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Stock code: 601668

Abbreviation: CSCEC

No.: Interim 2020-069



**中國建築股份有限公司**

CHINA STATE CONSTRUCTION ENGRG . CORP. LTD

## **Announcement of Summary of Phase IV Restricted A Share Incentive Scheme (Draft)**

The Board of Directors of the Company and each member of the Board of Directors guarantee that the contents of the public announcement contain no false or misunderstanding statements or major omission, and they are jointly and severally liable for the truthfulness, accuracy and completeness of the said contents.

### **Important Notes:**

- Mode of equity incentive: Restricted shares.
- Source of shares: Repurchase of shares in the Company, or another mode allowed by the laws and administrative regulations.
- Total amount of interests covered by the equity incentive scheme, and total number of target shares involved: Up to 1 billion shares, or 2.4% of the Company's total share capital, will be granted via the scheme.

### **I. General information**

#### (i) Company profile

Name: China State Construction Engineering Corporation Limited

Date of listing: July 29, 2009

Registered address: No.15, Sanlihe Road, Haidian District, Beijing

The core operations include: offering a full range of construction-related services to foreign and domestic civil engineering and building construction such as construction, installation and consultation, investment and construction of infrastructure projects, foreign and domestic real estate investment and development, architecture and infrastructure construction survey and design, decoration engineering, landscape engineering design and construction, industrial investment, contracting for foreign projects in PRC, import and export, production and distribution of construction materials and other non-metal mineral products, construction-related metalwork and tools and construction engineering and drilling equipment.

#### (ii) Earnings results of the most recent three years

Unit: '000 yuan

<b>Key accounting data</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Operating income	1,419,836,588	1,199,324,525	1,054,106,503
Net profit attributable to shareholders of the Company	41,881,399	38,241,324	32,941,799

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Net profit attributable to shareholders of the Company after deducting non-recurring profit or loss	42,491,547	37,535,578	31,824,170
Net cash flow from operating activities	-34,220,077	10,311,290	-43,456,932
	<b>End of 2019</b>	<b>End of 2018</b>	<b>End of 2017</b>
Net assets attributable to shareholders of the Company	277,197,681	243,892,279	214,755,519
Total assets	2,034,451,929	18,449,004,412	1,550,983,306

<b>Key financial indicators</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Basic earnings per share (RMB/share)	0.97	0.87	0.76
Diluted earnings per share (RMB/share)	0.96	0.85	0.75
Basic earnings per share (RMB/share) after deducting non-recurring profit or loss	0.98	0.85	0.73
Weighted average return on net assets (%)	15.60	15.97	15.82
Weighted average return on net assets after deducting non-recurring profit or loss (%)	15.84	15.66	15.27

(iii) Composition of Board of Directors, Board of Supervisors and senior management

#### 1. Composition of Board of Directors

The Company's Board of Directors consists of six directors, who are directors Zhou Neixiang and Zheng Xuexuan, and independent directors Yang Chunjin, Yu Hailong, Jia Chen and Zheng Changhong.

#### 2. Composition of Board of Supervisors

The Company's Board of Supervisors consists of five supervisors, who are board chairman Shi Zhiping, supervisors Li Jianbo and Tian Shifang, and staff representatives Ning Wangchu and Lu Yanbin.

#### 3. Composition of senior management

The Company currently has eight senior managers, who are president Zheng Xuexuan, vice presidents Wang Yunin, Zhao Xiaojiang, Ma Zeping, Zhou Yong, Shan Guangxiu and Huang Kesi, and secretary to the Board of Directors, Xue Keqing.

## II. Purposes of the Restricted Share Incentive Scheme

(1) To further develop the Company's governance structure, and the incentive and restriction mechanisms in the Company;

(2) To safeguard shareholders' interests, and bring them sustainable returns on investment by aligning their interests with those of the Company and related individuals;

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(3) To promote the philosophy of common and sustainable development between the Company and related individuals, and facilitate steady long-term development of the Company;

(4) To effectively mobilize management staff and core staff members, and attract and retain outperforming managers and business team members;

(5) To attract various types of professionals with a higher degree of flexibility taking both the short-term and long-term interests of the Company into consideration, thus effectively stimulating the Company's growth.

### **III. Incentive method and sources of target shares**

#### **(I) Tool of incentivization**

The Scheme uses restricted shares as the tool of staff incentivization, and the target shares are A-shares in CSCEC (601668.SH).

#### **(ii) Sources of target shares**

The Scheme obtains the target shares via a repurchase of shares in the Company, or from another source allowed by the laws and administrative regulations, depending on the actual situation in the Company.

### **IV. Number of restricted shares to be granted**

Up to 100 million shares, or 2.4% of the Company's total share capital, will be granted via the Scheme. The total number of target shares involved in the restricted shares granted by the Scheme and in the Company's other effective stock incentive plans (if any) shall not exceed 10% of the Company's share capital.

Without special permission by the general meeting of shareholders, the total number of shares cumulatively acquired by any given Incentive Target via the Scheme or the Company's other effective stock incentive plans (if any) shall not exceed 1% of the Company's share capital.

### **V. Range of Incentive Targets and number of shares granted**

#### **(i) Selection criteria for Incentive Targets**

Incentive Targets under the Scheme are determined in accordance with the "Company Law", "Securities Law", relevant laws, regulations, departmental rules and normative documents promulgated by SASAC, China Securities Regulatory Commission (CSRC) and other regulatory bodies, and the Company's Articles of Association. Principles for identifying Incentive Targets under the Scheme are as follows:

1. In principle, the Incentive Targets are limited to the Company's Directors, senior managers and core members of management, technology development and business teams, who have a direct influence on the Company's earnings and sustainable development;

2. As a minimum requirement, the Incentive Targets shall get a "pass" rating in work performance appraisals conducted in accordance with relevant measures of the Company;

2. The Company's independent directors, supervisors, shareholder(s) who own(s), either individually or jointly, more than 5% of shares, the Company's de facto

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controller(s) or the spouse(s), parents or child/children thereof, and people who do not hold any position in, or do not belong to, the Company or its affiliates, may not be selected as Incentive Targets under the Scheme. People listed below are also prohibited from being selected as Incentive Targets under the Scheme:

(1) People designated by a stock exchange as unsuitable candidates within the most recent 12 months;

(2) People designated by the CSRC or a local branch thereof as unsuitable candidates within the most recent 12 months;

(3) People on whom administrative penalties or a ban on market entry have been imposed by the CSRC or a local branch thereof due to gross legal or regulatory violations, within the most recent 12 months;

(4) People prohibited from acting as the Company's director or senior manager, as prescribed in the Company Law;

(5) People prohibited from participating in equity incentive schemes of listed companies according to the laws and regulations;

(6) Other circumstances stipulated by the SASAC and CSRC.

(ii) Range of Incentive Targets

The total number of Incentive Targets under the Scheme is capped at 2,800. The Scheme is primarily targeted at key staff members who have a material influence on the fulfillment of the Company's strategic objectives, mainly including directors, senior managers, middle managers and core staff members holding critical positions, who are required for the fulfillment of the Company's strategic objectives.

Incentive Targets under the Scheme do not include principals of state-owned enterprises directly under the central government ("Central Enterprises") run by the central government and the Party Committee of SASAC, the independent directors, supervisors, shareholder(s) who own(s), either individually or jointly, more than 5% of shares, the Company's de facto controller(s) or the spouse(s), parents or child/children thereof. Incentive Targets may not take part in stock incentive schemes of two or more listed companies.

The Incentive Targets undertake to give up their right to participate in the Scheme without seeking any damages, in the event that any of the circumstances prohibiting them from acting as Incentive Targets under the Scheme, as prescribed in relevant laws or regulations or provisions of the Scheme, arise.

## **VI. Price of Restricted Shares Granted and Pricing Method**

The price of the restricted shares granted (the "Grant Price") shall be determined by the Board of Directors as follows - the price shall not be less than the shares' par value, and, in principle, shall not be less than the higher price of the two prices specified below:

(i) 60% of the average trading price of the Company's shares on the trading day immediately before the announcement of the draft stock incentive plan;

(ii) 60% of the average trading price of the Company's shares during the 20 trading days before the announcement of the draft stock incentive plan.

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## **VII. Validity Period and Grant Date of Restricted Shares, Lock-up Period and Unlocking Period**

### **(i) Validity period**

The Scheme shall come into force on the day of its adoption by the general meeting of stockholders, and be terminated on the day when all the restricted shares granted based on the Scheme are unlocked/repurchased (unless the Scheme is terminated ahead of schedule) - the validity period lasts up to 10 years.

### **(ii) Grant date**

The grant date refers to the date when the Company grants restricted shares to an Incentive Target, which shall be determined by the Board of Directors in accordance with relevant regulations and the Scheme - in principle, the grant date shall be the day when the Board of Directors finalizes the decision to grant the shares.

The grant date shall be a trading day; where a grant date determined following the principles above falls on a non-trading day, it shall be postponed to the following trading day. The grant date shall not take place in any of the following period:

1. The 30 days prior to the release of a regular report - where the report release date is postponed for special reasons, the grant date shall not take place within the period between the 30<sup>th</sup> day prior to the original report release date and the day immediately before the actual date of release;
2. The 10 days prior to the release of the Company's earnings forecasts or preliminary earnings estimates;
3. The period when a decision is being made on a major deal or important matter until the second trading day after the deal or matter is announced;
4. The period between the occurrence of a significant event that may affect the share price and the second trading day after the announcement of the event.

The aforementioned "major deals", "important matters" and "significant events that may affect the share price" refer to deals and other important matters that should be disclosed by the Company in accordance with the Listing Rules, excluding important matters such as issuance of new shares, mergers and acquisitions (M&As), asset injections, issuance of convertible bonds or corporate bonds initiated and conducted by the Company. Where listed companies' directors and senior managers are subject to restrictions concerning the trading period for shares in the Company according to relevant laws, administrative regulations or departmental rules, the Company shall not grant the restricted shares to the Incentive Targets during the restricted period, and the Incentive Targets may not exercise related rights and interests.

### **(iii) Lock-up period**

The lock-up period refers to the two years after the restricted shares are granted. During the lock-up period, target shares (including target shares purchased by the Incentive Targets) to be granted to the Incentive Targets based on the Scheme shall be locked up, and may not be transferred, or used for provision of guarantees or debt repayment.

### **(iv) Unlocking period**

The unlocking period refers to the three years after the expiry of the lock-up period. The Incentive Targets may unlock the restricted shares granted to them at equal intervals during the unlocking period of no less than three years. Where certain restricted shares fail to meet the conditions for unlock during the unlocking period, the

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Company shall repurchase them at the price set in the Scheme, and handle related matters in accordance with the "Company Law" and relevant regulations.

<b>Date</b>	<b>Unlock ratio</b>
2 years after the grant date	0
2 <sup>nd</sup> anniversary of the grant date	1/3
3 <sup>rd</sup> anniversary of the grant date	1/3
4 <sup>th</sup> anniversary of the grant date	1/3

### **VIII. Conditions for Granting and Unlocking Restricted Shares**

#### **(i) Conditions for granting the restricted shares**

The Company may grant the restricted shares to the Incentive Targets based on the Scheme, only if the Company and the Incentive Targets meet the following conditions:

1. The Company's earnings meet the following conditions in the fiscal year immediately before the restricted shares are granted:

- (1) ROE is no lower than 12%;
- (2) Net profit growth is no lower than 7%;
- (3) The EVA target set by SASAC is fulfilled.

In principle, the ROE and net profit growth shall not be lower than the industry average or the 50<sup>th</sup> percentile of benchmark companies; the benchmark companies are selected from A-share listed construction companies that have received top rankings on overall competitiveness, profitability and asset scale, taking into account the similarity, comparability and stability of their business performance, with companies with exceptional earnings volatility excluded.

Where, during an annual performance appraisal, a benchmark company experiences material changes in its business performance or other forms of extreme sample values that deviate excessively from the norms resulting from stock delisting, material changes in its core businesses or a major asset reorganization deal, the Company's Board of Directors will investigate into and replace the sample based on the criteria for deleting benchmark companies. The Board of Directors has the right to adjust and revise such performance indicators and targets in line with the Company's strategies and market conditions.

The ROE used by the Scheme in calculating the aforementioned indicators refers to the average return on net assets, and net profit refers to the after-tax net profit. Where related earnings results are affected by a major asset reorganization decided by a competent authority, or strategic measures, i.e. debt-for-equity swaps, capital increase and share expansion, share allotment and offering of preferred shares or perpetual bonds, taken by the Company in line with the government's call for deleveraging, or in the event of force majeure which leads to material effects on the Company's earnings results, and therefore makes the indicators no longer comparable, the Board of Directors is then authorized to restore the actual results for the related indicators.

2. None of the following events has occurred to the Company:

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(1) A Certified Public Accountant (CPA) issues an adverse opinion or a disclaimer of opinion over the financial statements for the most recent fiscal year;

(2) A Certified Public Accountant (CPA) issues an adverse opinion or a disclaimer of opinion over the internal control section of the financial statements for the most recent fiscal year;

(3) The Company has conducted any distribution of profits contrary to the laws, its Articles of Association or public undertakings within the most recent 36 months;

(4) Equity incentives are prohibited by the laws and regulations;

(5) Other events prescribed by the CSRC.

3. Incentive Targets shall receive a "pass" or higher rating for personal performance for the fiscal year immediately before the restricted shares are granted, in accordance with the work performance appraisal measures. Specifically:

(1) The restricted shares may be granted at a rate of 100% to Incentive Targets with a "good" or higher rating on work performance;

(2) The restricted shares may be granted at a rate of 80% to Incentive Targets with a "pass" rating on work performance;

(3) Restricted shares may not be granted to Incentive Targets receiving a "fail" rating on work performance.

4. None of the following events have occurred to the Incentive Targets:

(1) People designated by a stock exchange as unsuitable candidates within the most recent 12 months;

(2) People designated by the CSRC or a local branch thereof as unsuitable candidates within the most recent 12 months;

(3) People on whom administrative penalties or a ban on market entry have been imposed by the CSRC or a local branch thereof due to gross legal or regulatory violations, within the most recent 12 months;

(4) People prohibited from acting as the Company's director or senior manager, as prescribed in the Company Law;

(5) People prohibited from participating in equity incentive schemes of listed companies according to the laws and regulations;

(6) Other circumstances stipulated by the SASAC and CSRC.

Where, during the execution of the Scheme, an Incentive Target becomes an independent director or supervisor of the Company, or a shareholder holding - either individually or jointly with another/other shareholder(s) - more than 5% of shares, the Company's de facto controller or the spouse, parents or child/children thereof, the Company shall not grant any restricted shares to him/her.

Where the Company fails to satisfy the conditions for granting the restricted shares in a given year, it may not grant any restricted shares based on the Scheme for that year; where an Incentive Target fails to satisfy the conditions for receiving the restricted shares, the Company may not grant any restricted shares to him/her based on the Scheme for that year.

(ii) Conditions for unlocking the restricted shares

The restricted shares may be unlocked as per the share unlocking arrangements, only if the Company and the Incentive Targets satisfy the following the conditions: 1. the

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Company's earnings meet the following conditions in the fiscal year immediately before the unlocking of the restricted shares:

<b>Indicator</b>	<b>(1<sup>st</sup> unlock)</b>	<b>(2<sup>nd</sup> unlock)</b>	<b>(3<sup>rd</sup> unlock)</b>
ROE	The Company's ROE in the year immediately before the share unlock should be no less than 12.0% or the average ROE in the industry (or the 75 <sup>th</sup> percentile of benchmark companies).	The Company's ROE in the year immediately before the share unlock should be no less than 12.2% or the average ROE in the industry (or the 75 <sup>th</sup> percentile of benchmark companies).	The Company's ROE in the year immediately before the share unlock should be no less than 12.5% or the average ROE in the industry (or the 75 <sup>th</sup> percentile of benchmark companies).
Compound growth in net profit	Compound growth in the Company's net profit in the year immediately before the share unlock relative to the year immediately before the shares are granted should be no less than 7% or the average ROE in the industry (or the 50 <sup>th</sup> percentile of benchmark companies).	Compound growth in the Company's net profit in the year immediately before the share unlock relative to the year immediately before the shares are granted should be no less than 7% or the average ROE in the industry (or the 50 <sup>th</sup> percentile of benchmark companies).	Compound growth in the Company's net profit in the year immediately before the share unlock relative to the year immediately before the shares are granted should be no less than 7% or the average ROE in the industry (or the 50 <sup>th</sup> percentile of benchmark companies).
Economic value added (EVA)	The EVA target set by SASAC is fulfilled.	The EVA target set by SASAC is fulfilled.	The EVA target set by SASAC is fulfilled.

The benchmark companies are selected from A-share listed construction companies that have received top rankings on overall competitiveness, profitability and asset scale, taking into account the similarity, comparability and stability of their business performance, with companies with exceptional earnings volatility excluded. Where, during an annual performance appraisal, a benchmark company experiences material changes in its business performance or other forms of extreme sample values that deviate excessively from the norms resulting from stock delisting, material changes in its core businesses or a major asset reorganization deal, the Company's Board of Directors will investigate into and replace the sample based on the criteria for deleting benchmark companies. The Board of Directors has the right to adjust and revise such performance indicators and targets in line with the Company's strategies and market conditions.

The ROE used by the Scheme in calculating the aforementioned indicators refers to the average return on net assets, and net profit refers to the after-tax net profit. Where related earnings results are affected by a major asset reorganization decided by a competent authority, or strategic measures, i.e. debt-for-equity swaps, capital increase and share expansion, share allotment and offering of preferred shares or perpetual bonds, taken by the Company in line with the government's call for deleveraging, or in the event of force majeure which leads to material effects on the Company's earnings results, and therefore makes the indicators no longer comparable, the Board of Directors is then authorized to restore the actual results for the related indicators.

2. None of the following events has occurred to the Company:

(1) A Certified Public Accountant (CPA) issues an adverse opinion or a disclaimer of opinion over the financial statements for the most recent fiscal year;

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(2) A Certified Public Accountant (CPA) issues an adverse opinion or a disclaimer of opinion over the internal control section of the financial statements for the most recent fiscal year;

(3) The Company has conducted any distribution of profits contrary to the laws, its Articles of Association or public undertakings within the most recent 36 months;

(4) Equity incentives are prohibited by the laws and regulations;

(5) Other events prescribed by the CSRC.

3. Incentive Targets shall receive a "pass" or higher rating for personal performance for the fiscal year immediately before the share unlock, in accordance with the Company's work performance appraisal measures - specifically:

(1) The restricted shares may be unlocked at a rate of 100% to Incentive Targets with a "good" or higher rating on work performance;

(2) The restricted shares may be unlocked at a rate of 80% to Incentive Targets with a "pass" rating on work performance;

(3) Restricted shares may not be unlocked for Incentive Targets receiving a "fail" rating on work performance.

4. None of the following events have occurred to the Incentive Targets:

(1) People designated by a stock exchange as unsuitable candidates within the most recent 12 months;

(2) People designated by the CSRC or a local branch thereof as unsuitable candidates within the most recent 12 months;

(3) People on whom administrative penalties or a ban on market entry have been imposed by the CSRC or a local branch thereof due to gross legal or regulatory violations, within the most recent 12 months;

(4) People prohibited from acting as the Company's director or senior manager, as prescribed in the Company Law;

(5) People prohibited from participating in equity incentive schemes of listed companies according to the laws and regulations;

(6) Other circumstances stipulated by the SASAC and CSRC.

Where, during the execution of the Scheme, an Incentive Target becomes an independent director or supervisor of the Company, or a shareholder holding - either individually or jointly with another/other shareholder(s) - more than 5% of shares, the Company's de facto controller or the spouse, parents or child/children thereof, the restricted shares granted to him/her may not be unlocked.

Where certain restricted shares fail to meet the conditions for unlock during the unlocking period, the Company shall repurchase them at the price set in the Scheme, and handle related matters in accordance with the provisions of the "Company Law".

## **IX. Method and Procedure for Adjusting Restricted Shares**

### **(i) Adjustment method**

In the event of conversion of capital reserves into share capital, distribution of dividends, stock split, reverse stock split or share allotment conducted by the Company after the restricted shares are granted, and before they are unlocked, the number of

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restricted shares shall be adjusted accordingly. The adjustment method shall be determined by the Board of Directors in accordance with relevant laws and regulations. In principle, the shares shall be adjusted as follows:

1. Following a conversion of capital reserves into share capital, distribution of dividends or stock split:

Number of shares granted after the adjustment = number of shares granted before adjustment \* (1 + number of additional shares per share following the conversion of capital reserves, dividend distribution or stock split)

2. Following a reverse stock split

Number of shares granted after the adjustment = number of shares granted before adjustment \* reverse split ratio

3. Following a share allotment or placement of new shares to existing shareholders

Number of shares granted after the adjustment = number of shares granted before adjustment \* (1 + number of additional shares allotted or placed per share)

When adjusting the number of restricted shares following the foregoing provisions, after the occurrence of any of the share repurchase triggering events under the Scheme, the Grant Price, based on which the repurchase price is calculated, shall be adjusted as follows:

1. Grant Price after a conversion of capital services into share capital, distribution of dividends or a stock split = Grant Price before adjustment / (1 + ratio of conversion of capital reserves into share capital per share, dividends distributed, or stock split)

2. Following a reverse stock split

Grant Price after the adjustment = Grant Price before adjustment \* reverse split ratio

3. Following a share allotment or placement of new shares to existing shareholders

Grant Price after the adjustment = Grant Price before adjustment / (1 + ration of the number of additional shares allotted or placed per share)

(ii) Procedure for adjusting restricted shares

1. The general meeting of stockholders authorizes the Board of Directors to adjust the restricted shares upon the occurrence of any of the foregoing events. The Company shall engage a lawyer to issue professional opinion as to whether such adjustment conforms to relevant laws, regulations, the Company's Articles of Association and relevant provisions of the Scheme. The Board of Directors shall announce any adjustments made to the restricted shares based on the foregoing provisions in a timely manner.

2. The restricted shares or other clauses may be adjusted due to other reasons, subject to the resolution of the Board of Directors and the approval by the general meeting of stockholders.

## **X. Procedures for Granting and Unlocking Restricted Shares**

(i) Procedures for formulating and approving the restricted share incentive scheme

1. The Personnel and Remuneration Committee under the Board of Directors is responsible for drafting the restricted share incentive scheme, and conducting preliminary communications with SASAC;

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2. The Board of Directors deliberates on the draft restricted share incentive scheme, and the independent directors and the Board of Supervisors issue independent opinions as to whether the scheme is beneficial to the Company's sustained development, and whether it poses an evident threat to the interests of the Company or the shareholders as a whole; the Board of Directors announces the board resolution, the draft restricted share incentive scheme and the opinions of the independent directors and the Board of Supervisors, within two trading days after it adopts the draft scheme.

3. The restricted share incentive scheme deliberated and adopted by the Board of Directors shall be submitted to SASAC for approval; the Company shall announce the scheme within two trading days after receiving SASAC's approval;

4. The Board of Directors reviews the list of Incentive Targets, announce the list within two trading days, and disclose it internally for at least 10 days via the Company's website or other channels; the Board of Supervisors reviews the list of Incentive Targets, thoroughly solicit feedback on the list during the internal disclosure period, and discloses findings of its review of the list and information concerning the internal disclosure within five days before the incentive scheme is reviewed by the general meeting of stockholders;

5. The law firm engaged by the Company issues legal opinion on the restricted share incentive scheme;

6. The Company issues a notice of holding a general meeting of stockholders, and announces the legal opinion at the same time;

7. The independent directors solicits proxy votes from all shareholders regarding proposals related to the restricted share incentive scheme;

8. The general meeting of stockholders reviews the restricted share incentive scheme and related proposals, and discloses the announcement of the resolution of the general meeting of stockholders, the Incentive Scheme adopted by the general meeting of stockholders and the self-inspection report on transactions of the Company's shares involving people who have access to insider information - the announcement of the resolution of the general meeting of stockholders shall include the outcome of separate counting of votes cast by small- and medium-sized investors;

9. The restricted share incentive scheme can be executed once it is approved by the general meeting of stockholders. The Company shall convene a meeting of the Board of Directors to grant the restricted shares to the Incentive Targets in accordance with relevant regulations, and complete the related registration, announcement, etc., within 60 days after the general meeting of stockholders passes the restricted share incentive scheme, and the conditions for granting the shares are fulfilled (according to the laws, any period in which the Company is prohibited from granting any interests should not be counted in the 60-day period);

10. Before the general meeting of stockholders deliberates on the restricted share incentive scheme, the Company may revise the scheme, the proposal of amendment should be approved by the Board of Directors, and the announcement of the resolution of the Board of Directors should be disclosed in a timely manner, alongside the reasons for the amendment, items involved in the amendment and opinions issued by independent directors, the Board of Supervisors and the law firm;

11. The Company may terminate the restricted share incentive scheme - the proposal of the termination should be approved by the Board of Directors or the general meeting of stockholders; the announcement of the resolution should be disclosed in a timely

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manner, alongside the opinion issued by the law firm, enclosing clarifications regarding the reasons for the termination, progress planned and completed, and potential effects of the termination of the scheme.

(ii) Procedure for granting restricted shares

1. The Personnel and Remuneration Committee under the Board of Directors is responsible for drafting the scheme for granting the restricted shares;
2. The Board of Directors reviews and approves the scheme for granting the restricted shares proposed by the Personnel and Remuneration Committee, and file the same with SASAC. The Board of Directors shall discuss as to whether the conditions for the Incentive Targets to obtain the interests specified in the Incentive Scheme are fulfilled, and the independent directors and the Board of Supervisors shall simultaneously issue explicit opinions. The law firm shall issue legal opinion as to whether the conditions for the Incentive Targets to obtain the interests are fulfilled. In the event of any discrepancies between the interests granted by the Company to the Incentive Targets and relevant arrangements set in the Incentive Scheme, the independent directors, the Board of Supervisors (applicable only after a change occurs to the Incentive Targets), the law firm and the independent financial advisor (if any) shall simultaneously issue explicit opinions;
3. The Board of Supervisors checks if the list of Incentive Targets effective as of the grant date of the restricted shares conforms to the scope of stock incentives specified in the restricted share incentive scheme, and issues its opinion on the matter;
4. The Company issues the "Notice of Grant of Restricted Shares" to the Incentive Targets;
5. The Incentive Targets enter into the "Agreement on the Grant of Restricted Shares" with the Company within three business days after the issuance of the "Notice of Grant of Restricted Shares" by the Company, and pay the share subscription price as specified in the Scheme. The Incentive Targets shall raise the funds for their subscription to the target shares themselves, and the Company may not provide loans or any other forms of financial assistance, including but not limited to providing guarantees for their loan applications;
6. The Company compiles a register of the restricted share incentive scheme based on execution of the agreement by the Incentive Targets, so as to record names of the Incentive Targets, numbers of shares granted, grant dates, serial numbers of "Agreements on the Grant of Restricted Shares", etc.;
7. The Company goes through formalities involved in the implementation of the restricted share incentive scheme in accordance with relevant regulations set by SASAC, CSRC, stock exchanges and depository and clearing companies.

(iii) Procedures for unlocking restricted shares

1. Within the unlocking period and before the Incentive Targets exercise the interests, the Board of Directors shall discuss as to whether the conditions for the Incentive Targets to exercise the interests specified in the Incentive Scheme are fulfilled, and the independent directors and the Board of Supervisors shall simultaneously issue explicit opinions. The law firm shall issue legal opinion as to whether the conditions for the Incentive Targets to exercise the interests are fulfilled. If the conditions for unlocking the shares are satisfied, the Company shall unlock the target shares in a centralized fashion.

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2. In the event that the conditions for unlocking the shares are not satisfied in any given year during the unlocking period, the target shares affected may not be unlocked or may be carried forward for unlocking in the following year. The Company shall repurchase them at the price set in the Scheme, and handle related matters in accordance with the "Company Law" and relevant regulations.

3. The Incentive Targets may transfer unlocked target shares, but transfers of shares held by certain Incentive Targets such as the Company's Directors and senior managers shall be subject to related provisions of the "Company Law", "Securities Law", other relevant laws and normative documents and the Company's Articles of Association.

## **XI. Rights and Obligations of the Company and Incentive Targets**

### **(i) Rights and obligations of the Company**

1. Where an Incentive Target turns out to be incompetent for the position for which s/he is hired, or fails the performance appraisal, the restricted shares remaining to be unlocked for the Incentive Target may be revoked, after the decision is approved by the Personnel and Remuneration Committee under the Board of Directors and filed with the Board of Directors.

2. Where an Incentive Target neglects his/her duty of loyalty prescribed in the "Company Law" and the Company's Articles of Association, violates the laws professional ethics, divulges the Company's confidential information, or is found guilty of dereliction of duty, resulting in damages to the Company's interests or reputation, any restricted shares remaining to be unlocked will not be unlocked - where a serious offense is involved, the Board of Directors has the right to take back all or part of the earnings obtained by the Incentive Target from unlocked shares.

3. The Company withholds personal income tax and other taxes payable by the Incentive Targets, in accordance with national taxation regulations.

4. The Company may not provide loans or any other forms of financial assistance, including providing guarantees for their loan applications, for the Incentive Targets to obtain related restricted shares or unlock such shares based on the restricted share incentive scheme.

5. The Company shall go through formalities related to the grant, unlocking and repurchase of the restricted shares, in accordance with the restricted share incentive scheme and relevant regulations set by CSRC, stock exchanges and depository and clearing companies. However, where such formalities cannot be completed due to reasons attribute to CSRC, stock exchanges or depository and clearing companies, resulting in losses to an Incentive Target, the Company shall not be liable for such losses.

6. Where an event blocking the share unlock, as prescribed in the Scheme, occurs, the Company has the right to repurchase the restricted shares remaining to be unlocked from the Incentive Targets, after fulfilling related decision-making formalities.

7. Other rights and obligations prescribed in the laws and regulations.

### **(ii) Rights and obligations of the Incentive Targets**

1. The Incentive Targets shall duly perform their official duties and abide by professional ethics, in line with the responsibilities of the positions for which they are hired, and make due contributions to the Company's development;

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2. The Incentive Targets shall guarantee that the funds used to unlock the shares in accordance with the provisions of the Scheme are raised by themselves via legitimate sources;

3. The Incentive Targets have the right to, and shall, unlock the shares following the provisions of the Scheme, and comply with the obligations set by the Scheme;

4. The restricted shares granted to the Incentive Targets may not be transferred or used for provision of guarantees or debt repayment before they are unlocked;

5. Personal income tax and other taxes shall be paid for earnings received by the Incentive Targets from their participation in the Scheme pursuant to national taxation regulations;

6. Upon the occurrence of an event triggering a repurchase of the restricted shares, the Incentive Targets shall give irrevocable carte blanche to the Company to go through the formalities related to the repurchase on their behalf;

7. Other rights and obligations prescribed in the laws and regulations.

## **XII. Treatment under Exceptional Circumstances**

(i) In the event that an Incentive Target terminates his/her labor relationship with the Company due to objective reasons such as job transfer, dismissal, retirement, death or loss of civil capacity, the portion of restricted shares granted to the Incentive Target that meet both the lock-up period and work performance related conditions for share unlock may be unlocked within six months after the date of departure, and the restricted shares that do not meet the aforementioned conditions for share unlock will not be unlocked - the Company shall repurchase them with interest (which is calculated at the benchmark deposit rate adopted by banks during the same period, and for the period between the Grant Date and the date of departure) paid, and related matters should be handled in accordance with the "Company Law".

(ii) All restricted shares remaining to be unlocked, and those do not meet the conditions for share unlock specified in the Scheme, may not be unlocked, and the Company shall repurchase them (without paying interest), with related matters handled in accordance with the "Company Law", if the Incentive Target:

1. becomes an independent director, supervisor, or is prohibited from holding restricted shares in the Company for another reason;

2. is laid off with his/her labor relationship terminated, or his/her labor or employment contract expires;

3. terminates or rescinds his/her labor or employment contract signed with the Company, after reaching a consensus with the Company through consultation;

4. receives a "pass" rating in work performance appraisal - the restricted shares granted to him/her shall be unlocked at a rate of 80% as prescribed in the Scheme, and the remaining 20% may not be unlocked;

5. is affected by other events prescribed by the CSRC or SASAC.

(iii) Restricted shares remaining to be unlocked, and those do not meet the conditions for share unlock specified in the Scheme, may not be unlocked, and the Company shall repurchase them (without paying interest) at the prevailing market price at the time of repurchase or the Grant Price, whichever is lower, with related matters handled in accordance with the "Company Law", if the Incentive Target:

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1. is designated by a stock exchange, the CSRC or a local branch thereof as an unsuitable candidate;
2. has received administrative penalties or a ban on market entry imposed by the CSRC or a local branch thereof due to gross legal or regulatory violations;
3. is prohibited from acting as the Company's director or senior manager, as prescribed in the "Company Law";
4. is incompetent for his/her position, or fails the work performance appraisal;
5. transfers restricted shares granted to him/her, or uses the shares for provision of guarantees or debt repayment, which shall start on the day when such action actually occurs or when the relevant written documents are entered into (whichever is earlier);
6. terminates or rescinds unilaterally his/her labor or employment contract signed with the Company, including but not limited to resignation without proper justification, without reaching a consensus with the Company through consultation;
7. has his/her labor relationship terminated due to other personal reasons;
8. is affected by other events prescribed by the CSRC or SASAC.

For the purposes of the Scheme, the "prevailing market price at the time of repurchase" refers to the closing price on the trading day immediate before the Company's Board of Directors deliberates on the repurchase of the restricted shares.

(iv) If any of the following circumstances apply to an Incentive Target, the Company's controlling shareholder shall exercise its rights according to law, propose to stop granting any new restricted shares to the Incentive Target, in which case any restricted remaining to be unlocked may not be unlocked, and the Company shall repurchase them (without paying interest) at the prevailing market price at the time of repurchase or the Grant Price, whichever is lower, take back any earnings obtained from the relevant equity incentives, and investigate the Incentive Target for liability according to the laws and regulations:

1. Findings of the economic liability audit, etc. indicate that the Incentive Target has failed to effectively perform his/her duties, or has committed gross dereliction of duty;
2. The Incentive Target is found in serious violation of relevant laws or regulations of the state, or the Articles of Association of the Company;
3. The Incentive Target has received penalties due to legal or disciplinary violations, e.g. bribery, corruption, theft, divulgence of the Company's trade or technical secrets, engagement in related-party transactions that led to material adverse impacts on the Company's interests, reputation or image;
4. The Incentive Target has failed to perform, or duly perform, his/her official duties, resulting in substantial losses of assets or other serious consequences for the Company.

(v) If any of the following circumstances apply to the Company, 1) the Scheme shall be suspended, 2) new restricted shares shall not be granted to the Incentive Targets based on the Scheme, 3) restricted shares remaining to be unlocked may not be unlocked, and 4) the Company shall repurchase them (without paying interest) at the prevailing market price at the time of repurchase or the Grant Price, whichever is lower, with related matters handled in accordance with the "Company Law":

1. A Certified Public Accountant (CPA) issues an adverse opinion or a disclaimer of opinion over financial statements for the most recent fiscal year;

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2. A Certified Public Accountant (CPA) issues an adverse opinion or a disclaimer of opinion over the internal control section of the financial statements for the most recent fiscal year;

3. The Company has conducted any distribution of profits contrary to the laws, its Articles of Association or public undertakings within the most recent 36 months;

4. Equity incentives are prohibited by the laws and regulations;

5. Other circumstances prescribed by the CSRC.

(vi) If any of the following circumstances apply to the Company, 1) the controlling shareholder shall exercise its rights and propose to revoke the exercisable rights for the year, 2) the Scheme shall be suspended, 3) subject to the approval of the Board of Directors, new restricted shares shall not be granted to the Incentive Targets for one year after the Board's resolution takes effect, 4) the Incentive Targets may not exercise rights or obtain incentive income based on the scheme, 5) restricted shares remaining to be unlocked for the Incentive Targets may not be unlocked as of the date of termination of the Scheme, and 6) the Company shall repurchase them (without paying interest) at the prevailing market price at the time of repurchase or the Grant Price, whichever is lower, with related matters handled in accordance with the "Company Law":

1. The Company fails to engage an accounting firm to conduct an audit in compliance with the prescribed procedure and requirements;

2. A state-owned asset supervision and administration authority, the Board of Supervisors or the audit department raises a serious objection over the Company's earnings or annual financial report;

3. The Company is found in gross violation of the regulations, and received penalties from a securities supervision and administration authority or other authorities.

(vii) In the event that the Company fails to meet the earnings targets justifying the share unlock in a given year, the restricted shares scheduled to be unlocked in the year may not be unlocked, in which case the Company shall repurchase them (without paying interest) at the prevailing market price at the time of repurchase or the Grant Price, whichever is lower, with related matters handled in accordance with the "Company Law".

(viii) During the implementation of the Scheme, if misrepresentation, misleading statement or material omissions are found in the Company's financial accounting documents or information disclosure documents, resulting in noncompliance with the arrangements for granting or exercising the interests, the restricted shares remaining to be unlocked, and those failing to meet the conditions for unlocking prescribed in the Scheme, may not be unlocked, in which case the Company shall repurchase them (without paying interest) at the prevailing market price at the time of repurchase or the Grant Price, whichever is lower, and new restricted shares shall not be granted to the Incentive Targets responsible for the noncompliance. Where the Incentive Target has already exercised the interests, the interests granted shall be returned. The Board of Directors shall take back earnings obtained by the Incentive Target in accordance with the regulations and related arrangements under the Scheme.

(ix) In the event of a merger or spin-off involving the Company or a change of its controlling power, all the restricted shares granted shall, in principle, remain unchanged, and the Incentive Targets may not accelerate the share unlocking process. However, where the target shares under the Scheme undergo changes as a result of the merger, spin-off or change of controlling power, the corresponding restricted

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shares shall be adjusted accordingly to make sure that the anticipated earnings for the Incentive Targets remain unchanged.

(x) In the event that circumstances other than those specified above occur to the Company or an Incentive Target, the Board of Directors shall handle the restricted shares held by him/her following the principles specified above.

### **XIII. Management and Amendment to the Scheme**

(1) As the supreme governing body, the Company's general meeting of stockholders is responsible for reviewing and approving the Scheme. The general meeting of stockholders authorizes the Board of Directors, as the executing and managing body, to take charge of the execution and management of the Scheme:

1. The general meeting of stockholders authorizes the Board of Directors to review and approve changes made to the Scheme, except the following matters:

(1) Events that accelerate the exercise of rights or result in early lifting of the trading restrictions;

(2) Events that lower the exercise price or the Grant Price;

(3) Other circumstances stipulated by the SASAC and CSRC.

2. The general meeting of stockholders authorizes the Board of Directors to grant restricted shares to the Incentive Targets, and go through all the formalities required for the grant of the restricted shares, provided that the Company and the Incentive Targets meet the conditions for grant of restricted shares.

3. The general meeting of stockholders authorizes the Board of Directors to examine and determine as to whether the Company and the Incentive Targets meet the conditions for unlocking the restricted shares, and to go through all the formalities required for unlocking the shares for the Incentive Targets.

4. The general meeting of stockholders authorizes the Board of Directors to review and approve future restricted share incentive schemes, including but not limited to determining the Grant Date, Grant Price, earnings-related conditions for granting and unlocking restricted shares and share unlocking arrangements. The schemes shall be filed by the Board of Directors with SASAC.

5. The general meeting of stockholders authorizes the Board of Directors to adjust the number of restricted shares granted, Grant Price, the number of shares to be repurchased and the repurchase price based on relevant provisions of the Scheme, following a dividend payout, conversion of capital reserves into share capital, dividend distribution, stock split, reverse stock split, share allotment or placement of additional shares, as prescribed in the Scheme.

6. The general meeting of stockholders authorizes the Board of Directors to handle matters concerning unlocked restricted shares and those remaining to be unlocked based on relevant provisions of the Scheme, after exceptional circumstances prescribed in the Scheme occur to the Company or an Incentive Target.

7. The general meeting of stockholders authorizes the Board of Directors to decide as to whether earnings obtained by the Incentive Targets from unlocking the shares should be taken back or not based on relevant provisions of the Scheme.

8. The general meeting of stockholders authorizes the Board of Directors to conduct other types of management operations on the Scheme.

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The Board of Directors may authorize the Personnel and Remuneration Committee to handle certain matters related to the restricted shares depending on the circumstances actually involved, but the authorization shall be explicitly explained in the board resolution, and be submitted to the general meeting of stockholders for approval.

(ii) As the supervisory body of the Scheme, the Board of Supervisors is responsible to review the list of Incentive Targets, and to monitor as to whether the execution of the Scheme conforms to the requirements of relevant laws, regulations, departmental rules, normative documents and business rules of stock exchanges.

(iii) Amendments to the Scheme

While ensuring compliance with the foregoing requirements, the Board of Directors may amend the Scheme if it is deemed necessary, and the amendments shall be filed with SASAC in accordance with the laws and regulations. In the event of any discrepancies between the Scheme's provisions and requirements set in relevant laws, regulations or agreements or by a stock exchange, or a change in such requirements, requirements set in relevant laws, regulations or agreements or by a stock exchange shall prevail. Where, according to the requirements set in relevant laws, regulations or agreements or by a stock exchange, certain amendments to the Scheme are subject to the approval of the general meeting of stockholders, SASAC, CSRC or a stock exchange, the Board of Directors must obtain such approval before making the amendments to the Scheme.

In the case of Incentive Targets who have obtained restricted shares based on the Scheme, any amendment to, or suspension of, the Scheme shall not change or lessen their existing rights or obligations without their permissions.

(iv) Termination of the Scheme

If the Board of Directors deems it necessary, it may propose to the general meeting of stockholders to terminate the Scheme ahead of schedule during the validity period of the Scheme. If the general meeting of stockholders decides to terminate the Scheme ahead of schedule, the Company will not grant any restricted shares based on the Scheme. Unless otherwise specified, restricted shares granted prior to the termination of the Scheme shall remain valid, and continue to be unlocked in accordance with the Scheme.

#### **XIV. Accounting Treatment of Restricted Shares and the Impacts on the Company's Earnings**

(i) Accounting treatment of restricted shares

In accordance with "Accounting Standards for Business Enterprises No. 11 - Share-Based Payments", the Company adopts the following accounting method to measure and calculate the costs of the Scheme:

1. Accounting treatment on the grant date: upon receiving the share subscription payment from an Incentive Target, the Company records it as bank deposit, resell treasury stock based on the cost of the treasury stock granted, adjusts capital reserves - equity premium, and accrues liabilities corresponding to the repurchase obligations associated with the Scheme;

2. Accounting treatment during the lockup period: the Company adjusts the projected number of unlockable restricted shares based on relevant information updates on every balance sheet date before the restricted shares are unlocked, and records services provided by employees in each reporting period as costs and capital reserves

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- other capital reserves in line with the fair value of the restricted shares on the grant date. Costs of staff incentives incurred by the Scheme are disbursed as recurring profit or loss;

3. Accounting treatment on the lockup expiry date: on the lockup expiry date, if the restricted shares meet the conditions for lifting the trading restrictions, the amount recorded as capital reserves - other capital reserves is transferred to capital reserves - equity premium, and offset against the liabilities accrued against the repurchase obligations associated with the Scheme on the grant date. If the trading restrictions are not lifted for all or part of the restricted shares, and such shares are therefore invalidated or canceled, accounting treatment will be conducted on the shares actually repurchased. Related costs and expenses and the total owner's equity that have already been recognized will not be adjusted after the lockup expiry date.

(2) Method for determining the fair value of restricted shares

Cost of restricted shares per share = closing price of restricted shares on grant date - Grant Price.

(iii) Estimated impacts of the restricted share incentive scheme on the Company's earnings

Costs incurred by the Scheme are disbursed as administrative expenses. Judging by information currently available, without factoring in the positive effects of the Scheme on the Company's earnings, the amortization of the costs and expenses arising from the Scheme will affect the Company's net profits during the Scheme's validity period, but the effects will be limited. In view of the Scheme's positive effects on the Company's business operations and development in terms of stimulating the management's and business teams' enthusiasm, improving productivity, and lowering operating costs, the improvement in the Company's earnings resulting from the Scheme will outweigh the increase in costs.

## **XV. Annexes to this Announcement**

1. Phase IV Restricted A Share Incentive Scheme of China State Construction Engineering Corporation Limited (Draft)
2. Implementation and Performance Appraisal Measures for the Phase IV Restricted A Share Incentive Scheme of China State Construction Engineering Corporation Limited

The above is hereby announced.

The Board of Directors of China State Construction Engineering Corporation Limited  
September 17, 2020