scheme shall be terminated as determined by the CSRC.
- (ii) Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant or arrangements for exercise of the Share Options, all outstanding Share Options shall be cancelled by the Company. In respect of the Share Options already exercised by the Incentive Participants, the Incentive Participants concerned shall return to the Company all interests granted. The Incentive Participants who bear no responsibility for the aforesaid matters and who incur losses as a result of the return of the Share Options granted may seek compensation from the Company or responsible parties in accordance with relevant arrangements under the Incentive Scheme.

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

II. Change in personal particulars of the Incentive Participants

- (i) In case an Incentive Participant has a change in job positions but still works in the Company or a branch or a subsidiary of the Company, the Share Options granted to him will be fully regulated by the procedures as specified in the Incentive Scheme before the change of his job positions.

However, in case an Incentive Participant has a job position change because he is not qualified for his job, violates laws, disobeys professional ethics, reveals confidential information of the Company, fails to discharge his duties or has wilful misconduct, causing damages to the interest or reputation of the Company; or the Company terminates his employment contract for any of the above reasons, the Share Options granted to him but not yet exercised shall not be exercised, and shall be cancelled by the Company.

- (ii) In case an Incentive Participant leaves the Company due to resignation or redundancy, the Share Options granted to him but not yet exercised which satisfy the restriction on time of exercise and performance target for that year can still be exercised after he leaves the Company, and the remaining which not yet satisfy the restriction on time of exercise and performance target will be cancelled by the Company.
- (iii) In case an Incentive Participant who retires and is not re-employed by the Company, the Share Options granted to him but not yet exercised which satisfy the restriction on time of exercise and performance target for that year can still be exercised after he leaves the Company, and the remaining which not yet satisfy the restriction on time of exercise and performance target will be cancelled by the Company. But in case an Incentive Participant retires and is re-employed by the Company, the Share Options granted to him shall be operated entirely in accordance with the procedures as stipulated in the Incentive Scheme before his job positions changes.
- (iv) In case an Incentive Participant leaves the Company because of death or loss of his capability of civil conduct, the Share Options granted to him but not yet exercised which satisfy the restriction on time of exercise and performance target for that year can still be exercised after he leaves the Company and be held by his lawful successor or himself, and the remaining which not yet satisfy the restriction on time of exercise and performance target will be cancelled by the Company.
- (v) The board of directors shall decide other unspecified circumstances and determine the handling thereof.

III. RESOLUTION OF DISPUTES BETWEEN THE COMPANY AND INCENTIVE PARTICIPANTS

Any dispute between the Company and the Incentive Participants shall be resolved in accordance with provisions of the Incentive Scheme and share incentive agreement. Disputes not clearly covered by the provisions shall be resolved in accordance with PRC laws and on arm's length negotiation. Where the disputes cannot be settled through negotiations, they shall be referred to the People's Court with jurisdiction over the Company's place of domicile.

CHAPTER XIV. MISCELLANEOUS

- I.** The Incentive Scheme shall become effective upon obtaining approvals from shareholders of the Company at the general meeting, the class meeting of A Shareholders and the class meeting of H Shareholders.
- II.** The Incentive Scheme is subject to interpretation of the board of directors of the Company.

*Livzon Pharmaceutical Group Inc.**
The Board of Directors

17 August 2018

Note: If there is any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

* *For identification purpose only*

The full text of the Administrative Measures for Appraisal System is set out as follows:



麗珠醫藥集團股份有限公司
LIVZON PHARMACEUTICAL GROUP INC.*

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 1513)

**ADMINISTRATIVE MEASURES FOR APPRAISAL SYSTEM OF
2018 SHARE OPTIONS INCENTIVE SCHEME**

These measures are formulated in accordance with the relevant requirements of the PRC and the actual situation of Livzon Pharmaceutical Group Inc.* (hereinafter referred to as the “Company”) in order to ensure satisfactory implementation of the 2018 Share Options Incentive Scheme of the Company, to further refine the corporate governance structure of the Company, to develop a good and balanced value distribution system, to motivate the Company’s directors, senior management, mid-level management and relevant core personnel to work diligently so as to ensure steady growth of the Company’s performance and realisation of the Company’s development strategy and business objectives.

I. PURPOSE OF APPRAISAL

The purpose of the appraisal is to further refine the corporate governance structure of the Company, establish and optimise the Company’s incentive mechanism, ensure satisfactory implementation of the Incentive Scheme, maximise the benefits of the Incentive Scheme, promote the overall quality of the staff, provide a basis to justify staff’s promotion, reward and punishment, and facilitate the shared growth of the Company and its staff, so as to ensure the realisation of the Company’s development strategy and business objectives.

* For identification purpose only

II. PRINCIPLES OF APPRAISAL

The appraisal must be conducted according to the principles of righteous, open and fair and in strict compliance with these measures based on the performance of appraisees so as to realise the linkage between the Incentive Scheme and the performance and contribution of the appraisees. This will in turn improve the management performance and maximise the interests of the Company and all its shareholders.

III. SCOPE OF APPRAISAL

These measures are applicable to all the incentive participants as determined under the Incentive Scheme, including but not limited to the directors, senior management, mid-level management and relevant core personnel.

IV. APPRAISAL INSTITUTION

The remuneration and assessment committee of the Company's board of directors shall be responsible for leading and organising the appraisal work as well as carrying out assessment of the incentive participants.

V. TARGETS AND STANDARD OF PERFORMANCE APPRAISAL**1. Performance targets at the Company level**

An individual granted with Share Options under the Incentive Scheme will be assessed annually and the exercising of Share Options shall be conducted annually for the three accounting years during the exercise period, that achieving of the performance target by the Incentive Participant is a condition of exercising of the Share Options.

The performance targets of the First Grant are as follows:

Exercise period	Performance target
First exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2018 shall not be lower than 15%;
Second exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2019 shall not be lower than 15%;
Third exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2020 shall not be lower than 15%.

If the Reserved Grant is completed in 2018, the performance targets of the Reserved Grant shall be the same as that of the First Grant; If the Reserved Grant is completed in 2019, the following table sets forth the performance targets for each year of the Reserved Grant:

Exercise period	Performance target
First exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2019 shall not be lower than 15%;
Second exercise period	On the basis of net profit in 2017, the compound growth rate of the net profit for 2020 shall not be lower than 15%.

The calculation of the above indicators “net profit”, “compound growth rate of the net profit” are based on the net profit attributable to the shareholders of the listed company (deducting non-recurring gain or loss) and the net profit as affected by the share-based payment expenses of the Incentive Scheme is excluded as the basis for calculation.

In the event the Company fails to meet the performance targets above, all Share Options which are exercisable by the Incentive Participants in the respective assessment year shall not be exercised and shall be cancelled by the Company.

2. Performance targets at individual level

The assessment of the Incentive Participants at individual level shall be conducted according to the Company's current requirements for remuneration and assessment, and the comprehensive appraisal results of the Incentive Participants for each assessment year will be graded as follows:

Appraisal results	Excellent	Good	Qualified	Fail
Exercise percentage	100%	100%	80%	0%

If the performance target at the Company level for the respective year is met, the actual personal exercise amount of an Incentive Participant for the respective year = exercise percentage \times the scheduled personal exercise amount of the Incentive Participant for the respective year.

The Company shall cancel the Share Options granted to the Incentive Participant which cannot be exercised in the respective year.

VI. APPRAISAL PERIOD AND FREQUENCY

1. Appraisal period

The appraisal period is the accounting year preceding the exercise of the relevant Shares Options for an incentive participant.

2. Appraisal frequency

The appraisal will be conducted once a year during the term of the Incentive Scheme.

VII. APPRAISAL PROCEDURES

The Company's human resources department shall be responsible for the specific appraisal work under the guidance of the remuneration and assessment committee of the board of directors. The Company's human resources department conducts appraisal on the staff's work attitude, work efficiency, work quality and contributions at the end of each year with the involvement of the leaders and departments concerned of the Company. It shall keep records of the appraisal results, formulate a performance appraisal report based on the results and submit it to the remuneration and assessment committee of the board of directors.

VIII. MANAGEMENT OF APPRAISAL RESULTS**1. Feedback on appraisal results and complaint**

The appraisee shall have the right to be informed of his/her appraisal results. The direct supervisor of the employee shall inform the appraisee of his/her appraisal results within five working days from completion of the appraisal. After appraisal, each department will provide the appraisees with relatively poor results with improvement directions and suggestions, and persuade those who failed to resign. In the event that an appraisee has objection to the appraisal results, he/she may communicate with human resources department to resolve it. If it cannot be resolved by communications, the appraisee may lodge a complaint with the human resources department, and the human resources department shall review the appraisal results and determine the final appraisal results or grade within 10 working days.

2. Filing of appraisal results

After the appraisal, appraisal results shall be kept and filed as confidential information.

IX. MISCELLANEOUS

1. These measures are formulated, interpreted and amended by the board of directors.
2. These measures shall be implemented upon approval by the general meeting of the Company and taking effect of the Incentive Scheme.

*Livzon Pharmaceutical Group Inc.**

The Board of Directors

17 July 2018

Note: If there is any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

* *For identification purpose only*

The following is a summary of the principal terms of the Subsidiary Share Option Scheme proposed to be approved and adopted at the EGM.

1. PURPOSE OF THE SUBSIDIARY SHARE OPTION SCHEME

The purpose of the Subsidiary Share Options Scheme is to enable Livzon Biologics to grant Subsidiary Share Options to Eligible Participants as incentives, attraction, motivation or rewards for their contribution or potential contribution to Livzon Biologics and/or any of the Affiliates.

2. ELIGIBLE PARTICIPANTS

The Eligible Participants of the Subsidiary Share Option Scheme includes any directors, employees, advisers and consultants of Livzon Biologics or any of the Affiliates who, in the sole opinion of the Administrator, have contributed or will contribute to Livzon Biologics and/or any of the Affiliates.

**3. NUMBER OF ORDINARY SHARES OF LIVZON BIOLOGICS IN RESPECT OF
SUBSIDIARY SHARE OPTIONS MAY BE GRANTED**

The maximum number of Ordinary Shares of Livzon Biologics in respect of which Subsidiary Share Options may be granted under the Subsidiary Share Option Scheme shall be 11,111,111 and, when aggregate with the maximum number of Ordinary Shares in respect of any options to be granted under any other share option schemes shall not in aggregate exceed 10% of the outstanding Ordinary Shares of Livzon Biologics in issue on the date of approval of the Subsidiary Share Option Scheme at the EGM by the Shareholder (the “**Scheme Limit**”), provided, however, that:

- (a) subject to the separate approval of the shareholders of Livzon Biologics and the Shareholders in general meeting and the issue of a circular to the Shareholders which complies with Rule 17.03(3) and 17.06 of the Hong Kong Listing Rules and/or such other requirements prescribed under the Hong Kong Listing Rules from time to time, the Scheme Limit may be “refreshed” up to a maximum of 10% of the outstanding Ordinary Shares of Livzon Biologics then in issue as at the date of approval of shareholders of Livzon Biologics or the Shareholders or if the date of the said approvals are different, the later date of approval;

- (b) the total any “refreshment” in the Scheme Limit shall in no event result in number of Ordinary Shares of Livzon Biologics which may be issued upon exercise of all outstanding granted and yet to be exercised under the Subsidiary Share Option Scheme and any other options granted and yet to be exercised under other share option schemes exceeding 30% of the outstanding Ordinary Shares of Livzon Biologics in issue from time to time. No Subsidiary Share Option may be granted under the Subsidiary Share Option Scheme and no option may be granted under other share option schemes if this will result in the limit being exceeded.

For the avoidance of doubt, (a) in calculating whether the Scheme Limit has been exceeded, Subsidiary Share Options granted under the Subsidiary Share Option Scheme or options granted under other share option schemes which have lapsed in accordance with the terms of the relevant scheme shall not be counted; and (b) if the Scheme Limit is “refreshed” pursuant to the Subsidiary Share Option Scheme, Subsidiary Share Options granted under the Subsidiary Share Option Scheme or options granted under other share option schemes (including without limitation those outstanding, cancelled or lapsed in accordance with the relevant scheme and those exercised) prior thereto shall not be counted for the purpose of calculating whether the new Scheme Limit has been exceeded.

4. MAXIMUM ENTITLEMENT OF EACH ELIGIBLE PARTICIPANT

Subject to (a) the separate approval of the shareholders of Livzon Biologics and the Shareholders in general meeting (with the relevant Eligible Participant and such Eligible Participant’s close associates (or such Eligible Participants’ associates if the Eligible Participant is a connected person of the Company) abstaining from voting) and (b) the issue of a circular to the Shareholders which complies with Rule 17.03(3) and 17.06 of the Hong Kong Listing Rules and/or such other requirements prescribed under the Hong Kong Listing Rules from time to time, no Eligible Participant shall be granted a Subsidiary Share Option, if when aggregated with (i) any Ordinary Shares issued upon exercise of Subsidiary Share Options or options under other share option schemes which have been granted to that Eligible Participant; (ii) any Ordinary Shares which would be issued upon the exercise of outstanding Subsidiary Share Options or options under the other share option schemes granted to that Eligible Participant; and (iii) cancelled Ordinary Shares which were the subject of Subsidiary Share Options or options under the other share option schemes which had been granted to and accepted by that Eligible Participant, in any 12-month period up to and including the Subsidiary Share Option Offer Date would exceed 1% of the outstanding Ordinary Shares of Livzon Biologics in issue from time to time.

The number and terms (including the exercise price) of the Subsidiary Share Options to be granted to such Eligible Participant must be fixed before the approvals of the shareholders of Livzon Biologics and the Shareholders are sought and the date of the board meeting of Livzon Biologics resolving such further grant should be taken as the Subsidiary Share Option Offer Date for the purpose of calculating the exercise price of the Subsidiary Share Options.

5. GRANT OF SUBSIDIARY SHARE OPTIONS TO CONNECTED PERSONS

Each grant of a Subsidiary Share Option to a Director, chief executive or substantial shareholder of the Company or any of their respective associates shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a grantee of such Subsidiary Share Options). If a grant of Subsidiary Share Options to a substantial shareholder of the Company and an independent non-executive Director or any of their respective associates would result in the in the Ordinary Shares of Livzon Biologics issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Subsidiary Share Option Scheme and other share option schemes in the 12-month period up to and including the Subsidiary Share Option Offer Date: (a) representing in aggregate more than 0.1% (or such other percentage as may be from time to time provided under the Hong Kong Listing Rules) of the outstanding Ordinary Shares of Livzon Biologics in issue; and (b) (for so long as the Ordinary Shares of Livzon Biologics are listed on the Hong Kong Stock Exchange or any other stock exchange) having an aggregate value, based on the official closing price of the Ordinary Shares of Livzon Biologics as stated in the daily quotation sheets of the Hong Kong Stock Exchange or the relevant stock exchange on the Subsidiary Share Option Offer Date, in excess of HK\$5 million or such other sum as may be from time to time provided under the Hong Kong Listing Rules then such further grant of Subsidiary Share Options shall also be subject to the approval of the shareholders of Livzon Biologics and the Shareholders in general meeting by way of a poll at which the grantee, his associates and all core connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such Subsidiary Share Options at such general meeting, and/or such other requirements prescribed under the Hong Kong Listing Rules from time to time.

A circular disclosing, amongst others, details of the number and terms (including the exercise price) of the Subsidiary Share Options to be granted to each Eligible Participant, a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the relevant grantee) and other information required under the Hong Kong Listing Rules shall be issued to the Shareholders. The date of the board meeting of Livzon Biologics resolving such further grant should be taken as the Subsidiary Share Option Offer Date for the purpose of calculating the exercise price of the Subsidiary Share Options.

Any change in the terms of a Subsidiary Share Option granted to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates is also subject to the approval by the Shareholders in the general meeting in the aforesaid manner.

6. DURATION OF THE SUBSIDIARY SHARE OPTIONS

Unless otherwise provided in the respective grantee's offer document, each of the grantees to whom a Subsidiary Share Option has been granted shall be entitled to exercise his Subsidiary Share Option during the Subsidiary Share Option Period (a) upon the Livzon Biologics Listing Date and (b) in accordance with the vesting schedule as set out in paragraph 7, provided that

- (a) in the event of the grantee ceasing to be an Eligible Participant for any reason other than on his death, ill-health, injury, disability or the termination of his relationship with Livzon Biologics and/or any of the Affiliates on one or more of the grounds specified in paragraph 12(e) (for the avoidance of doubt, this sub-paragraph applies to the voluntary resignation of the grantee), the grantee may exercise the Subsidiary Share Option up to his entitlement at the date of cessation of being an Eligible Participant (to the extent not already exercised) within the period of three months (or such longer period as the board of directors of Livzon Biologics may determine) following the date of such cessation (which date shall be, in relation to a grantee who is an Eligible Participant by reason of his employment with Livzon Biologics or any of the Affiliates, the last actual working day with Livzon Biologics or the relevant Affiliates whether salary is paid in lieu of notice or not);
- (b) in the case of the grantee ceasing to be an Eligible Participant by reason of death, ill-health, injury or disability (including permanent disability) (all evidenced to the satisfaction of the board of directors of Livzon Biologics) and none of the events which would be a ground for termination of his relationship with Livzon Biologics and/or any of the Affiliate under paragraph 12(e) has occurred, the grantee or the personal representative(s) of the grantee shall be entitled within a period of 12 months (or such longer period as the board of directors of Livzon Biologics may determine) from the date of cessation of being an Eligible Participant or death to exercise the Subsidiary Share Option in full (to the extent not already exercised);
- (c) in the case of the grantee ceasing to be an Eligible Participant by reason of termination of his relationship with Livzon Biologics and/or any of the Affiliates on one or more of the grounds specified in paragraph 12(e), the grantee's Subsidiary Share Options terminate on the date of such cessation, whether or not the Subsidiary Share Options are then exercisable or not;

- (d) if a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of shares of Livzon Biologics (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror), Livzon Biologics shall use its best endeavours to procure that such offer is extended to all the grantees (on the same terms *mutatis mutandis*, and assuming that they shall become, by the exercise in full of the options granted to them, shareholders of Livzon Biologics). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the grantee (or his legal personal representative(s)) shall be entitled to exercise his Subsidiary Share Options in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional;
- (e) if, pursuant to the Cayman Companies Law, a compromise or arrangement between Livzon Biologics and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of Livzon Biologics or its amalgamation with any other company or companies, Livzon Biologics shall give notice thereof to all the grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it despatches to members and/or creditors of Livzon Biologics a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his Subsidiary Share Options in whole or in part at any time prior to 12 noon (Hong Kong time) on the Business Day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all grantees to exercise their respective Subsidiary Share Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Subsidiary Share Options shall, to the extent that they have not been exercised, lapse and determine. The board of directors of Livzon Biologics shall endeavour to procure that the Ordinary Shares of Livzon Biologics issued as a result of the exercise of any Subsidiary Share Options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of Livzon Biologics on the effective date thereof and that such Ordinary Shares of Livzon Biologics shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective Subsidiary Share Options shall, to the extent that they have not been exercised, with effect from the date of the making of the order by the relevant court be restored in full as if such compromise or arrangement had not been proposed by Livzon Biologics and no claim shall lie against Livzon Biologics or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension; and

- (f) in the event a notice is given by Livzon Biologics to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up Livzon Biologics, Livzon Biologics shall on the same date as or soon after it despatches such notice to each member of Livzon Biologics give notice thereof to all grantees and thereupon, each grantee (or in the case of the death of the grantee, his personal representative(s)) shall be entitled to exercise all or any of his Subsidiary Share Options at any time not later than two Business Days prior to the proposed general meeting of Livzon Biologics by giving notice in writing to Livzon Biologics, accompanied by a remittance for the full amount of the aggregate exercise price for the Ordinary Shares of Livzon Biologics in respect of which the notice is given whereupon Livzon Biologics shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Ordinary Shares of Livzon Biologics to the grantee credited as fully paid.

7. VESTING PERIOD

Unless otherwise provided in the respective grantee's offer document, a grantee's Subsidiary Share Option shall become vested to him in the following manner:

- (a) up to 25% of the Ordinary Shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the first anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period;
- (b) up to 50% of the Ordinary Shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the second anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period;
- (c) up to 75% of the Ordinary Shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him (rounded down to the nearest whole number) at any time during the period commencing from the third anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period; and

- (d) up to 100% of the Ordinary Shares of Livzon Biologics that are subject to the Subsidiary Share Options so granted to him at any time during the period commencing from the fourth anniversary of the Subsidiary Share Option Commencement Date and ending on the expiry of the Subsidiary Share Option Period.

Only the vested percentage of the Subsidiary Share Option shall be exercisable by the respective grantee during the Subsidiary Share Option Period provided that no Subsidiary Share Option shall be exercisable until the Livzon Biologics Listing Date.

Furthermore, unless otherwise approved by the board of directors of Livzon Biologics in writing, the vesting schedule requires continued employment of or service by the respective grantee through each applicable vesting date as a condition to the vesting of the applicable percentage of the Subsidiary Share Options and the rights and benefits under Subsidiary Share Option Scheme and the respective grantee's offer document, and employment or service for only a portion of the respective vesting period, even if a substantial portion, will not entitle the respective grantee to any proportionate vesting of the Subsidiary Share Options.

8. PERFORMANCE TARGET

The board of directors of Livzon Biologics may in its absolute discretion impose any performance targets which must be achieved before a Subsidiary Share Option can be exercised as it may think fit.

9. EXERCISE PRICE

The exercise price of each Subsidiary Share Option shall, subject to the adjustments referred to in paragraph 14 below, be determined by the board of directors of Livzon Biologics in its absolute discretion with reference to factors which may include business performance and value of Livzon Biologics and individual performance of the relevant grantee.

In the event that Livzon Biologics resolves to seek a separate listing of its shares on the Hong Kong Stock Exchange or any other stock exchange, the exercise price of each Subsidiary Share Option granted after such resolution up to the listing date shall not be lower than the new issue price (if any). Any Subsidiary Share Option granted during the period commencing six months before the lodgement of the listing application and up to the listing date shall not be lower than the new issue price.

10. GRANT AND ACCEPTANCE OF SUBSIDIARY SHARE OPTION

Any Subsidiary Share Option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the Subsidiary Share Option duly signed by the grantee, together with a remittance or payment by cash in favour of Livzon Biologics of HK\$0.10 or its RMB equivalent by way of consideration for the grant thereof is received by Livzon Biologics on or before the Subsidiary Share Option Acceptance Date. Such remittance or payment shall in no circumstances be refundable.

11. TERM OF THE SUBSIDIARY SHARE OPTION SCHEME

The Subsidiary Share Option Scheme shall be valid and effective for the period commencing on the Subsidiary Share Option Scheme Adoption Date and ending on the date immediately before the Livzon Biologics Listing Date (both dates inclusive) or 10 years from the Subsidiary Share Option Scheme Adoption Date (both dates inclusive), whichever is earlier.

12. LAPSE OF THE SUBSIDIARY SHARE OPTIONS

Any Subsidiary Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the Subsidiary Share Option Expiry Date relevant to that Subsidiary Share Option;
- (b) the expiry of any of the periods referred to in sub-paragraphs 6(a), 6(b), 6(c), 6(d) or 6(f);
- (c) the date on which the scheme of arrangement of Livzon Biologics referred to in paragraph 6(e) becomes effective;
- (d) the date of commencement of the winding up of Livzon Biologics;
- (e) the date on which the grantee ceases to be an Eligible Participant by any reason of the termination of his relationship with Livzon Biologics and/or any of the Affiliates on any one or more of the following grounds:
 - (i) that he has been negligent in the discharge of his or her duties to Livzon Biologics or any Affiliate, has refused to perform stated or assigned duties or is incompetent in or (other than by reason of a disability or analogous condition) incapable of performing those duties;

- (ii) that he has been dishonest or committed or engaged in an act of theft, embezzlement or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information;
 - (iii) that he has breached a fiduciary duty, or willfully and materially violated any other duty, law, rule, regulation or policy of Livzon Biologics or any of its Affiliates; or has been convicted of, or pled guilty or nolo contendere to, a felony or misdemeanor (other than minor traffic violations or similar offenses);
 - (iv) that he has materially breached any of the provisions of any agreement with Livzon Biologics or any of its Affiliates;
 - (v) that he has engaged in unfair competition with, or otherwise acted intentionally in a manner injurious to the reputation, business or assets of, Livzon Biologics or any of its Affiliates; or
 - (vi) that he has improperly induced a vendor or customer to break or terminate any contract with Livzon Biologics or any of its Affiliates or induced a principal for whom Livzon Biologics or any Affiliate acts as agent to terminate such agency relationship.
 - (vii) on any other ground as determined by the board of directors of Livzon Biologics that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with Livzon Biologics or the relevant Affiliate. A resolution of the board of directors of Livzon Biologics or the board of directors of the relevant Affiliate to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this sub-paragraph shall be conclusive; and
- (f) the date on which the grantee joins a company which the board of directors of Livzon Biologics believes in its sole and reasonable opinion to be a competitor of Livzon Biologics;
- (g) the date on which the grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally; and

- (h) the date on which the board of directors of Livzon Biologics shall exercise Livzon Biologics' right to cancel the Subsidiary Share Option at any time after the grantee commits a breach of paragraph 15 or the Subsidiary Share Options are cancelled in accordance with paragraph 13.

13. CANCELLATION OF THE SUBSIDIARY SHARE OPTIONS

Any cancellation of Subsidiary Share Options granted but not exercised must be consented by the grantees of the relevant Subsidiary Share Options in writing. For the avoidance of doubt, such consent is not required in the event any Subsidiary Share Option is cancelled pursuant to paragraph 15. Where Livzon Biologics cancels Subsidiary Share Options, the grant of new Subsidiary Share Options to the same grantee may only be made under the Subsidiary Share Option Scheme within the limits set out in paragraphs 3, 4 and 5.

14. CAPITAL RESTRUCTURING

In the event of any alteration in the capital structure of Livzon Biologics (whether by way of capitalisation issue, rights issue, open offer, sub-division, consolidation of shares, or reduction of capital of Livzon Biologics) that may take place after the adoption of the Subsidiary Share Option Scheme whilst any Subsidiary Share Option remains exercisable, such corresponding alterations (if any) shall be made (except on an issue of securities of Livzon Biologics as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in (i) the number of Ordinary Shares of Livzon Biologics subject to any outstanding Subsidiary Share Options; and/or (ii) the exercise price of any outstanding Subsidiary Share Options, as the auditors or the approved independent financial adviser shall at the request of Livzon Biologics or any grantee, certify in writing either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of Livzon Biologics (as interpreted in accordance with the supplemental guidance attached to the Hong Kong Stock Exchange's letter dated 5 September 2005 to all the issuers relate to share option schemes (the "**Supplemental Guidance**")) as that to which he was entitled to subscribe had he exercised all the Subsidiary Share Options held by him immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any Subsidiary Share Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable an Ordinary Share of Livzon Biologics to be issued at less than its nominal value. In addition, other than any adjustment made on a capitalisation issue, the auditors or the approved independent financial adviser, as the case may be, shall confirm to the board of directors of Livzon Biologics in writing that the adjustments satisfy the requirements set out in Rule 17.03(13) of the Hong Kong Listing Rules and the note thereto and the Supplemental Guidance and/or such other requirements prescribed under the Hong Kong Listing Rules from time to time.

**15. RIGHTS ATTACHING TO ORDINARY SHARES OF LIVZON BIOLOGICS UPON
EXERCISE OF SHARE OPTIONS**

The Ordinary Shares of Livzon Biologics to be allotted upon the exercise of any Subsidiary Share Option shall not carry voting or dividend rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof on the register of members of Livzon Biologics. The Ordinary Shares of Livzon Biologics to be allotted upon the exercise of any Subsidiary Share Option shall be subject to all the provisions of the constitutional documents of Livzon Biologics for the time being in force and, once issued, shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of Livzon Biologics as attached to the fully-paid Ordinary Shares of Livzon Biologics in issue on the date of issue, in particular but without prejudice to the generality of the foregoing, in respect of voting, transfer and other rights including those arising on a liquidation of Livzon Biologics and rights in respect of any dividend or other distributions paid or made on or after the date of issue. Ordinary Shares of Livzon Biologics issued on the exercise of any Subsidiary Share Option shall not rank for any rights attaching to Ordinary Shares of Livzon Biologics by reference to a record date preceding the date of allotment.

16. ALTERNATION OF THE SUBSIDIARY SHARE OPTION SCHEME

The terms and conditions of the Subsidiary Share Option Scheme and the regulations for the administration and operation of the Subsidiary Share Option Scheme (provided that the same are not inconsistent with the Subsidiary Share Scheme and the Hong Kong Listing Rules) may be altered in any respect by resolution of the board of directors of Livzon Biologics except that the terms and conditions of the Subsidiary Share Option Scheme shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of the Shareholders in the general meeting provided that no alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such Subsidiary Share Option prior to such alteration except with:

- (i) the consent in writing of grantees holding in aggregate Subsidiary Share Options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths in nominal value of all Ordinary Shares of Livzon Biologics which would fall to be issued upon the exercise of all Subsidiary Share Options outstanding on that date; or
- (ii) the sanction of the Subsidiary Special Resolution.

Written notice of any alterations made in accordance with this paragraph 16 shall be given to all grantees.

Any alterations to the terms and conditions of the Subsidiary Share Option Scheme, which are of a material nature, or any change to the terms of Subsidiary Share Option granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Subsidiary Share Option Scheme. The amended terms of the Subsidiary Share Option Scheme or the Subsidiary Share Options shall remain in compliance with Chapter 17 of the Hong Kong Listing Rules. Any change to the authority of the board of directors of Livzon Biologics or the Administrator with respect to the Subsidiary Share Options in relation to any alteration to the terms of the Subsidiary Share Option Scheme must be separately approved by the Shareholders in general meeting.

17. TERMINATION OF THE SUBSIDIARY SHARE OPTION SCHEME

Livzon Biologics by resolution in general meeting or the board of directors of Livzon Biologics may at any time resolve to terminate the operation of the Subsidiary Share Option Scheme and in such event no further Subsidiary Share Options shall be offered but the provisions of the Subsidiary Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Subsidiary Share Option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Subsidiary Share Option Scheme and Subsidiary Share Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Subsidiary Share Option Scheme.

18. TRANSFERABILITY OF THE SUBSIDIARY SHARE OPTIONS

Any Subsidiary Share Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Subsidiary Share Option or attempt to do so (save that the grantee may nominate a nominee in whose name the Ordinary Shares of Livzon Biologics issued pursuant to the Subsidiary Share Option Scheme may be registered). Any breach of the foregoing shall entitle Livzon Biologics to cancel any outstanding Subsidiary Share Options or any part thereof granted to such grantee.

19. ADMINISTRATION OF THE SUBSIDIARY SHARE OPTION SCHEME

The Subsidiary Share Option Scheme shall be subject to the administration of the Administrator (who may appoint one or more committee solely comprised of directors of Livzon Biologics to provide such administration services) and the decision of the board of directors of Livzon Biologics as to all matters arising in relation to the Subsidiary Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties. The Administrator shall have the right to (i) interpret and construe the provisions of the Subsidiary Share Option Scheme, (ii) determine the persons who will be awarded Subsidiary Share Options under the Subsidiary Share Option Scheme, and the number and exercise price of the Subsidiary Share Options awarded thereto, (iii) make such appropriate and equitable adjustments to the terms of Subsidiary Share Options granted under the Subsidiary Share Option Scheme as it deems necessary, and (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the Subsidiary Share Option Scheme.