
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to the action to be taken, 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 Red Star Macalline Group Corporation Ltd., you should at once hand this circular together with the form of proxy and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Red Star Macalline Group Corporation Ltd.

紅星美凱龍家居集團股份有限公司

(A sino-foreign joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1528)

**PROPOSED ESTABLISHMENT AND IMPLEMENTATION OF
EMPLOYEE STOCK OWNERSHIP PLAN
PROPOSED ESTABLISHMENT AND IMPLEMENTATION OF MEASURES FOR
MANAGEMENT OF THE EMPLOYEE STOCK OWNERSHIP PLAN
PROPOSED APPROVAL OF MATTERS IN RELATION TO
THE AUTHORIZATION TO THE BOARD
AND
NOTICE OF THE 2019 FIRST EGM**

A letter from the Board is set out on pages 1 to 7 of this circular. A notice convening the EGM to be held at 1:00 p.m. on Monday, 14 January 2019 at 2 Ballroom, Guoman Hotel Shanghai, Guoson Centre Office Building 1, No.388 Daduhe Road, Putuo District, Shanghai, PRC, is being dispatched to the Shareholders together with this circular.

If you intend to attend the EGM, please complete and return the reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than Tuesday, 25 December 2018.

Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the proxy form in accordance with the instructions printed thereon. The proxy form must be signed by you or your attorney duly authorised in writing or, in case of a legal person, must either be executed under its seal or under the hand of its director or other attorney duly authorised to sign the same. If the proxy form is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other document of authorisation, must be notarially certified.

In the case of joint holders of shares of the Company, only the holder whose name stands first in the register of members of the Company shall alone be entitled to vote at the EGM, either in person or by proxy in respect of such shares.

For H Share Shareholders, please return the proxy form together with any documents of authority to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. For A Share Shareholders, please return the proxy form together with any documents of authority to the headquarters of the Company in the PRC at 9/F Red Star World Trade Building, No. 598, Nujiang Road North, Putuo District, Shanghai, PRC as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

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

DEFINITIONS

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

“A Share(s)”	the ordinary share(s) issued by the Company with a nominal value of RMB1.0 each, listed on the Shanghai Stock Exchange and traded in RMB
“A Share Shareholder(s)”	the holder(s) of A Share(s)
“Articles of Association”	the articles of association of the Company
“Asset Management Institution”	a professional management institution with asset management qualifications
“Board”	the board of directors of the Company
“Company”	Red Star Macalline Group Corporation Ltd. (紅星美凱龍家居集團股份有限公司), a sino-foreign joint stock company incorporated in the PRC with limited liability, whose H Shares are listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 1528)
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Draft of the Employee Stock Ownership Plan”	the First Phase of the Employee Stock Ownership Plan of Red Star Macalline Group Corporation Ltd. (Draft)
“EGM”	the extraordinary general meeting of the Company to be convened and held on 14 January 2019
“Employee Stock Ownership Plan” or “Stock Ownership Plan”	the First Phase of the Employee Stock Ownership Plan of Red Star Macalline Group Corporation Ltd.
“Holders”	employees of the Company who participate in the Employee Stock Ownership Plan, including the management and the core staff of the Company and its subsidiaries (excluding directors, supervisors, Senior Management and employees of the Company who have indirectly held shares of the Company through stock ownership platform)

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	means overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.0 each in the share capital of the Company, which is/are listed on The Stock Exchange of Hong Kong Limited and traded in HK\$
“H Share Shareholder(s)”	the holder(s) of the H Share(s)
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Management Committee”	management committee of the Employee Stock Ownership Plan
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the A Share(s) and the H Share(s)
“Shareholder(s)”	the A Share Shareholder(s) and the H Share Shareholder(s) of the Company
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust Scheme”	a trust scheme established by a professional institution with asset management qualifications entrusted upon establishment of the Employee Stock Ownership Plan
“%”	per cent.

LETTER FROM THE BOARD



Red Star Macalline Group Corporation Ltd.

紅星美凱龍家居集團股份有限公司

(A sino-foreign joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1528)

Executive Directors:

Mr. Che Jianxing
Ms. Che Jianfang
Mr. Jiang Xiaozhong
Mr. Guo Binghe

Registered office in the PRC:

Suite F801, 6/F
No. 518, Linyu Road
Pudong New District
Shanghai
PRC

Non-executive Directors:

Ms. Chen Shuhong
Mr. Xu Guofeng
Mr. Joseph Raymond Gagnon
Mr. Zhang Qiqi

Principal place of business

in Hong Kong:
31/F, Tower 2
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Independent non-executive Directors:

Mr. Lee Kwan Hang
Mr. Qian Shizheng
Mr. Wang Xiao
Ms. Zhao Chongyi

Dear Sir or Madam,

**PROPOSED ESTABLISHMENT AND IMPLEMENTATION OF
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AND
NOTICE OF THE 2019 FIRST EGM**

LETTER FROM THE BOARD

1. INTRODUCTION

The purpose of this circular is to provide you with the notice of the EGM, together with information of the resolutions to be considered at the EGM, to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the EGM.

2. TO CONSIDER AND APPROVE IMPLEMENTATION OF THE EMPLOYEE STOCK OWNERSHIP PLAN

For the purpose of further improving the corporate governance of the Company, establishing the risk-bearing and benefit-sharing mechanism among employees, company and Shareholders, attracting and retaining outstanding management talents and core staff of the business, effectively stimulating the initiative of the management and technical personnel and facilitating the Company's long-term, sustainable, and healthy development, the Company intends to implement an employee stock ownership plan and formulate the Draft of the Employee Stock Ownership Plan and its summary in accordance with the requirements under the relevant laws, administrative regulations, rules, normative documents such as Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and the Guiding Opinions on the Implementation of the Pilot Program on Employee Stock Ownership Plans by Listed Companies, and the Articles of Association, as well as by taking into consideration the actual condition of the Company. Full text of Employee Stock Ownership Plan is set out in Appendix I to this circular. A list of particular employees participating in the Employee Stock Ownership Plan will be determined before the shareholders' general meeting.

A. Holders' Meeting and Management Committee

Holdings' meeting is the highest internal management authority for the Employee Stock Ownership Plan. Management Committee is elected by the Employee Stock Ownership Plan. The Holdings may choose to vote for, against or abstain in any resolution. The Holdings shall select one of the aforesaid voting options, and any vote from Holdings with no option or more than one option indicated will be deemed as abstained. A proposed resolution shall only become a valid resolution after being passed by more than half (or more than two-thirds of the portion of units required according to the relevant requirements) of portion of units held by the Holdings attending the Holdings' Meeting. The Management Committee shall exercise Shareholders' rights of the shares held under the Employee Stock Ownership Plan on behalf of all Holdings or authorize the Asset Management Institution to exercise Shareholders' rights.

LETTER FROM THE BOARD

When the details of the Management Committee are determined, the Company will review whether the Management Committee will be considered as the connected person pursuant to Chapter 14A of the Listing Rules and abide by the applicable requirements when appropriate (including the requirements for resolution involved connected transactions avoiding voting). The Company will make sure that it will comply with the public float requirement under the Listing Rules.

B. Management of the Shares during the Terms of the Stock Ownership Plan

Upon approval of the Draft of the Employee Stock Ownership Plan by the shareholders' general meeting of the Company, the Employee Stock Ownership Plan will be entrusted to a professional institution with asset management qualifications for management by establishing the Trust Scheme. Within six months after the approval of the Employee Stock Ownership Plan by the EGM, the Trust Scheme obtains Shares of the Company through purchase from the secondary market or other means as permitted under the laws and regulations.

The term of the Employee Stock Ownership Plan shall be 24 months, commencing from the date when the Draft of the Employee Stock Ownership Plan is considered and approved at the shareholders' general meeting of the Company and the announcement on the registration of the Underlying Shares purchased in the final transaction under the Trust Scheme. When the term of the Employee Stock Ownership Plan expires or it is terminated in advance, the Holders' Meeting shall authorize the Management Committee to wind up the plan after deduction of relevant taxes and fees pursuant to laws, and arrange for distribution according to the units held by the Holders within 30 working days beginning from the expiry date or termination date.

The lock-up period of the Underlying Shares allotted to the Trust Scheme shall be 12 months, commencing from the date when the Draft of the Employee Stock Ownership Plan is considered and approved at the shareholders' general meeting of the Company and the announcement on the registration of the Underlying Shares purchased in the final transaction under the Trust Scheme. The Management Committee will, within 12 months after the expiry of the lock-up period, be entitled to authorize the Asset Management Institution to sell the purchased Shares of the Company in accordance with arrangements of the Employee Stock Ownership Plan and the prevailing market conditions.

LETTER FROM THE BOARD

C. Vesting conditions

The Holders of the Employee Stock Ownership Plan are the management and the core staff of the Company and its subsidiaries (excluding directors, supervisors, Senior Management of the Company and employees who have indirectly held shares of listed company through Stock Ownership Platform). All participants are required to enter into a labour contract or employment contract with the Company or its subsidiaries under the consolidated statement during the valid period of the Employee Stock Ownership Plan.

D. Listing Rules implications

Upon establishment of the Employee Stock Ownership Plan, professional institutions will be entrusted to set up a trust scheme for trustee management. The relevant trust will be established for a wide scope of participants and there will be no connected persons in the participants of the Stock Ownership Plan. Therefore, there will be no connected persons implication under Chapter 14A of the Listing Rules and the trustees will not constitute associates of connected persons of the Company.

The above authorisation shall be effective on and from the date when the Shareholders at the EGM approve the resolution to the date when the Employee Stock Ownership Plan is terminated.

The proposal shall be passed at the EGM as an ordinary resolution. Employee Stock Ownership Plan is subject to approval by domestic and overseas regulatory authorities.

It is hereby submitted to the EGM for consideration and approval by Shareholders.

3. TO CONSIDER AND APPROVE IMPLEMENTATION OF MEASURES FOR MANAGEMENT OF THE EMPLOYEE STOCK OWNERSHIP PLAN

For the purpose of standardizing the implementation of the Employee Stock Ownership Plan and ensuring its effective implementation, the Company formulates the measures for management of the Employee Stock Ownership Plan in accordance with the requirements under the relevant laws, administrative regulations, rules, normative documents such as Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and the Guiding Opinions on the Implementation of the Pilot Program on Employee Stock Ownership Plans by Listed Companies, and the Articles of Association.

LETTER FROM THE BOARD

The proposal shall be passed at the EGM by an ordinary resolution. The implementation of the measures for management of the Employee Stock Ownership Plan is subject to the recognition of domestic and overseas regulatory authorities.

It is hereby submitted to the EGM for consideration and approval by the Shareholders.

4. TO CONSIDER AND APPROVE MATTERS IN RELATION TO THE AUTHORIZATION TO THE BOARD

In order to ensure the successful implementation of the Employee Stock Ownership Plan, the Board proposes to be authorized by the shareholders' general meeting to handle all matters in connection with the Employee Stock Ownership Plan. The specific authorizations are set out below:

- (1) To authorize the Board to draft and revise the Employee Stock Ownership Plan;
- (2) To authorize the Board to implement the Employee Stock Ownership Plan;
- (3) To authorize the Board to handle the amendment and termination of the Employee Stock Ownership Plan, including but not limited to disqualification of the Holders and termination of the Stock Ownership Plan in advance as stipulated in the Employee Stock Ownership Plan;
- (4) To authorize the Board to make decisions on the extension and the termination in advance of the term of the Employee Stock Ownership Plan;
- (5) To authorize the Board to make corresponding adjustments to the Employee Stock Ownership Plan according to new policies in case of any changes in the laws, regulations and policies during the implementation period upon the consideration and approval of the Employee Stock Ownership Plan at the shareholder's general meeting; and to authorize the Board to extend the subscription period of the Employee Stock Ownership Plan where the Shares of the Company are unable to be purchased under the Employee Stock Ownership Plan within the prescribed timeframe due to the suspension or sensitive period of the Shares of the Company during the implementation period;
- (6) To authorize the Board to handle all matters in connection with the lock-up, lock-out and allocation of the purchased Shares under the Employee Stock Ownership Plan;
- (7) To authorize the Board to determine or amend the Asset Management Institution of the Employee Stock Ownership Plan and sign relevant agreements;

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- (8) To authorize the Board to draft and sign relevant agreements and documents relating to the Employee Stock Ownership Scheme;
- (9) To authorize the Board to handle other necessary matters required for the implementation of the Employee Stock Ownership Scheme, except for the rights to be exercised by the shareholders' general meeting as explicitly stipulated in relevant documents.

The above authorisation shall be effective on and from the date of approval of the resolution at the EGM of the Company to the termination date of the Employee Stock Ownership Plan.

The proposal shall be passed at the EGM as an ordinary resolution.

It is hereby submitted to the EGM for consideration and approval by Shareholders.

5. THE 2019 FIRST EGM

A notice of the EGM to be held at 1:00 p.m. on Monday, 14 January 2019 at 2 Ballroom, Guoman Hotel Shanghai, Guoson Centre Office Building 1, No.388 Daduhe Road, Putuo District, Shanghai, PRC, is set out on pages 37 to 38 of this circular.

A reply slip and a proxy form to be used at the EGM are also enclosed herein and published on the website of the Stock Exchange (www.hkexnews.com.hk). Holders of H Shares who intend to appoint a proxy to attend the EGM shall complete, sign and return the proxy form in accordance with the instructions printed thereon.

For Holders of H Shares, the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM in order for such documents to be valid.

Holders of H Shares who intend to attend the EGM must complete the reply slip and return it to the office of the H Share Register of the Company not later than 20 days before the date of the EGM, i.e. no later than Tuesday, 25 December 2018.

LETTER FROM THE BOARD

Pursuant to the Articles of Association, for the purpose of holding the EGM, the register of members of H Shares will be closed from Saturday, 15 December 2018 to Monday, 14 January 2019 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares whose names appear on the H Share Register of the Company on Friday, 14 December 2018 after close of business are entitled to attend and vote at the EGM. Please refer to the A share announcement as published by the Company on the website of the Shanghai Stock Exchange for relevant information in respect of the holders of A Shares attending the EGM.

In order to attend the EGM, holders of H Shares shall lodge all transfer documents together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company's H Share Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 14 December 2018.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a shareholders' general meeting must be taken by poll except where the chairman, 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. Therefore, the resolutions proposed at the EGM will be voted by poll.

6. RECOMMENDATION

The Directors consider that the above new resolutions to be proposed are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the above resolutions to be proposed at the EGM.

By order of the Board
Red Star Macalline Group Corporation Ltd.
GUO Binghe
Company Secretary

**FIRST PHASE OF THE EMPLOYEE STOCK OWNERSHIP PLAN
OF
RED STAR MACALLINE GROUP CORPORATION LTD. (DRAFT)**

November 2018

STATEMENT

The Company and all members of the board of directors hereby represent that this Employee Stock Ownership Plan is free from false or misleading statements, or material omissions, and accept several and joint responsibilities for the truthfulness, accuracy and completeness of its contents.

RISK WARNING

- (I) The First Phase of the Employee Stock Ownership Plan of Red Star Macalline Group Corporation Ltd. (hereinafter referred to as “**Macalline**” or the “**Company**”) shall be implemented upon approval by the shareholders’ general meeting of the Company. There is uncertainty as to whether the Employee Stock Ownership Plan will be approved at the shareholders’ general meeting of the Company;
- (II) Upon establishment, the Employee Stock Ownership Plan will be entrusted to a professional institution for management, while there is uncertainty as to whether the scale and objectives of the Employee Stock Ownership Plan can be achieved as expected;
- (III) The detailed source of funds, proportion of contribution and implementation plan of the Employee Stock Ownership Plan are preliminarily decided, and therefore there exists uncertainty;
- (IV) In the event of low level of subscription by employees, there is uncertainty as to whether the Employee Stock Ownership Plan will be established;
- (V) The contract for the Trust Scheme has not been officially signed, and therefore there exists uncertainty;
- (VI) The share price is subject to various complex factors, such as the operating results of the Company, macroeconomic cycle, international/domestic political and economic situations, and investor psychology etc. Therefore, trading in shares is an investment activity with certain risks, and investors are advised to be fully prepared for this;
- (VII) Investors are advised to exercise caution when dealing in the shares of the Company.

SPECIAL NOTICE

The abbreviations used in this part shall have the same meanings as defined in the “Definitions”.

1. The First Phase of the Employee Stock Ownership Plan (hereinafter referred to as “**Employee Stock Ownership Plan**” or the “**Stock Ownership Plan**”) of Red Star Macalline Group Corporation Ltd. is formulated in accordance with the requirements of the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China and the Guiding Opinions on the Implementation of Pilot Program on Employee Stock Ownership Plan by Listed Companies, relevant laws, administrative regulations, rules, normative documents, and the Articles of Association.
2. The participation in the Employee Stock Ownership Plan by the employees are based on the principles of legal compliance, voluntary participation, self-bearing of risk, etc. There is no apportionment, mandatory distribution or other circumstances in which employees are forced to participate in the Employee Stock Ownership Plan.
3. The personnel entitled to the Stock Ownership Plan include management and core staff of the Company and its subsidiaries (excluding directors, supervisors, Senior Management and employees of the Company who have indirectly held company shares through Stock Ownership Platform), the total number of which shall not be more than 1,500. The specific number and list of participants will be determined according to the actual payment made by employees.
4. The raised funds of the Employee Stock Ownership Plan shall not exceed RMB110 million in total, and the funds shall come from the employees’ lawful remuneration, self-raised funds and other sources as permitted under the laws and regulations.
5. Upon establishment, the Employee Stock Ownership Plan will be entrusted to a professional institution with asset management qualifications for management by establishing a trust scheme which complies with the laws and policies (hereinafter referred to as the “**Trust Scheme**”). The Trust Scheme will primarily invest in the ordinary A shares of Macalline (hereinafter referred to as the “**Underlying Shares**”, stock code: 601828) and cash assets etc.
6. The raised funds of the Trust Scheme shall not exceed RMB220 million in total, with “share” as the unit for subscription and RMB1 for each share. There are preference units and deferred units under the Trust Scheme, the numbers of which are determined based on the ratio of not exceeding 1:1. All the deferred units subscribed for by the Employee Stock Ownership Plan shall not be more than RMB110 million and the rest are preference units, jointly constituting the Trust Scheme of not more than RMB220 million.
7. Source of shares of the Employee Stock Ownership Plan: the ordinary A shares of Macalline obtained through acquisition from the secondary market or other means as permitted under the laws and regulations.

8. The total number of Shares of the Company held under this Employee Stock Ownership Plan shall not be more than 1% of the total share capital of the Company. The total number of Underlying Shares held by any Holder according to his/her share in the Employee Stock Ownership Plan shall not be more than 0.1% of the total share capital of the Company. The total number of shares held under the Employee Stock Ownership Plan excludes the shares acquired before the initial public offering of the Company, the shares acquired independently from the secondary market and the shares obtained through equity incentives. There are still some uncertainties concerning the final situation of Underlying Shares purchasing. The final number of Underlying Shares held by any Holder shall be subject to the practical implementation.
9. Term and lock-up period of the Employee Stock Ownership Plan: The term of the Employee Stock Ownership Plan shall be 24 months and the lock-up period of the obtained stock would be 12 months with effect from the date when the Draft of the Employee Stock Ownership Plan is considered and approved by the shareholders' general meeting of the Company and when the Company announces that the latest purchased Underlying Shares are transferred and registered under the name of the Holder under the Trust Scheme. The Employee Stock Ownership Plan can either be terminated upon expiry of its term, or be extended upon expiry. The term of the Employee Stock Ownership Plan can be extended upon approval by more than two-thirds (inclusive) of the units held by Holders at a Holders' Meeting, and consideration and approval by the board of directors of the Company.
10. Issues of finance, accounting treatment and the respective tax expenses, etc., in relation to the implementation of the Employee Stock Ownership Plan will be carried out according to the relevant policies of finance, accounting and tax. Relevant individual income tax payable regarding the implementation of the Stock Ownership Plan shall be borne by employees themselves.
11. After consideration and approval by the board of directors of the Company, a notice will be sent out to convene and hold a shareholders' general meeting for the purpose of considering the Employee Stock Ownership Plan. Voting at the shareholders' general meeting regarding the Employee Stock Ownership Plan will be taken by way of poll, both onsite and via internet. The Employee Stock Ownership Plan shall be implemented upon approval at the shareholders' general meeting of the Company.
12. The controlling shareholder of the Company, Red Star Macalline Holding Group Company Limited will provide the participants of the Employee Stock Ownership Plan with minimum-guarantee commitment to their capital contribution. Holders of the Employee Stock Ownership Plan shall waive their voting rights of the Shares of the Company indirectly held due to participation of the Employee Stock Ownership Plan, and the Employee Stock Ownership Plan maintains independence from the controlling shareholder of the Company, Red Star Macalline Holding Group Company Limited, in matters related to its operations, therefore the Employee Stock Ownership Plan does not constitute an acting-in-concert relationship with Red Star Macalline Holding Group Company Limited, the controlling shareholder of the Company.
13. The shareholding structure will remain in compliance with the listing requirements after the implementation of the Employee Stock Ownership Plan.

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APPENDIX I FULL TEXT OF THE EMPLOYEE STOCK OWNERSHIP PLAN

DEFINITIONS

Unless otherwise specified, the following abbreviations shall have the following meanings in this document:

“Macalline” or “Company”	Red Star Macalline Group Corporation Ltd.
“Employee Stock Ownership Plan”, “Stock Ownership Plan” or the “Plan”	the First Phase of the Employee Stock Ownership Plan of Red Star Macalline Group Corporation Ltd.
“Draft of the Employee Stock Ownership Plan”	the First Phase of the Employee Stock Ownership Plan of Red Star Macalline Group Corporation Ltd. (Draft)
“Trust Scheme”	a trust scheme established by a professional institution with asset management qualifications entrusted upon establishment of the Employee Stock Ownership Plan
“Holder(s)”	employees of the Company who participate in the Employee Stock Ownership Plan, including the management and the core staff of the Company and its subsidiaries (excluding directors, supervisors, Senior Management and employees of the Company who have indirectly held shares of the Company through Stock Ownership Platform)
“Stock Ownership Platform”	Shanghai Jinghai Assets Management Center (Limited Partnership), Shanghai Hongmei Investment Management Center (Limited Partnership), Shanghai Kaixing Business Administration Center (Limited Partnership)
“Holders’ Meeting”	meeting of holders of the Employee Stock Ownership Plan
“Senior Management”	the senior management as stipulated in the Articles of Association of Red Star Macalline Group Corporation Ltd.
“Asset Management Committee”	asset management committee of the Employee Stock Ownership Plan
“Assets Management Institution”	a professional asset management institution with asset management qualifications
“Shares of Macalline” or “Shares of the Company”	ordinary A shares of Macalline
“Underlying Shares”	ordinary A shares of Macalline purchased and held by virtue of the Employee Stock Ownership Plan through legal means
“CSRC”	China Securities Regulatory Commission
“RMB” or “RMB0’000”	Renminbi, Renminbi0’000

“Articles of Association”	the Articles of Association of Red Star Macalline Group Corporation Ltd.
“Company Law”	the Company Law of the People’s Republic of China
“Securities Law”	the Securities Law of the People’s Republic of China
“Guiding Opinions”	the Guiding Opinions on the Implementation of Pilot Program on Employee Stock Ownership Plan by Listed Companies

Number rounding may result in discrepancy between the total amount and the aggregated amount of the corresponding sub-items.

I. PURPOSES OF THE EMPLOYEE STOCK OWNERSHIP PLAN

This Draft of the Employee Stock Ownership Plan is formulated in accordance with the requirements under the Company Law, the Securities Law, the Guiding Opinions, of the relevant laws administrative rules, regulations, normative documents, and the Articles of Association.

Employees participate in and comply with the Employee Stock Ownership Plan voluntarily and lawfully. The purposes of holding Shares of the Company are:

- (I) To establish and improve the benefit-sharing mechanism between the employees and the shareholders;
- (II) To further improve the corporate governance of the Company, enhance the cohesion of the employees and corporate competitiveness, and promote the Company’s long-term, sustainable and healthy development;
- (III) To effectively mobilize the employees’ sense of responsibility towards the Company, attract and retain outstanding management talents and core calibers, which in turn will further enhance employees’ cohesion and the vitality of the Company.

II. BASIC PRINCIPLES OF THE EMPLOYEE STOCK OWNERSHIP PLAN**1. Legal compliance**

The Company implements the Employee Stock Ownership Plan and follows the procedures in strict compliance with relevant requirements under the laws and administrative rules, which require the Company to disclose true, accurate and complete information in a timely manner. No person is permitted to engage in insider trading, manipulation of the securities market, and other fraudulent actions through the Employee Stock Ownership Plan.

2. Voluntary participation

The implementation of the Employee Stock Ownership Plan is subject to the discretionary decisions of the Company, and the voluntary participation of the employees. The Company is not permitted to force the employees to participate in the Employee Stock Ownership Plan in such forms as apportionment and mandatory distribution.

3. Voluntary risk undertaking

The participants under the Employee Stock Ownership Plan will undertake their own risks for gains or losses, and their equity rights rank *pari passu* with those of other investors.

III. BASIS FOR DETERMINATION AND SCOPE OF HOLDERS OF THE EMPLOYEE STOCK OWNERSHIP PLAN**(I) Basis for Determination of Holders of the Employee Stock Ownership Plan**

The Holders were determined according to the relevant provisions of relevant laws, regulations and rules including the Company Law, the Securities Law, the Guiding Opinions as well as the Articles of Association. The participation in the Employee Stock Ownership Plan by the employees are based on the principles of legal compliance, voluntary participation, self-bearing of risk, etc.

(II) Scope of Holders of Employee Stock Ownership Plan

The Holders of the Employee Stock Ownership Plan are the management and the core staff of the Company and its subsidiaries (excluding directors, supervisors, Senior Management and employees of the Company who have indirectly held shares of the Company through Stock Ownership Platform).

Unless otherwise stipulated in Item (IV) under Section 10 of the Draft of the Employee Stock Ownership Plan, all participants are required to enter into a labour contract or a service contract with the Company or subsidiaries of the Company during the term of the Employee Stock Ownership Plan.

(III) List of Holders of Employee Stock Ownership Plan and Allocation of Units

The total funds under the Employee Stock Ownership Plan upon establishment shall not be more than RMB110 million, and shall be subscribed for by “unit”, with RMB1.00 for each unit. The Employee Stock Ownership Plan has a maximum of 110 million units. The specific number of units held by a Holder of the Employee Stock Ownership Plan is subject to his/her actual payment upon final confirmation.

The total number of persons entitled to the Employee Stock Ownership Plan shall not be more than 1,500. The specific number and list of participants will be selected by the Company and will be determined according to the actual payment made by employees. Set out below is the share of interests held by the Holders and percentage to the Stock Ownership Plan:

Holder	Share of interests held <i>(in 0'000 shares)</i>	Percentage to the Stock Ownership Plan <i>(%)</i>
Other employees of the Company and the management and core staff of its subsidiaries (not exceeding 1,500)	11,000	100.00%
Total	11,000	100.00%

Note: The final number of units subscribed for by a participant is subject to his/her actual payment.

The total number of shares held under this Employee Stock Ownership Plan shall not exceed 1% of the total share capital of the Company. The total number of Underlying Shares held by any Holder according to his/her share interests in the Employee Stock Ownership Plan shall not exceed 0.1% of the total share capital of the Company.

IV. SOURCE OF FUNDS, SOURCE OF SHARES AND SIZE OF EMPLOYEE STOCK OWNERSHIP PLAN**(I) Source of Funds**

The funds for participation in the Employee Stock Ownership Plan shall come from the employees' lawful remuneration, self-raised funds and other sources as permitted under the laws and regulations.

The Employee Stock Ownership Plan shall raise funds not exceeding RMB110 million in total, with "share" as the unit for subscription and RMB1.00 for each share.

The total number of Shares of the Company held by any Holder according to his/her share in the Employee Stock Ownership Plan shall not exceed 0.1% of the total share capital of the Company. The specific number of units held by a Holder of the Employee Stock Ownership Plan is subject to his/her actual payment upon final confirmation. Holders of the Employee Stock Ownership Plan shall pay the subscription amount in full and in due course according to the subscribed units, and the payment time will be arranged by the Company. A holder who fails to pay the subscription amount in due course and in full will automatically lost his/her right for subscription.

(II) Source of Shares

Upon approval of the Draft of the Employee Stock Ownership Plan by the shareholders' general meeting of the Company, the Employee Stock Ownership Plan will be entrusted to a professional institution with asset management qualifications for management by establishing the Trust Scheme. The proceeds raised under the Trust Scheme shall not exceed RMB220 million in maximum with "share" as the unit for subscription and RMB1 for each share. There are preference units and deferred units under the Trust Scheme, the numbers of which are determined based on the ratio of not exceeding 1:1. The Employee Stock Ownership Plan will subscribe for the units of such deferred units of the Trust Scheme in full with total amounts of not exceeding RMB110 million and others are preference units.

Within six months upon consideration and approval of the Employee Stock Ownership Plan by the shareholders' general meeting, the Trust Scheme obtain and held Shares of Macalline through purchase from the secondary market or other means as permitted under the laws and regulations and will not purchase shares of other companies.

(III) Size

Since there exists uncertainty as to the date, price and funds for the purchase of shares allotted to the Trust Scheme due to the implementation of the Employee Stock Ownership Plan and market conditions, the final number of the Underlying Shares is uncertain.

V. TERM, LOCK-UP PERIOD AND MANAGEMENT MODE OF THE EMPLOYEE STOCK OWNERSHIP PLAN

(I) Term of the Employee Stock Ownership Plan

1. The term of the Employee Stock Ownership Plan is 24 months, commencing from the date when the Draft of the Employee Stock Ownership Plan is considered and approved at the shareholders' general meeting of the Company and the announcement on the registration of the Underlying Shares purchased in the final transaction under the Trust Scheme. The Employee Stock Ownership Plan will be automatically terminated if the Scheme is not extended upon the expiry of the term.
2. In respect of the Trust Scheme, shares shall be purchased through the secondary market according to the arrangements of the Employee Stock Ownership Plan within six months after the Employee Stock Ownership Plan is considered and approved at the shareholders' general meeting.
3. After the lock-up period of the Employee Stock Ownership Plan expires, if the assets held by the Employee Stock Ownership Plan are all monetary funds, the Employee Stock Ownership Plan can be terminated in advance.
4. If the Shares held are still not fully sold or transferred to the Holders of the Employee Shareholding Plan, the term of the Employee Stock Ownership Plan may be extended within one month before the expiry of the term of the Employee Stock Ownership Plan, as agreed by more than two-thirds of the number of units held by the Holders attending the Holders' Meeting and considered and approved by the board of directors of the Company.

(II) Lock-up Period of the Employee Stock Ownership Plan

1. The lock-up period of the Underlying Shares allotted to the Trust Scheme shall be 12 months, commencing from the date when the Draft of the Employee Stock Ownership Plan is considered and approved at the shareholders' general meeting of the Company and the announcement on the registration of the Underlying Shares purchased in the final transaction under the Trust Scheme. The Management Committee will, within 12 months after the expiry of the lock-up period, entitle to authorize the Asset Management Institution to sell the purchased Shares of the Company in accordance with arrangements of the Employee Stock Ownership Plan and the prevailing market conditions.

The Underlying Shares allotted to the Trust Scheme and shares derived from stock dividend distribution and capitalization of capital reserves by the listed company shall also comply with the above share lock-up arrangements.

2. All relevant entities in the Employee Stock Ownership Plan and the Trust Scheme must strictly abide by the market trading rules and abide by the requirement that no shares can be traded during the information sensitive period. All parties must not exploit the Employee Stock Ownership Plan for other security frauds such as insider trading and market manipulation.

The aforementioned sensitive period refers to:

- (1) 60 days prior to the announcement of the Company's annual reports, including the date of the announcement of the Company's annual report or, the last day of the financial year to the date of the announcement of Company's annual report (the shorter one prevails);
- (2) 30 days prior to the review of the announcement of the interim report or the periodical report, including the date of announcement of the interim report or the periodical report or, the date end of the related quarter or the half year to the date end of the periodical announcement of the Company (the shorter one prevails);
- (3) ten days prior to the release of the Company's results preview or preliminary report;
- (4) The period starting from the date when a material issue, which may significantly affect the Company's share price, occurs or is in the process of decision-making to two trading days after the issue being disclosed in accordance with laws;
- (5) Other periods as stipulated by the stock exchange.

(III) Management Institution and Management Mode of the Employee Stock Ownership Plan

The Employee Stock Ownership Plan will be managed by a professional institution with asset management qualifications entrusted by the Company, with the Holders' Meeting as the highest internal management authority. Holders' Meeting consists of all Holders of the Employee Stock Ownership Plan. A Management Committee will be elected and authorized by the Holders' Meeting as the manager to take charge of the daily management of the Employee Stock Ownership Plan (including but not limited to reducing the shares of the Company held under the Employee Stock Ownership Plan upon the expiry of the lock-up period, distributing gains and cash assets to the Holders on behalf of the Employee Stock Ownership Plan, etc.), and exercise the power of shareholder on behalf of the Holders of the Employee Stock Ownership Plan or the authorized capital management institution, and protect the legitimate interests of the Holders of the Employee Stock Ownership Plan. The board of directors of the Company shall be responsible for drafting and revising the Employee Stock Ownership Plan, and shall deal with other matters related to the Employee Stock Ownership Plan with the scope of authorization as granted by the shareholders' general meeting.

VI. PARTICIPATION IN FINANCING ARRANGEMENTS OF THE COMPANY BY THE EMPLOYMENT STOCK OWNERSHIP SCHEME WITHIN THE TERM

When the Company raises funds through placing of shares, issue of new shares, issue of convertible bonds or other financing methods at any time within the term of the Employee Stock Ownership Plan, the Asset Management Institution and the Management Committee will decide whether to participate in such financing arrangements and the financing solutions and will submit the same to the Holders' Meeting for consideration.

VII. RIGHTS AND OBLIGATIONS OF THE COMPANY AND HOLDERS**(I) Rights and Obligations of the Company****1. Rights of the Company**

- (1) Supervise the operation of assets manager and safeguard the interests of Holders;
- (2) Dispose of Holders' interests in accordance with relevant provisions under "X. Amendment, Termination of Employee Stock Ownership Plan and Disposal of Holders' Interests" under the Stock Ownership Plan;
- (3) Other rights as specified by laws, administrative regulations and the Employee Stock Ownership Plan.

2. Obligations of the Company

- (1) Discharge the obligation of information disclosure in relation to the Employee Stock Ownership Plan in an authentic, accurate, complete and prompt way;
- (2) Open or cancel securities trading account for the Employee Stock Ownership Plan in accordance with relevant regulations;
- (3) Other obligations as specified by laws, administrative regulations and the Employee Stock Ownership Plan.

(II) Rights and Obligations of Holders**1. Rights of Holders**

- (1) Be entitled to the interests in assets under the Employee Stock Ownership Plan to the extent of the number of shares of the Employee Stock Ownership Plan held by them;
- (2) Attend the Holders' Meeting and exercise corresponding voting rights in person or by proxy;
- (3) Supervise the management of the Employee Stock Ownership Plan and propose suggestions or inquiry thereon;
- (4) Guaranteed payment commitment in relation to the capital contribution shall be given by the controlling shareholder of the Company, being Red Star Macalline Holding Group Company Limited., to the employees participating in the Employee Stock Ownership Plan;
- (5) Other rights as specified by laws, administrative regulations and the Employee Stock Ownership Plan.

2. Obligations of Holders

- (1) Comply with relevant provisions under laws, administrative regulations, department rules or the Employee Stock Ownership Plan;
- (2) Pay subscription proceeds in accordance with the number of shares and method of which the shares were subscribed by them under the Employee Stock Ownership Plan;
- (3) Share the investment risk in relation to the Employee Stock Ownership Plan to the extent of the number of shares of the Employee Stock Ownership Plan held by them;
- (4) Abide by the measures for management of the Employee Stock Ownership Plan;

- (5) Within the term of the Employee Stock Ownership Plan, the units of the Employee Stock Ownership Plan held by the Holders shall not be transferred, withdrawn, guaranteed, used for debts repayment or be subject to other similar disposals;
- (6) Within the term of the Employee Stock Ownership Plan, the Holders shall not require the distribution of the assets of the Employee Stock Ownership Plan;
- (7) Waive the voting rights of the Shares of the Company indirectly held due to the participation in the Employee Stock Ownership Plan;
- (8) Other rights as specified by laws, administrative regulations and the Employee Stock Ownership Plan.

VIII. MANAGEMENT MODE OF THE EMPLOYEE STOCK OWNERSHIP PLAN

(I) Holders' Meeting

- 1. Holders' Meeting is the internal management authority of the Employee Stock Ownership Plan. All Holders are entitled to attend and vote at the Holders' Meeting in person or by proxy. The expenses of travel, board and lodging, etc. incurred by Holders and their proxy to attend the Holders' Meeting shall be borne by Holders.
- 2. The following matters shall be considered and discussed at the Holders' Meeting:
 - (1) Election and removal of any members of the Management Committee;
 - (2) Amendment, termination and extension of the duration of the Employee Stock Ownership Plan;
 - (3) the Management Committee shall discuss the concrete proposal on financing of the Company through placing of shares, issue of new shares, issue of convertible bonds or other financing methods within the duration of the Employee Stock Ownership Plan and submit the proposal to the Holders' Meeting for consideration;
 - (4) Amendment to the measures for management of the Employee Stock Ownership Plan;
 - (5) Authorization to the Management Committee to supervise the daily management of the Employee Stock Ownership Plan;

- (6) Authorization to the Management Committee or Asset Management Institution to exercise shareholders' rights;
 - (7) Authorization to the Management Committee to choose or replace Asset Management Institution; develop or amend relevant administrative rules;
 - (8) Authorization to the Management Committee to be responsible for collaborating with Asset Management Institution;
 - (9) Other matters that are considered as necessary by the Management Committee for consideration at the Holders' Meeting.
3. The first Holders' Meeting shall be convened and presided over by the secretary to the board of directors of the Company, and subsequent Holders' Meetings shall be convened by the Management Committee and presided over by the officer of the Management Committee. When the officer of the Management Committee is unable to perform his duties, he/she shall appoint a member of the Management Committee to preside over the meeting.
4. To convene a Holders' Meeting, the Management Committee shall send out a notice of meeting in writing 5 days prior to the meeting to all Holders by direct delivery, post, facsimile, electronic mail or other means. The written notice of meeting shall at least include the following details:
- (1) Time and venue of the meeting;
 - (2) Way of convening the meeting;
 - (3) Proposed matters to be considered at the meeting;
 - (4) Convener and chairman of the meeting and the proposer(s) of extraordinary meeting and his/her (their) written proposals;
 - (5) Meeting materials required for voting;
 - (6) Requirements for the Holders to attend the meeting in person or assign other Holders to attend the meeting on their behalf;
 - (7) Contact person and contact information;
 - (8) Date of issuance of the notice.

In case of any emergency, a Holders' Meeting can be convened by a verbal notice. The verbal meeting notice shall at least include the above points (1), (2) and an explanation on the emergency and necessity to convene a Holders' Meeting as soon as possible.

A Holders' Meeting can be convened through teleconference, video conference or similar correspondence means. All the Holders attending the meeting through such means shall be deemed as attending the meeting in person provided that all the Holders attending the meeting can hear each other and communicate with each other.

5. Voting procedures of the Holders' Meeting

- (1) After each proposal has been fully discussed, the chairman shall invite Holders attending the meeting to vote in a timely manner. The chairman may also invite Holders attending the meeting to vote only after all proposals for the meeting have been discussed. Voting shall be carried out by paper ballot;
- (2) Each unit held by the Holders of the Employee Stock Ownership Plan is entitled to one vote;
- (3) The Holders may choose to vote for, against or abstain in any resolution. The Holders attending the meeting shall select one of the aforesaid voting options, and any vote with no option or more than one option indicated will be deemed as abstention. Any Holder who leaves in the course of the meeting without indicating any voting options shall be deemed as abstained from voting. The unfilled, wrongly-filled, illegible and unvoted votes shall be deemed as abstention. Any vote made after the announcement of voting results by the chairman of the meeting or lapse of voting period shall not be counted;
- (4) The chairman of the meeting shall announce the onsite voting results at the spot of the meeting. A proposed resolution shall only become a valid resolution of the Holders' Meeting after being passed by more than half (inclusive) of portion of units held by the Holders attending the Holder's Meeting, unless the consent of more than two-thirds (inclusive) of the portion of units is required by the Employee Stock Ownership Plan;
- (5) In the event that a resolution of the Holders' Meeting must be submitted to the board of directors and shareholders' general meeting of the Company for consideration, it shall be submitted to the board of directors and shareholders' general meeting of the Company for consideration in accordance with the provisions of the Articles of Association;

- (6) The chairman of the Holders' Meeting shall arrange for keeping records for the Holders' Meeting.
6. Holders who individually or jointly hold over 30% of the units in the Employee Share Ownership Scheme may submit a temporary proposal to the Holders' Meeting; and the temporary proposal shall be submitted to the Management Committee three days prior to the convention of the Holders' Meeting.
7. Holders who individually or jointly hold over 30% of the units in the Employee Share Ownership Scheme may propose convening a Holders' Meeting.

(II) Management Committee

1. A Management Committee shall be set up for the Employee Stock Ownership Plan to supervise the daily management of the Employee Stock Ownership Plan and to exercise the shareholders' rights on behalf of the Holders.
2. The Management Committee comprises three members with one officer of the Management Committee. All members of the Management Committee shall be elected by the Holders' Meeting. The officer of the Management Committee shall be elected by more than half of all members of the Management Committee. The term of office of members of the Management Committee shall be the duration of the Employee Stock Ownership Plan.
3. Members of the Management Committee have the following fiduciary duties to the Employee Stock Ownership Plan in accordance with laws, administrative regulations and the measures for management of the Employee Stock Ownership Plan of Red Star Macalline Group Corporation Ltd.:
 - (1) Not to take advantage of their position and authority to accept bribes or other illegal income; not to occupy any property of the Employee Stock Ownership Plan;
 - (2) Not to misappropriate funds of the Employee Stock Ownership Plan;
 - (3) Without the consent of the Management Committee, not to open personal account under his or her own name or other people's names with the assets or funds of the Employee Stock Ownership Plan as the deposits;
 - (4) Not to lend the funds of the Employee Stock Ownership Plan to other persons or provide guarantee for other persons with the properties of the Employee Stock Ownership Plan without the consent of the Holders' Meeting;

- (5) Not to take advantages of their positions and authority to jeopardize the interests of the Employee Stock Ownership Plan;
- (6) Not to arbitrarily disclose the commercial secrets in relation to the Employee Stock Ownership Plan.

Where a member of the Management Committee causes any loss to the Employee Stock Ownership Plan due to his or her breach of fiduciary duties, such a member shall be liable for indemnification.

- 4. The Management Committee shall discharge the following functions and authority:
 - (1) Convene the Holders' Meetings;
 - (2) Supervise the daily management of the Employee Stock Ownership Plan on behalf of all Holders;
 - (3) Exercise shareholders' rights of the shares held under the Employee Stock Ownership Plan on behalf of all Holders or authorize the Asset Management Institution to exercise shareholders' rights;
 - (4) Be responsible for collaborating with the Asset Management Institution;
 - (5) Execute relevant agreements or contracts externally on behalf of the Employee Stock Ownership Plan;
 - (6) Manage the allocation of benefits of the Employee Stock Ownership Plan, and decide on the sales and allocation and other matters of the Underlying Shares upon the expiry of the statutory lock-up period and unit lock-up period of the Employee Stock Ownership Plan;
 - (7) Register or Register for the inheritance of the portion of units of the Employee Stock Ownership Plan;
 - (8) Be responsible for share reduction arrangement of the Employee Stock Ownership Plan;
 - (9) Other responsibilities as delegated by the Holders' Meeting.

5. The officer of the Management Committee shall discharge the following functions and authority:
 - (1) Preside over the Holders' Meetings, convene and preside over the Management Committee meetings;
 - (2) Exercise shareholders' rights on behalf of all the Holders as authorized by the Management Committee;
 - (3) Supervise and inspect the execution of resolutions of the Holders' Meetings and the Management Committee meetings;
 - (4) Execute relevant agreements or contracts externally on behalf of the Employee Stock Ownership Plan;
 - (5) Other functions and authority as delegated by the Management Committee.

6. The Management Committee meeting shall be convened occasionally by the officer of the Management Committee. Notice of meeting shall be sent out to all members of the Management Committee three days prior to the convention of the meeting. With consent of all the members of the Management Committee to the proposed resolutions, the meeting may be convened and the voting be carried out by means of telecommunication.

As agreed by all members of the Management Committee, the notice can be exempted from the above time limit. Where an interim Management Committee meeting is required to be convened as soon as possible in case of emergency, notice of meeting can be issued by telephone or other oral means, but reasons shall be explained on the meeting.

7. A Management Committee meeting shall only be held when more than half of the members are present. Meeting resolutions shall be valid only upon obtaining approval from more than half of all members of the Management Committee. Management Committee meetings shall implement a one-person one-vote system.

8. Voting for resolutions of the Management Committee meetings shall be conducted by way of open ballot. Provided that members of the Management Committee can fully express their views, the Management Committee meetings can be convened and resolutions can be resolved by means of telecommunication and shall be signed by members of the Management Committee attending the meeting.

9. Members of the Management Committee shall attend the Management Committee meetings in person; for any member who cannot attend the meetings in person, he can appoint other member(s) of the Management Committee as his proxy(ies) in writing to attend the meetings. A form of proxy shall be signed by the authorizer with the name(s) of the proxy(ies), and the matters, scope and validity period of the authorization being specified. The authorized member of the Management Committee shall exercise his rights properly within the scope of authorization. For any Management Committee member who neither attends the meetings nor authorizes another member as his proxy, he will be deemed to abstain from voting.
10. The Management Committee shall take minutes of the matters discussed in the meeting, and all members attending the Management Committee meeting shall sign on the minutes.
11. Minutes of the Management Committee meetings shall include the following items:
 - (1) Time, venue and the convener of the meeting;
 - (2) Attendance of the members and the appointed proxies of the Management Committee;
 - (3) The agenda;
 - (4) Key points in the statements of the members of the Management Committee; and
 - (5) Way of voting for each resolution and the respective voting results (stating clearly the number of votes for, against and abstain respectively).

(III) Management Body

After the establishment of the Employee Stock Ownership Plan, all assets will be used for subscribing the deferred units under the Trust Scheme and all assets under the Trust Scheme will be managed by the Asset Management Institution. The Asset Management Institution shall protect the legitimate interests of the Employee Stock Ownership Plan and ensure that the assets under the Employee Stock Ownership Plan will not be embezzled in accordance with relevant rules on asset management business issued by the CSRC and other regulatory and as agreed in the legal documents in relation to the Employee Stock Ownership Plan.

IX. ASSET COMPOSITION AND DISTRIBUTION OF RIGHTS AND INTERESTS OF THE EMPLOYEE STOCK OWNERSHIP PLAN**(I) Asset composition of the Employee Stock Ownership Plan**

1. Rights in relation to the Company's shares: rights in relation to the Company's shares held under the Trust Scheme that the current phase of Employee Stock Ownership Plan is entitled to by subscribing the units held under the Trust Scheme in full amount;
2. Cash deposits and bank interest;
3. Assets arising from other investments with the Stock Ownership Plan.

The assets under the Employee Stock Ownership Plan are independent of the assets owned by the Company. The Company shall not hold the assets of the Employee Stock Ownership Plan on trust and include them as its own assets. The properties and profits generated from the management, utilization, etc. of the Employee Stock Ownership Plan shall be included into the assets of the Employee Stock Ownership Plan.

(II) Distribution of rights and interests of the Employee Stock Ownership Plan

1. Within the term of the Employee Stock Ownership Plan, unless otherwise stipulated in laws, administrative regulations and department rules or upon consideration and approval, the units of the Employee Stock Ownership Plan held by the Holders shall not be transferred, guaranteed or be subject to other similar disposals.
2. Within the term, the Holders shall not require the distribution of rights and interests of the Employee Stock Ownership Plan.
3. When the term of the Employee Stock Ownership Plan expires or it is terminated in advance, the Management Committee shall, according to the authorization by the Holders' Meeting, wind up the plan after deduction of relevant taxes and fees pursuant to laws, and arrange for distribution according to the units held by the Holders within 30 working days beginning from the expiry date or termination date.

X. AMENDMENT AND TERMINATION OF THE EMPLOYEE STOCK OWNERSHIP PLAN AND DISPOSAL OF RIGHTS AND INTERESTS OF HOLDERS**(I) Change of Actual Control Right, Consolidation and Division of the Company**

In case of any changes in the controlling shareholder or the actual controller of the Company for any reasons, no amendment shall be made to the Employee Stock Ownership Plan.

(II) Amendment to the Employee Stock Ownership Plan

Within the term, any amendment to the Employee Stock Ownership Plan shall be passed by more than two-thirds (inclusive) of the number of units held by the Holders attending the Holders' Meeting and be submitted to the board of directors of the Company for consideration and approval.

(III) Termination of the Employee Stock Ownership Plan

1. The Employee Stock Ownership Plan will be terminated automatically after the expiry of the term;
2. After the lock-up period of the Employee Stock Ownership Plan expires, if the assets held by the Employee Stock Ownership Plan are all monetary funds, the Employee Stock Ownership Plan can be terminated in advance;
3. If the Shares held are still not fully sold or transferred to the Holders of the Employee Shareholding Plan, the term of the Employee Stock Ownership Plan may be extended within one month before the expiry of the term of the Employee Stock Ownership Plan, as agreed by more than two-thirds (inclusive) of the number of units held under the Holders attending the Holders' Meeting and considered and approved by the board of directors of the Company;
4. Where the Company's shares held under the Employee Stock Ownership Plan are unable to be realized in full amount prior to the expiry of the upper limit of the term due to the suspension or short window of the Company's shares, the term of the Employee Stock Ownership Plan may be extended as agreed by more than two-thirds (inclusive) of the number of units held under the Holders attending the Holders' Meeting and considered and approved by the board of directors of the Company.

(IV) Disposal of Rights and Interests of the Holders

1. Within the term, the rights and interests of the Holders held under the Employee Stock Ownership Plan shall neither be withdrawn nor be mortgaged, pledged, guaranteed or used for debts repayment.
2. Within the term, the rights and interests of the Holders held under the Employee Stock Ownership Plan shall not be transferred without the consent of the Management Committee. The transfer without consent shall be void and invalid.
3. In the event of any situation listed below, the Company has the right to disqualify the Holder from participating in the Employee Stock Ownership Plan, and his/her revenue (if any) incurred from the shares under the Employee Stock Ownership Plan shall be distributed by the Management Committee to other Holders of the Employee Stock Ownership Plan, which shall be co-owned by the other Holders based on respective proportion of the shares then held under the Employee Stock Ownership Plan. After the expiry of the term of the Employee Stock Ownership Plan, or upon completion of liquidation in case of early termination, the original contribution shall be refunded to such Holders who shall not request the allocation of the remaining interests (if any) of the Employee Stock Ownership Plan, except the refund of the original contribution.
 - (1) where both parties agree to not renew labour contract or employment contract after the expiry of such contracts;
 - (2) where labour contract or employment contract is canceled in advance after reaching a consensus through negotiation with the Company;
 - (3) in consideration of operation, the Company unilaterally terminates or cancels the labour contract or employment contract signed with a Holder;
 - (4) change in the position of a Holder which causes him/her fail to meet relevant position conditions and the qualifications for participating in the Employee Stock Ownership Plan due to the Company's internal decision;
 - (5) a Holder caused severe damage to the Company's interests or reputation, or caused direct or indirect economic losses to the Company due to violation of national laws and regulations, professional ethics and conduct, negligence, malfeasance or horizontal competition with the Company;

- (6) the Company has evidence to prove that a Holder caused damages to the interests of the Company directly or indirectly due to bribe-taking, bribe-giving, corruption, theft, leakage of operational or technical secrets and other violations during his/her term of office;
 - (7) a Holder was investigated for criminal responsibility according to law due to criminal acts;
 - (8) a Holder unilaterally terminates or cancels the labour contract or employment contract signed with the Company and fails to reach a consensus through negotiation with the Company;
 - (9) the Company cancels or terminates the labour contract or employment contract due to the Holder related reasons (including dismissal or removal by the Company);
 - (10) other circumstance where a Holder is unqualified to participate in the Employee Stock Ownership Plan as determined by the Management Committee.
4. In case of one of the following circumstances, the Management Committee may decide to not adjust the units of the rights and interests held by the Holder.
- (1) loss of working capacity;
 - (2) a Holder resigns from the position in the Company due to organizational redeployment;
 - (3) retirement;
 - (4) death;
 - (5) where a Holder does not hold any post in the Company any more due to reasons deemed as appropriate by the Company.

In the event of any matters not covered, the disposal of the units in the Employee Stock Ownership Plan held by the Holders shall be determined through negotiation between the Company and the Management Committee.

XI. MEASURES FOR DISPOSAL OF SHARES UPON EXPIRY OF THE DURATION OF THE EMPLOYEE STOCK OWNERSHIP PLAN

1. If all shares of the Company held under the Trust Scheme are sold or transferred to the Holders of the units of the Employee Stock Ownership Plan and the liquidation and distribution of the assets under the Employee Stock Ownership Plan have been completed according to the requirements of the Employee Stock Ownership Plan, the Employee Stock Ownership Plan shall be terminated immediately upon consideration and approval at the Holders' Meeting and by the board of directors of the Company.
2. If all shares of the Company held under the Employee Stock Ownership Plan are not sold or transferred to the Holders of the units of the Employee Stock Ownership Plan within one month prior to the expiry of the term of the Employee Stock Ownership Plan, the term of the Employee Stock Ownership Plan may be extended as agreed by more than two-thirds (inclusive) of the number of units held under the Holders attending the Holders' Meeting and considered and approved by the board of directors of the Company.
3. In case of early termination or expiry of the term of the Employee Stock Ownership Plan, the Management Committee shall, according to the authorization of the Holders' Meeting, liquidate the assets under the Employee Stock Ownership Plan, complete the liquidation within 30 working days after the termination or expiry of the term and make distribution based on the units held by the Holders after deducting relevant taxes and fees according to laws.
4. After the expiry of the term of the Employee Stock Ownership Plan, where Underlying Shares are still included in the assets held under the Employee Stock Ownership Plan, measures for disposal shall be determined by the Management Committee.

XII. THE PRINCIPAL TERMS OF ELECTION OF MANAGEMENT BODY AND AGREEMENT OF THE EMPLOYEE STOCK OWNERSHIP PLAN**(I) Election and appointment of the Asset Management Institution**

The Company will elect and appoint a professional institution with asset management qualifications as the Asset Management Institution for the Employee Stock Ownership Plan and sign an asset management agreement on behalf of the Employee Stock Ownership Plan with it.

(II) Main terms of asset management agreement (subject to the signing of the trust contract ultimately)

1. Name of the Trust Scheme: determined by the board of directors of the Company and the Asset Management Institution

2. Type: Trust Scheme
3. Entrustor:
Preference entrustor: the entrustor who subscribes for the preference units under the Trust Scheme;
Deferred entrustor: Red Star Macalline Group Corporation Ltd. (on behalf of the Employee Stock Ownership Plan of Macalline)
4. Administrator: elected and appointed by the board of directors of the Company
5. Custodian: custodian institution with custody qualification elected and appointed by the board of directors of the Company
6. Size of the Trust Scheme: size of the Trust Scheme shall not be more than 220 million units, including not more than 110 million preference units and not more than 110 million deferred units.
7. Investment concept: assets under the Trust Scheme are to be managed on the premise of proactive risk control, in accordance with the arrangements in “Employee Stock Ownership Plan” and investment instructions, to strive to achieve the continuous and prudent appreciation of the assets of the entrustor.
8. Scope of investment: the scope of investment of the Trust Scheme is: ordinary A Shares of Macalline (stock code: 601828), and cash assets.
9. The term: the validity period is from the effective date of the contract to the date of termination of the contract. The term shall be executed as agreed in the Employee Stock Ownership Plan.

(III) Accrual and payment of management expenses

Including the subscription fee, withdrawal fee, trust remuneration, custody fee and other related expenses, subject to the signing of the trust contract finally.

XIII. PROCEDURES FOR IMPLEMENTATION OF THE EMPLOYEE STOCK OWNERSHIP PLAN

1. Prior to the implementation of the Employee Stock Ownership Plan, the Company shall seek for employees’ opinions through the employees’ representatives meeting and other organizations;

2. When the board of directors of the Company is considering the draft of the Employee Stock Ownership Plan, independent directors and the Supervisory Committee shall deliver their opinions on the following matters: whether the Employee Stock Ownership Plan is beneficial to the sustainable development of the Company; whether it will impair the interests of the Company and all the shareholders; whether there is any apportionment, mandatory distribution, etc., to force the employees to participate in the Employee Stock Ownership Plan;
3. The Supervisory Committee shall deliver their opinions on the following matters: whether the Employee Stock Ownership Plan is beneficial to the sustainable development of the Company; whether it will impair the interests of the Company and all the shareholders; whether there is any apportionment;
4. Within two trading days after the board of directors of the Company approves the draft of Employee Stock Ownership Plan, the Company shall disclose relevant documents such as the board resolutions, the full text and summary of the draft of Employee Stock Ownership Plan, independent directors' opinions, etc;
5. The Company shall engage a law firm to issue legal opinions for the Employee Stock Ownership Plan and release the legal opinions before convening the shareholders' general meetings for consideration of the Employee Stock Ownership Plan;
6. The shareholders' general meetings shall be convened to consider the Employee Stock Ownership Plan at which voting will be taken by poll both onsite and via internet. The Employee Stock Ownership Plan shall only be implemented after approval by the employees holding the majority of valid voting rights present at the shareholders' general meeting;
7. The Holders' Meeting shall be convened to elect and appoint members of the Management Committee, and define specific matters in relation to the implementation of the Employee Stock Ownership Plan. Convening and relevant resolutions of the meeting shall be disclosed in a timely fashion;
8. In implementing the Employee Stock Ownership Plan by the Company, prior to the completion of position opening of the Underlying Shares, implementation of the Employee Stock Ownership Plan shall be announced every month since the approval at the shareholders' general meeting. The time, quantity and proportion of the Underlying Shares held shall be disclosed in interim announcement within 2 trading days since the registration of the Underlying Shares under the Employee Stock Ownership Plan;
9. Other procedures that shall be performed as stipulated by the CSRC and the Stock Exchange.

XIV. OTHER IMPORTANT MATTERS

1. The approval of the board of directors and at the shareholders' general meeting of the Company do not imply that the Holders have the rights to continue their services in the Company or its subsidiaries, and such approvals do not constitute any commitment of the Company or its subsidiaries to any continued employment of the employees within the term of the Employee Stock Ownership Plan. The employment relationships between the employees and the Company or its subsidiaries will remain the same as stipulated in the original employment contract entered into between the employees and the Company or its subsidiaries.
2. Issues of finance, accounting treatment and the respective tax expenses, etc., in relation to the implementation of the Employee Stock Ownership Plan will be carried out according to the relevant policies of finance, accounting and tax. The individual income tax to be paid by employees due to the implementation of the Employee Stock Ownership Plan shall be borne by employees.
3. Implementation of the Employee Stock Ownership Plan is subject to the consideration and approval at the shareholders' general meeting of the Company.
4. The board of directors reserves the right of interpretation over the Employee Stock Ownership Plan.

Board of Directors of
Red Star Macalline Group Corporation Ltd.

28 November 2018

NOTICE OF THE EGM



Red Star Macalline Group Corporation Ltd.

紅星美凱龍家居集團股份有限公司

(A sino-foreign joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1528)

NOTICE OF THE EGM

NOTICE IS HEREBY GIVEN that the 2019 1st extraordinary general meeting (the “**EGM**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**”) will be held at 1:00 p.m. on Monday, 14 January 2019 at 2 Ballroom, Guoman Hotel Shanghai, Guoson Centre Office Building 1, No.388 Daduhe Road, Putuo District, Shanghai, People’s Republic of China (“**PRC**”) for the purpose of considering, and if thought fit, passing the following resolution:

ORDINARY RESOLUTION

To consider and approve the proposed establishment and implementation of the Employee Stock Ownership Plan

To consider and approve the implementation of measures for management of the Employee Stock Ownership Plan

To consider and approve the matters in relation to the authorization to the Board

By the order of the Board

Red Star Macalline Group Corporation Ltd.

GUO Binghe

Company Secretary

30 November 2018

NOTICE OF THE EGM

Notes :

1. For the purpose of holding the EGM, the register of members of the Company will be closed from Saturday, 15 December 2018 to Monday, 14 January 2019 (both days inclusive), during which period no transfer of shares can be registered. In order for H Share Shareholders to be qualified to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m., on Friday, 14 December 2018 for registration.

The Shareholders whose names appear on the register of members of the Company on Friday, 14 December 2018 after close of business are entitled to attend and vote at the EGM.

2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalves. A proxy need not be a shareholder of the Company.
3. The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder of the Company is a legal person, that instrument must be executed either under its seal or under the hand of its director or other attorney duly authorised to sign the same on its behalf.
4. In order to be valid, the proxy form must be deposited, for holders of H shares of the Company, to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude shareholders of the Company from attending and voting in person at the EGM or any adjourned meetings should they so wish.
5. Shareholders shall produce their identification documents and supporting documents in respect of the shares of the Company held when attending the EGM. If corporate shareholders appoint authorised representative to attend the EGM, the authorized representative shall produce his/her identification documents and a notarially certified copy of the relevant authorization instrument signed by the board of directors or other authorised parties of the corporate shareholders or other notarially certified documents allowed by the Company. Proxies shall produce their identification documents and the proxy form signed by the shareholders or their attorney when attending the EGM.
6. Holders of H Shares who intend to attend the EGM should complete the reply slip and return it to the office of the H share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H shares) on or before Tuesday, 25 December 2018.
7. The EGM is expected to take for less than half a day. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.
8. All voting at the EGM will be conducted by poll.