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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 ADOPTION OF THE A SHARE OPTION INCENTIVE SCHEME

The Company announces that the Board passed a resolution on 22 February 2020, which proposed the adoption of the A Share Option Incentive Scheme by the Company and the implementation of the Grant accordingly after approval by the Shareholders' general meeting, and put forward the proposed plan and proposed Grant for the Scheme. The Scheme will become effective after approval by the Shareholders at the Shareholders' general meeting.

INTRODUCTION

The Company announces that the Board passed a resolution on 22 February 2020, which proposed the adoption of the A Share Option Incentive Scheme by the Company and the implementation of the Grant accordingly after approval by the Shareholders' general meeting, and put forward the proposed plan and proposed Grant for the Scheme. The Scheme will become effective after approval by the Shareholders at the Shareholders' general meeting.

1. PROPOSED ADOPTION OF THE A SHARE OPTION INCENTIVE SCHEME

A. Purpose of the implementation of the Scheme

For the purpose of further improving the corporate governance structure of the Company, establishing and enhancing the long-term incentive and constraint mechanism of the Company, attracting and retaining talents, fully mobilizing the proactiveness and creativities of the core cadres of the Company, effectively promoting the cohesiveness of the core team and the core competitiveness of the enterprise, effectively aligning the interests of Shareholders, the Company and the core team, enabling all parties to focus on the long-term development of the Company, and ensuring the achievements of the development strategies and operation objectives of the Company, the Scheme is made on the premise of fully protecting the interests of Shareholders and on the principle of income equivalent to contribution, and in accordance with the requirements under the relevant laws, regulations and normative documents including the Company Law, the Securities Law and the Administrative Measures, as well as the requirements under the Articles of Association.

B. Basis for determining the Participants and the scope of the Participants

(1) Basis for determining the Participants

Participants of the Scheme are determined in accordance with the requirements of relevant laws, administrative regulations and normative documents including the Company Law, the Securities Law and the Administrative Measures, as well as the requirements under the Articles of Association with reference to the actual situations of the Company.

Participants of the Scheme are the core cadres of the Company (including subsidiaries). The Remuneration and Evaluation Committee shall prepare a list of those who falls into the scope of the Participants of the Scheme and the list shall be reviewed and confirmed by the Supervisory Committee.

(2) Scope of Participants

The Scheme involves a total of 1,023 Participants, and the Participants account for 4.02% of the Company's total number of employees of 25,463 as of 30 June 2019. The Participants include the core cadres of the Company.

The Participants above do not include the Independent Directors, the Supervisors of the Company and any Shareholder or actual controller individually or jointly holding more than 5% of the Shares of the Company and their spouse, parents and children. None of the Participants above has participated in the share option incentive schemes of two or more listed companies at the same time. All Participants must enter into a labor contract or an employment contract with the Company or its subsidiaries during the assessment period of the Scheme.

Participants to be granted with the Reserved Share Options shall be determined within 12 months after the Scheme is considered and approved by the Shareholders' general meeting. Upon the proposals by the Board, issuance of clear opinions by the Independent Directors and the Supervisory Committee as well as issuance of professional opinions and legal opinions by the legal advisors, the Company shall disclose the relevant information on such Participants on the designated website pursuant to the relevant requirements in a timely and accurate manner. If the Participants are not determined for more than 12 months, the Reserved Share Options will lapse. The determination of the Participants for the Reserved Share Options shall be determined by reference to the standards set out in the First Grant of Share Options.

(3) *Circumstances for ineligibility of the Participants of the Scheme*

- (i) he or she has been determined by stock exchange as an ineligible person in the last 12 months;
- (ii) he or she has been determined by the CSRC or its delegated agencies as an ineligible person in the last 12 months;
- (iii) he or she has been imposed by the CSRC or any of its delegated agencies with administrative penalties or measures prohibiting access into the market in the last 12 months due to material violation of laws and regulations;
- (iv) he or she is prohibited from acting as a director or a member of the senior management of a company as required by the Company Law;
- (v) he or she is prohibited from participating in share incentives of listed companies as required by laws and regulations;
- (vi) such other circumstances as determined by the CSRC.

In case the Participant has any of the circumstances specified in the above during the implementation of the Scheme, his or her right of participating in the Scheme shall be terminated and the Share Options granted to him or her which have not been exercised shall be cancelled by the Company.

C. Source and number of shares under the Scheme

(1) Source of shares of the Scheme

The source of shares of the Scheme shall be A Shares of the Company to be issued to the Participants directly.

Only new A Shares will be issued upon exercise of the Share Options proposed to be granted under the Scheme, and no H Shares can be issued under the A Share Option Incentive Scheme.

(2) Total number of the Share Options involved in the Scheme

The number of A Share Options proposed to be granted under the Scheme is 30,850,000, representing approximately 0.87% of the total issued share capital of 3,550,000,000 Shares of the Company as at the date of announcement of the draft Scheme, among which, the first grant of Share Options consists of 27,765,000 shares (“**First Grant of Share Options**”), representing approximately 0.78% of the total issued share capital of 3,550,000,000 Shares of the Company as at the date of announcement of the draft Scheme and 90.00% of the total number of Share Options under the Grant; the reserved share options consist of 3,085,000 shares (“**Reserved Share Options**”), representing approximately 0.09% of the total issued share capital of 3,550,000,000 Shares of the Company as at the date of announcement of the draft Scheme and 10.00% of the total number of Share Options under the Grant.

Each share option granted under the Scheme is entitled to purchase one A Share of the Company at the Exercise Price during the Exercise Period upon the fulfillment of vesting conditions and arrangement. The Share Options granted to the Participants shall not be transferred, used for guarantee or repayment of debts during the Vesting Period. Share Options are not entitled with voting rights, and do not involve in the distribution of bonus share and dividends before being exercised. Unless otherwise provided by the lock-up provisions under the Scheme, the Participants shall be entitled to all the rights of ordinary Shareholders and perform related obligations in respect of their A Shares by exercising Share Options in accordance with laws.

As at the date of announcement of the draft Scheme, the total aggregate number of underlying Shares involved in the A Share Option Incentive Scheme of the Company during the Validity Period shall not exceed 10.00% of the total share capital of the Company. The total aggregate number of Shares to be granted to any Participant under the A Share Option Incentive Scheme during the Validity Period shall not exceed 1.00% of the total share capital of the Company.

D. Validity Period, Date of Grant, Vesting Period, exercise arrangement and the lock-up period of the Scheme

(1) Validity Period

The Validity Period of the Scheme shall commence from the Date of Grant of the Share Options, and end on the date on which all the Share Options granted to the Participants under the Scheme have been exercised or cancelled, and shall not be longer than 36 months.

(2) Date of Grant

After the Scheme has been considered and approved at the Shareholders' general meeting of the Company, the Company will convene a Board meeting to grant Share Options to the Participants within 60 days in accordance with relevant regulations and complete relevant procedures such as registration and announcement. If the Company fails to complete the abovementioned works within 60 days, it shall disclose the reasons for the inability to complete and announce the termination of the implementation of the Scheme in a timely manner. The period during which no Share Option can be granted in accordance with the Administrative Measures shall not be counted within such 60 days.

The Date of Grant of Reserved Share Options shall be confirmed by the Board within 12 months after the consideration and approval at the Shareholders' general meeting.

The Date of Grant of Share Options must be a trading day under SSE Listing Rules. If the date determined in accordance with the above principles is not a trading day, the Date of Grant shall be postponed to the first trading day thereafter.

(3) Vesting Period

All Share Options granted to the Participants are subject to different Vesting Periods, and each of such periods shall begin on the date in which the registration of the granted Share Options is completed. The interval between the Date of Grant and the first Exercise Date of the Share Options shall not be less than 12 months.

(4) Exercise arrangement

The Participants of the Scheme may begin to exercise Share Options upon the expiration of the Vesting Period. The Exercise Date must be the trading day within the Validity Period of the Scheme, but the Share Options cannot be exercised in the following periods:

- (i) 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 period from the last day of the relevant financial year up to the date of the announcement of the Company's annual report (the shorter one prevails);

- (ii) 30 days prior to the review of the announcement of the interim report or the quarterly report, including the date of announcement of the interim report or the quarterly report, or the period from the last day of the relevant quarter or half-year up to the date of the announcement of the Company's periodical report (the shorter one prevails);
- (iii) 10 days prior to the release of the Company's results preview or preliminary report;
- (iv) the period starting from the date when a material event, which may significantly affect the trading price of the Company's stock and its derivatives, occurs or is in the process of decision-making, up to two trading days after the event being disclosed in accordance with laws;
- (v) other periods as stipulated by the CSRC and stock exchange.

Upon the fulfillment of conditions of the exercise of the Share Options, the Share Options are exercisable in two tranches upon expiry of 12 months from the Date of Grant. The exercise arrangement for the First Grant of Share Options and the Reserved Share Options are as follows respectively:

The exercise arrangement for the First Grant of Share Options:

Exercise Arrangement	Exercise Period	Proportion of exercisable Share Options to the total number of Share Options granted
First Exercise Period	Commencing from the first trading day after the expiry of the 12 th month from the Date of Grant of the First Grant of Share Options, and ending on the last trading day of the 24 th month from the Date of Grant	50%
Second Exercise Period	Commencing from the first trading day after the expiry of the 24 th month from the Date of Grant of the First Grant of Share Options, and ending on the last trading day of the 36 th month from the Date of Grant	50%

The exercise arrangement for the Reserved Share Options:

Exercise Arrangement	Exercise Period	Proportion of exercisable Share Options to the total number of Share Options granted
First Exercise Period	Commencing from the first trading day after the expiry of the 12 th month from the Date of Grant of the Reserved Share Options, and ending on the last trading day of the 24 th month from the Date of Grant	50%
Second Exercise Period	Commencing from the first trading day after the expiry of the 24 th month from the Date of Grant of the Reserved Share Options, and ending on the last trading day of the 36 th month from the Date of Grant	50%

Share Options for which the Exercise Conditions are not fulfilled during the above agreed period shall not be exercised or deferred to the next exercise period, and the relevant Share Options of such Participants shall be cancelled by the Company in accordance with the principles stipulated in the Scheme. After the end of each Exercise Period of the Share Options, the Share Options exercisable by the Participants for the current period that have not been exercised shall be terminated and cancelled by the Company.

(5) Lock-up period

The lock-up requirements for Shares of the Company granted to the Participants under the Scheme shall be implemented in accordance with requirements of relevant laws, administrative regulations and normative documents including the Company Law and the Securities Law, as well as the requirements under the Articles of Association. Details are as follows:

- (i) where a Participant is a Director or a member of the senior management of the Company, the number of Shares of the Company that may be transferred each year during his or her term of office shall not exceed 25% of the total number of Shares of the Company held by him or her. No Shares of the Company held by him or her shall be transferred within half a year after his or her termination of office;

- (ii) where a Participant is a Director or a member of the senior management of the Company and he or she disposes of any Shares of the Company within six months after acquisition or buys back such shares within six months after disposal, all gains arising therefrom shall be accounted to the Company and the Board will collect all such gains;
- (iii) if there is any amendment to the requirements regarding the transfer of shares by Directors and senior management of the Company under relevant laws, administrative regulations and normative documents including the Company Law and the Securities Law, as well as the Articles of Association during the Validity Period of the Scheme, such amended requirements thereunder shall apply to the Shares of the Company transferred by the Participants during the relevant times.

E. Exercise Price and basis of determination of the Scheme

For details of the Exercise Price and basis of determination of the Scheme, please see “Proposed Grant Under the A Share Option Incentive Scheme — Exercise Price and basis of determination” in this announcement.

F. Conditions of the Grant and Exercise Conditions of the Share Options

(1) Conditions of the Grant of Share Options

The Share Options can be granted to the Participants by the Company upon fulfillment of all of the following conditions. On the contrary, no Share Option shall be granted to the Participants if any of the following conditions of Grant is not fulfilled.

- (i) There is no occurrence of any of the following in respect of the Company:
 - (a) issuance of the auditors’ report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial accounting report of the Company for its most recent accounting year;
 - (b) issuance of the auditors’ report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
 - (c) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings within the last 36 months after listing;
 - (d) prohibition from implementation of share incentives by laws and regulations;
 - (e) such other circumstances as determined by the CSRC.

- (ii) There is no occurrence of any of the following in respect of a Participant:
- (a) he or she has been determined by stock exchange as an ineligible person in the last 12 months;
 - (b) he or she has been determined by the CSRC or its delegated agencies as an ineligible person in the last 12 months;
 - (c) he or she has been imposed by the CSRC or its delegated agencies with administrative penalties or measures prohibiting access into the market in the last 12 months due to material violation of laws and regulations;
 - (d) he or she is prohibited from acting as a director or a member of the senior management of a company as required by the Company Law;
 - (e) he or she is prohibited from participating in share incentives of listed companies as required by laws and regulations;
 - (f) such other circumstances as determined by the CSRC.

(2) *Exercise Conditions of the Share Options*

Share Options of the Participants may only be exercised upon the fulfillment of the following conditions by both the Company and the Participants during the Exercise Period:

- (i) There is no occurrence of any of the following circumstances in respect of the Company:
- (a) issuance of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial accounting report of the Company for its most recent accounting year;
 - (b) issuance of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
 - (c) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings within the last 36 months after listing;
 - (d) prohibition from implementation of share incentives by laws and regulations;
 - (e) such other circumstances as determined by the CSRC.

In case the Company has any of the circumstances specified in (i) above, the Share Options granted to the Participant under the Scheme which have not been exercised shall be cancelled by the Company.

- (ii) There is no occurrence of any of the following circumstances in respect of a Participant:
- (a) he or she has been determined by stock exchange as an ineligible person in the last 12 months;
 - (b) he or she has been determined by the CSRC or its delegated agencies as an ineligible person in the last 12 months;
 - (c) he or she has been imposed by the CSRC or any of its delegated agencies with administrative penalties or measures prohibiting access into the market in the last 12 months due to material violation of laws and regulations;
 - (d) he or she is prohibited from acting as a director or a member of the senior management of a company as required by the Company Law;
 - (e) he or she is prohibited from participating in share incentives of listed companies as required by laws and regulations;
 - (f) such other circumstances as determined by the CSRC.

In case any Participant has any of the circumstances specified in (ii) above, his or her right of participating in the Scheme shall be terminated and the Share Options granted to the Participant under the Scheme which have not been exercised shall be cancelled by the Company.

(iii) Performance assessment requirements at the Company level:

During the Validity Period, the Company will assess the Company's performance targets for the years of 2020 and 2021, in which the fulfillment of the performance assessment target of each Exercise Period is one of the Exercise Conditions for that Exercise Period of the Participants. Exercise arrangement and performance assessment targets of the granted Share Options are as follows:

Exercise Period		Conditions of Performance Assessment
First Grant of Share Options	First Exercise Period	The growth rate on the audited consolidated operating revenue for the year of 2020 (after excluding the impact of the epidemic) shall not be lower than 15%, as compared to the audited consolidated operating revenue for the year of 2019
	Second Exercise Period	The growth rate on the audited consolidated operating revenue for the year of 2021 shall not be lower than 40%, as compared to the audited consolidated operating revenue for the year of 2019
Reserved Share Options	First Exercise Period	The growth rate on the audited consolidated operating revenue for the year of 2020 (after excluding the impact of the epidemic) shall not be lower than 15%, as compared to the audited consolidated operating revenue for the year of 2019
	Second Exercise Period	The growth rate on the audited consolidated operating revenue for the year of 2021 shall not be lower than 40%, as compared to the audited consolidated operating revenue for the year of 2019

Note: The audited consolidated operating revenue for the year of 2020 (after excluding the impact of the epidemic) = the audited consolidated operating revenue for the year of 2020 + the reduced audited consolidated operating revenue for the year of 2020 due to the impact of the novel coronavirus pneumonia epidemic.

During the Exercise Period, the Company shall handle the issues concerning the exercise of the Share Options for the Participants who fulfill the Exercise Conditions. If the performance levels for the current period of the Company does not fulfill the conditions of performance target during such Exercise Period, all Participants shall not exercise the exercisable Share Options that shall be assessed in such year, the Company shall cancel the Share Options exercisable by the Participants for the current period.

(iv) Performance assessment requirements of the Participants at the individual level:

The individual assessment of Participants shall be organized and implemented in accordance with the relevant Company's performance assessment systems. According to the annual performance assessment results, the individual performance assessment results are divided into two levels, namely qualified and unqualified, and the corresponding exercisable Share Options are as follows:

Assessment Results	Qualified	Unqualified
Exercise Ratio	100%	0

On the premise that the Company's performance targets are achieved, if the individual performance assessment results of such Participant in the previous year is qualified, the Participant can exercise all the Share Options for such year of assessment; if the individual performance assessment results of such Participant in the previous year is unqualified, the exercisable Share Options by the Participant for such period shall be cancelled by the Company in accordance with the relevant provisions of the Scheme.

The specific assessment content of the Scheme is implemented in accordance with the Assessment Measures in respect of the Implementation of the 2020 Share Option Incentive Scheme of Red Star Macalline Group Corporation Ltd.

(3) Description of scientificity and reasonability in the setting of performance assessment indicators by the Company

As a leading home improvement and furnishings shopping mall operator in the PRC, the Company mainly engages in the business of offering comprehensive service to the merchants, consumers and partners through the operation and management of both Portfolio Shopping Malls and Managed Shopping Malls. In addition, the Company also provides pan-home furnishings consumption services including online home improvement and retail, as well as logistics distribution business. The Company will continuously make efforts to advance the stable and sound development of the business with a high-speed, continue to explore both upstream and downstream in industries, such as home furnishing shopping mall industry, warehousing and logistics industry, furnishing and home industry and others, proactively explore financing channels and make great efforts to promote the Company's core competitiveness, so as to build the most pioneering and professional "omni-channel platform provider in the home improvement and furnishings industry" in the PRC.

For the purpose of achieving the Company's strategy and maintaining the current competitiveness, the operating revenue was elected as performance assessment indicator of the Scheme at the Company level. The indicator can directly reflect the operating conditions of the Company, and indirectly reflect the Company's market share in the industry. The setting of the performance indicator has been formulated by comprehensively considering various factors as a whole, such as the Company's current positions, future strategic planning and developments in the industry. The assessment indicator is designed to be challenging to some degree, which help promote the Company's competitiveness and motivate the employee's initiatives, ensure the realization of the Company's future development strategy and business objectives, and may bring more efficient and long-lasting returns to the Shareholders.

In addition to the performance assessment at the Company level, the Company has adopted a rigorous performance assessment system for individuals, which can make relatively accurate and comprehensive evaluation on the work performance of the Participants. The Company will determine whether a Participant has met the Exercise Conditions based on his/her performance assessment results for the previous year.

In conclusion, the assessment system of the Scheme is all-rounded, comprehensive and practicable. The assessment indicators are set in a scientific and reasonable manner, and are binding on the Participants, which can achieve the assessment purpose of the Scheme.

G. Methods of and procedures for adjustment of the Scheme

(1) Adjustment methods of the number of the Share Options

In the event of capitalization of capital reserves, bonus issue, share subdivision, rights issue, share consolidation of the Company during the period from the date of the announcement of the Scheme to the completion of share registration of Share Options by the Participants, the number of the Share Options shall be adjusted accordingly. The adjustment methods are as follows:

- (i) Capitalization of capital reserves, bonus issue, share subdivision

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

Where: Q_0 represents the number of the Share Options prior to the adjustment; n represents the ratio of increase per share resulting from capitalization of capital reserves, bonus issue or share subdivision (i.e. the number of increased share(s) per share upon capitalization of capital reserves, bonus issue or share subdivision); and Q represents the number of the Share Options after the adjustment.

(ii) Rights issue

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

Where: Q_0 represents the number of the Share Options prior to the adjustment; P_1 represents the closing price of the Share Options as at the record date; P_2 represents the subscription price in respect of the rights issue; n represents the ratio of the rights issue (i.e. the number of shares to be issued under the rights issue in proportion to the total share capital of the Company prior to the rights issue); and Q represents the number of the Share Options after the adjustment.

(iii) Share consolidation

$$Q = Q_0 \times n$$

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

(iv) New issue

In the event of issue of new shares by the Company, the number of the Share Options will not be adjusted.

(2) Adjustment methods of the Exercise Price

In the event of dividend distribution, capitalization of capital reserves, bonus issue, share subdivision, rights issue or share consolidation of the Company during the period from the date of announcement of the Scheme to the completion of exercise of the Share Options by the Participants, the Exercise Price of Share Options should be adjusted accordingly, but no adjustments may be made to the extent that the Exercise Price would be lower than the nominal value of the shares. The adjustment methods are as follows:

(i) Capitalization of capital reserves, bonus issue, share subdivision

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

Where: P_0 represents the Exercise Price prior to the adjustment; n represents the ratio of increase per share resulting from the capitalization of capital reserves, bonus issue or share subdivision; and P represents the Exercise Price after the adjustment.

(ii) Rights issue

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

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

(iii) Share consolidation

$$P = P_0 \div n$$

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

(iv) Dividend distribution

$$P = P_0 - V$$

Where: P_0 represents the Exercise Price prior to the adjustment; V represents the dividend per share; and P represents the Exercise Price after the adjustment. After the adjustment of dividend distribution, P shall still be greater than 1.

(v) New issue

In the event of issue of new shares by the Company, the Exercise Price of the Share Options will not be adjusted.

(3) Procedures for adjustment of the Scheme

The Shareholders' general meetings of the Company shall authorize the Board to adjust the number and Exercise Price of the Share Options for any reason as clearly stated in the Scheme. The Board shall make an announcement and notify the Participants in a timely manner upon making adjustments to the number granted and Exercise Price of the Share Options in accordance with the abovementioned requirements. The Company shall engage law firm to provide professional advice to the Company as to whether such adjustments are in compliance with the requirements under the Administration Measures, the Articles of Association and the Scheme.

H. Procedures for implementation of, Grant of, exercise of and amendments to and termination of the Scheme

(1) Procedures for the Scheme to take effect

- (i) The Remuneration and Evaluation Committee shall be responsible for preparing the Scheme (draft) and the Assessment Measures in respect of the implementation of the 2020 Share Option Incentive Scheme of Red Star Macalline Group Corporation Ltd.
- (ii) The Board shall consider the Scheme (draft) and the Assessment Measures in respect of the implementation of the 2020 Share Option Incentive Scheme of Red Star Macalline Group Corporation Ltd. prepared by the Remuneration and Evaluation Committee, and the related Directors shall abstain from voting.
- (iii) The Independent Directors and the Supervisory Committee shall issue clear opinions as to whether the Scheme is beneficial to the sustainable development of the Company and whether the Scheme is significantly detrimental to the interests of the Company and the Shareholders as a whole.
- (iv) The Company shall engage an independent financial adviser to express professional opinions on the feasibility of the Scheme, whether the Scheme is beneficial to the sustainable development of the Company and whether the Scheme is significantly detrimental to the interests of the Company and the Shareholders as a whole. The law firm engaged by the Company shall issue legal opinions on the Scheme.
- (v) The Company shall publish the announcement of the Board resolutions, the Scheme (draft) and its summary, opinions from the Independent Directors and opinions from the Supervisory Committee within 2 trading days after the Scheme (draft) has been considered and approved by the Board.
- (vi) The Company shall carry out self-investigation on the trading of Shares of the Company by individuals in possession of inside information within 6 months prior to the announcement of the Scheme.
- (vii) Before convening the Shareholders' general meeting, the Company shall announce the name and position of the Participants internally via the Company's website or other channels for 10 days. The Supervisory Committee shall verify the list of Participants and thoroughly consider opinions from the public. The Company shall disclose the opinions of the Supervisory Committee on the verification and the public opinions in relation to the list of the Participants 5 days prior to the consideration of the Scheme at the Shareholders' general meeting.

- (viii) During voting on the Scheme and related resolutions at the Shareholders' general meeting of the Company, the Independent Directors shall solicit proxy voting rights from all Shareholders in respect of the Scheme and related resolutions. When the Scheme and related resolutions are considered by way of special resolutions at the Shareholders' general meeting, the related Shareholders shall abstain from voting.
- (ix) The Company shall disclose the announcement of the resolutions of the Shareholders' general meeting, A Share Option Incentive Scheme considered and approved by the Shareholders' general meeting, the self-investigation report on the trading of Shares of the Company by individuals in possession of inside information and the legal opinions of the Shareholders' general meeting.
- (x) After the Scheme has been considered and approved by the Shareholders' general meeting of the Company, the Board shall grant the Shares and complete registration, announcement and other related procedures within 60 days from the date of consideration and approval of the Scheme by the Shareholders' general meeting in accordance with the mandate granted at the Shareholders' general meeting. The Board shall handle matters in relation to the specific exercise and cancellation of the Share Options in accordance with the mandate granted at the Shareholders' general meeting.

(2) Procedures for Grant of the Share Options

- (i) Within 60 days from the date of consideration and approval of the Scheme by the Shareholders' general meeting of the Company, the Company shall convene the Board meeting to conduct the Grant to the Participants.
- (ii) Before the Company grants Shares to the Participants, the Board shall consider whether the conditions for the grant of the Shares to the Participants prescribed in the Scheme are satisfied, and the Independent Directors and the Supervisory Committee shall issue their clear opinions simultaneously. A law firm shall issue a legal opinion on whether the conditions for the grant of the Share to the Participants are satisfied.

When there is any discrepancy between the Company's Grant of Shares to the Participants and the arrangement of the Scheme, the Independent Directors, the Supervisory Committee (when there are changes to the Participants), the law firm and the independent financial adviser shall issue their clear opinions simultaneously.

- (iii) The Company and the Participants shall enter into the Share Option Grant Agreement to agree on the rights and obligations of both parties.
- (iv) The Company shall prepare a management register of the Scheme in accordance with the agreements entered into by the Participants, setting out names of Participants, numbers of Shares granted, Date of Grant, amount of payment and the serial number of the Share Option Grant Agreement, etc.

- (v) The Company shall apply to the stock exchange for Grant of Share Options to the Participants. After confirmation by the stock exchange, the Company shall apply to the Depository and Clearing Corporation for matters in relation to registration and clearing. The Board shall disclose the relevant implementation by way of announcement in a timely manner after the completion of the registration of the granted Share Options. If the Company fails to complete the abovementioned implementation within 60 days (the period during which no Share Option can be granted shall not be counted within such 60 days), the Scheme shall be terminated and the Board shall disclose the reasons for the inability to complete in a timely manner and shall not re-consider the share option incentive scheme within 3 months.
- (vi) Participants who will be granted with the Reserved Share Options shall be ascertained within 12 months after the consideration and approval of the Scheme by the Shareholders' general meeting. If no Participants are ascertained after the lapse of 12 months, the Reserved Share Options shall become invalid.

(3) Procedures for the exercise of the Share Options

- (i) The Participants shall submit the Application for Exercise of Stock Option to the Board on the Exercise Date, and submit an exercise application. The Application for Exercise of Stock Option shall specify the number of Share Options to be exercised, Exercise Price, and information of dealing by the holders of Share Options, etc.
- (ii) Before the Participants exercise the Share Options, the Board shall consider and approve the exercise qualifications and number of Share Options to be exercised of the applicants, and consider whether the conditions for the exercise of the Share Options by the Participants prescribed in the Scheme are satisfied, and the Independent Directors and the Supervisory Committee shall issue their clear opinions simultaneously. A law firm shall issue a legal opinion on whether the conditions for the exercise of the Share Options by the Participants are satisfied.
- (iii) After the Participants' exercise applications have been approved by the Board and the corresponding payments for the exercise of Share Options (for purchased Share) have been made, the Company shall apply to the stock exchange for exercise application, and issue the Shares to the Participants directly based on the number of Share Options to be exercised as set out in the application.
- (iv) After approval by the stock exchange, the Depository and Clearing Corporation shall handle the matters in relation to registration and clearing.
- (v) Participants can transfer the Shares after the exercise of Share Options, however, the transfer of Shares held by Directors and senior management of the Company shall comply with the requirements under relevant laws, regulations and normative documents.

The Company can provide a unified or autonomous exercise method to the Participants based on the actual circumstances.

(4) Procedures for amendments to the Scheme

If the Company intends to amend the Scheme prior to its consideration and approval at the Shareholders' general meetings, such amendment shall be considered and approved by the Board. If the Company intends to amend the Scheme after the approval at the Shareholders' general meetings, such amendment shall be considered and approved at the Shareholders' general meeting given that such amendment shall not result in accelerating early exercise and lowering Exercise Price.

The Company shall disclose the comparison of the amendments to the Scheme before and after the amendments in a timely manner. The Independent Directors and the Supervisory Committee shall give clear opinions as to whether the amendments to the Scheme is conducive to the sustainable development of the Company and is significantly detrimental to the interests of the Company and the Shareholders as a whole. A law firm shall provide professional advice as to whether the amendments to the Scheme are in compliance with the requirements of the Administrative Measures and relevant laws and regulations and is significantly detrimental to the interests of the Company and the Shareholders as a whole.

(5) Procedures of termination of the Scheme

If the Company intends to terminate the Scheme prior to its consideration at the Shareholders' general meetings, such termination shall be considered, approved and disclosed by the Board. If the Company intends to terminate the Scheme after the approval at the Shareholders' general meetings, such termination shall be considered and disclosed by the Board and the Shareholders' general meetings.

The Company shall disclose the resolutions of the Shareholders' general meetings or the Board resolutions in a timely manner. A law firm shall give professional opinions as to whether the Company's termination of the implementation of the incentive scheme is in compliance with the requirements of the Administrative Measures and relevant laws and regulations and is significantly detrimental to the interests of the Company and the Shareholders as a whole.

If the Scheme is terminated, the Company shall apply for the deregistration of the granted Share Options with the Depository and Clearing Corporation in a timely manner after performing the relevant consideration and approval procedures.

I. Rights and obligations of the Company and Participants

(1) Rights and obligations of the Company

(i) The Company is entitled to interpret and execute the Scheme, to conduct performance assessment of the Participants, to supervise and review whether the Participants possess the qualifications to continue to exercise Share Options. If a Participant fails to fulfill the Exercise Conditions required under the Scheme, the Share Option of the Participant that has not been exercised can be cancelled upon the approval of the Board.

- (ii) The Company has the right to require the Participants to perform their responsibilities based on the requirement of the position. If the Participant is incompetent in performing his/her duties or fails in assessment, or the Participant violates the laws and professional ethics, leaks confidential information of the Company, violates the rules and regulations of the Company, and is negligent or gross misconduct in performance of duties, which has caused serious damages to the interests or reputation of the Company, the Share Option of the Participant that has not been exercised can be cancelled upon the approval of the Board.
- (iii) The Company shall withhold and pay individual income tax and other taxes on behalf of the Participants in accordance with the relevant PRC tax laws and regulations.
- (iv) The Company undertakes not to provide loans and financial assistance in any other forms, including provision of guarantee for their loans, to the Participants with respect to the acquisition of relevant Share Options under the Scheme.
- (v) The Company shall timely, truthfully, accurately and completely disclose the information disclosure documents related to the Scheme in accordance with the relevant laws, regulations and normative documents, shall warrant that such documents do not contain false statement, misleading representation or material omission and shall perform relevant reporting obligations under the Scheme in a timely manner.
- (vi) The Company shall handle the issues concerning the exercise of the Share Options for the Participants who fulfill the Exercise Conditions in accordance with the Scheme and relevant regulations of the CSRC, the stock exchange and Depository and Clearing Corporation. The Company shall not be liable for losses incurred by the Participants who fail to complete the exercise of the Share Options caused by the CSRC, the stock exchange and Depository and Clearing Corporation.
- (vii) Other relevant rights and obligations as stipulated under the laws, administrative regulations and normative documents.

(2) *Rights and obligations of the Participants*

- (i) The Participants shall comply with the requirements of their positions within the Company, and shall work diligently and responsibly, strictly observe professional ethics, and make due contributions to the development of the Company.
- (ii) The Participants shall have the right to and shall exercise their options in accordance with the provisions of the Scheme, and lock up and trade the shares in accordance with the relevant provisions.
- (iii) Source of funds of the Participants shall be derived from funds owned or raised by them.

- (iv) The Share Options granted to the Participants shall not be transferred, used for guarantee or repayment of debts during the Vesting Period. The Share Options are not entitled with voting rights and do not involve in the distribution of bonus shares and dividends before being exercised.
- (v) The Participants shall pay the individual income tax and other taxes and levies for their gains from the Scheme in accordance with the PRC tax laws and regulations.
- (vi) The Participants undertake that, in the event that the Participants become unqualified to be granted with the relevant interest arrangement due to false statements, misleading statements or material omissions contained in the information disclosure documents of the Company, the Participants shall return all interests received from the Scheme to the Company after the confirmation that there are such false statements, misleading statements or material omissions contained in the relevant information disclosure documents in accordance with their commitments.
- (vii) In the case that a Participant become unqualified during the implementation of the Scheme in accordance with requirements of the Article 8 of the Administrative Measures, his/her granted Share Option that are not exercised shall be terminated.
- (viii) Other relevant rights and obligations as stipulated by laws, administrative regulations, normative documents and the Scheme.

(3) *Other explanations*

Upon consideration and approval of the Scheme at the Shareholders' general meeting of the Company, the Company will sign the Share Options Grant Agreement with each Participant whereby the rights and obligations under the Scheme and other relevant matters between the parties are clearly prescribed.

Any disputes between the Company and the Participants shall be resolved in accordance with provisions of the Scheme and the Share Options Grant Agreement. Disputes which are not clearly covered by the provisions shall be resolved in accordance with PRC laws through arm's length negotiation. Where the disputes cannot be settled through negotiations, they shall be referred to the People's Court with jurisdiction over the Company's place of domicile.

The determination of the Participants under the Scheme by the Company does not constitute an undertaking about the employment period of employees. The Company still determines its employment relationship with employees in accordance with the Labor Contract or employment contract signed with the Participants.

J. Supplemental provisions

- (1) The Scheme shall take effect after being considered and approved by the Company's Shareholders' general meeting;
- (2) The Scheme shall be interpreted by the Board.

2. PROPOSED GRANT UNDER THE A SHARE OPTION INCENTIVE SCHEME

A. Number of the underlying shares in respect of the Share Options under the Grant

The number of the underlying Shares in respect of the Share Options proposed to be granted pursuant to the Scheme is 30,850,000 A Shares, representing approximately 0.87% of the Company's total issued share capital of 3,550,000,000 Shares as of the date of announcement of the draft Scheme.

B. List of Participants and proposed distribution of interests to be granted

The total number of proposed Participants to whom the Share Options are proposed to be granted is 1,023, comprising core cadres of the Company. Details of distribution are set out as follows:

Position(s)	Number of Share Options granted (10'000)	Percentage of the number of Share Options granted under the Incentive Scheme	Percentage of total share capital on the date of announcement of the Incentive Scheme
Core cadres (1,023 persons)	2,776.50	90.00%	0.78%
Reserved Share Options	308.50	10.00%	0.09%
Total	<u>3,085.00</u>	<u>100.00%</u>	<u>0.87%</u>

Note: Some figures shown as totals in the table above may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.

The total number of Shares of the Company to be granted under the Scheme to any one of the above Participants during the Validity Period will not exceed 1.00% of the Company's total share capital. The total number of target shares involved in the Scheme during the Validity Period will not exceed 10.00% of the total share capital of the Company when the Scheme was submitted to the Shareholders' general meeting. The Reserved Share Options shall not exceed 20.00% of the total Share Options available under the Scheme. If the Participants voluntarily waive the benefits granted due to personal reasons, the Board shall make corresponding adjustments to the number of Shares Options granted.

The lawyers engaged by the Company will issue legal opinions on the eligibility of the above Participants and whether the Grant is in compliance with relevant laws and regulations, the Articles of Association and the Scheme.

C. Exercise Price and basis of determination

(1) Exercise Price under the First Grant of Share Options

The Exercise Price under the First Grant of Share Options under the Scheme shall be RMB11.02 per Share. Upon fulfillment of Exercise Conditions, each Share Option granted to the Participants can purchase one Share of the Company at the price of RMB11.02.

(2) Basis of determination of the Exercise Price under the First Grant of Share Options

The Exercise Price under the First Grant of Share Options shall not be less than the nominal value of the Shares and in principle the higher of:

- (i) the average trading price of the A Shares of the Company on the trading day immediately preceding the date of announcement of the Scheme (draft), being RMB11.02 per share;
- (ii) the average trading price of the A Shares of the Company for the 20 trading days immediately preceding the date of announcement of the Scheme (draft), being RMB11.02 per share.

(3) Basis of determination of the Exercise Price of the Reserved Share Options

The Exercise Price of the Reserved Share Options shall be consistent with the Exercise Price under the First Grant of Share Options.

3. MECHANISM FOR SPECIFIC OCCURRENCES TO THE COMPANY OR THE PARTICIPANTS UNDER THE A SHARE OPTION INCENTIVE SCHEME

A. Mechanism for occurrences of the Company

- (1) On occurrence of any of the following circumstances in respect of the Company, the Scheme shall be terminated and the outstanding Share Options granted under the Scheme that have not been exercised by the Participants shall be cancelled by the Company:
 - (i) issuance of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
 - (ii) issuance of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the Company in its financial report for the most recent accounting year;
 - (iii) failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings within the last 36 months after listing;
 - (iv) prohibition from implementation of share incentives by laws and regulations;
 - (v) such other circumstances as determined by the CSRC that shall terminate the Scheme.
- (2) On occurrence of any of the following circumstances in respect of the Company, the Scheme shall be carried out fully in accordance with the relevant provisions before occurrence of such situation:
 - (i) change in control of the Company;
 - (ii) merger and spin-off of the Company.
- (3) In case of non-compliance with conditions of the Grant or exercise arrangement for the Share Options by the Company due to false statements, misleading statements or material omissions in the information disclosure documents, the outstanding Share Options shall be cancelled by the Company.

In respect of the Share Options that have been exercised by the relevant Participants, the Participants concerned shall return to the Company all interests granted. The Participants who bear no responsibility for the abovementioned matters and incur losses as a result of the return of the Share Options granted may seek compensation from the Company or responsible parties in accordance with relevant arrangements under the Scheme. The Board shall withdraw the gains by the Participants in accordance with the abovementioned requirements and the relevant arrangements under the Scheme.

B. Mechanism for occurrences of the Participants

(1) Change of position of Participants

- (i) Where the position of a Participant changes, as long as he or she still works at the Company or subsidiaries thereof, the Share Options granted to him or her shall be exercised in accordance with the procedures set out in the Scheme.
- (ii) If a Participant serves as a Supervisor or an Independent Director or other positions that cannot hold the Share Options due to organizational transfers, his or her exercised Share Options shall remain unchanged, and the Share Options that have been granted but not exercised shall not be exercised and shall be cancelled by the Company.
- (iii) Where the position of a Participant changes due to his or her impairment of the interests and reputation of the Company as a result of breach of law, violation of professional ethics, releasing confidential information of the Company, breach of duty or malfeasance, or the Participant's termination of the labor or employment relationship by the Company due to the foregoing reasons, his or her exercised Share Options shall remain unchanged, and the Share Options that have been granted but not exercised shall not be exercised and shall be cancelled by the Company.

(2) Resignation of the Participant

- (i) If the contract of the Participant expires and is no longer renewed or the Participant resigns voluntarily, the exercised Share Options shall remain unchanged, and the Share Options that have been granted but not exercised shall not be exercised and shall be cancelled by the Company.
- (ii) If the Participant resigns passively due to layoffs and other reasons of the Company, and such resignation is not a result of unqualified performance, negligence, violation of laws and disciplines, etc., the Share Options that have been confirmed by the Board to reach the time limit for exercise and performance evaluation conditions shall be exercised in accordance with the procedures stipulated in the Scheme; the remaining Share Options that have not been confirmed by the Board to reach the time limit for exercise and performance evaluation conditions shall not be exercised and shall be cancelled by the Company.

(3) Retirement of the Participant

If the Participant resigns due to retirement, his/her granted Share Options will be fully implemented in accordance with the procedures stipulated in the Scheme before retirement, and his or her individual performance assessment results will no longer be included in the Exercise Conditions.

(4) Resignation of the Participant due to incapacity in working

- (i) If the Participant resigns due to work injuries and incapacities, his/her granted Share Options will be fully implemented in accordance with the procedures stipulated in the Scheme before the occurrence of such situation, and his or her individual performance assessment results will no longer be included in the Exercise Conditions.
- (ii) If the Participant resigns due to reasons other than work injuries and incapacities, the Share Options that have been confirmed by the Board to reach the time limit for exercise and performance evaluation conditions shall be exercised in accordance with the procedures stipulated in the Scheme; the remaining Share Options that have not been confirmed by the Board to reach the time limit for exercise and performance evaluation conditions shall not be exercised and shall be cancelled by the Company.

(5) Death of Participants

If a Participant deceases, the granted Share Options shall be held by his or her designated heir or lawful heir on his or her behalf, and shall be subject to the procedures stipulated in the Scheme prior to his or her death. The individual performance assessment results will no longer be included in the Exercise Conditions.

(6) Change to the control in the subsidiary where the Participant is working for

If the Participant serves in the Company's holding subsidiary, and the Company loses control of such subsidiary and the Participant remains in such subsidiary, the Share Options that have been confirmed by the Board to reach the time limit for exercise and performance evaluation conditions shall be exercised in accordance with the procedures stipulated in the Scheme; the remaining Share Options that have not been confirmed by the Board to reach the time limit for exercise and performance evaluation conditions shall not be exercised and shall be cancelled by the Company.

(7) Change to eligibility of the Participant

If the Participant is no longer eligible as a Participant due to one of the following situations, the exercised Share Options by the Participant shall remain unchanged, and the Share Options that have been granted but not exercised shall not be exercised and shall be cancelled by the Company:

- (i) he or she has been determined by stock exchange as an ineligible person in the last 12 months;
- (ii) he or she has been determined by the CSRC or its delegated agencies as an ineligible person in the last 12 months;
- (iii) he or she has been imposed by the CSRC or any of its delegated agencies with administrative penalties or measures prohibiting access into the market in the last 12 months due to material violation of laws and regulations;
- (iv) he or she is prohibited from acting as a director or a member of the senior management of a company as required by the Company Law;
- (v) he or she is prohibited from participating in share incentives of listed companies as required by laws and regulations;
- (vi) such other circumstances as determined by the CSRC.

C. Other circumstances

Other circumstances not stated above and the handling method thereof shall be determined by the Remuneration and Evaluation Committee.

4. ACCOUNTING TREATMENTS METHOD AND THE MEASUREMENT OF PERFORMANCE IMPACT

A. Accounting treatment method

(1) Date of Grant

Since Share Options cannot be exercised on the Date of Grant, no related accounting treatment is required. The Company will use the Black-Scholes Model on the Date of Grant to determine the fair value of Share Options on the Date of Grant.

(2) Vesting Period

On each balance sheet date within the Vesting Period, the Company shall recognize the relevant assets costs or current expenses for the services acquired during such period and shall be recognized under “Capital Reserve – Other Capital Reserve” at the fair value of the Share Options on the Date of Grant based on the best estimate of the number of exercisable Share Options.

(3) Accounting treatment after the Exercise Date

No adjustment shall be made to the confirmed costs and total owner's equity.

(4) Exercise Date

If the Exercise Conditions are met on the Exercise Date, the Share Options can be exercised and carried forward to the "Capital Reserve — Other Capital Reserve" recognized on each balance sheet date before the Exercise Date; if all or part of the Share Options become invalid or are abolished due to failure to exercise, it shall be treated in accordance with accounting standards and related regulations.

(5) Fair value and determination of the Share Options

In accordance with the relevant requirements of the Accounting Standards for Business Enterprises No. 11-Share-based Payments (《企業會計準則第 11 號 – 股份支付》) and the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (《企業會計準則第 22 號 — 金融工具確認和計量》), the Company uses the Black-Scholes model (BS model) as the pricing model, and the Company uses this model to make an estimation on the fair value of the Share Options granted based on 21 February 2020 (official calculation will be conducted at the time of Grant). The specific parameters are selected as follows:

- (i) Price of target shares: RMB10.99 per share (closing price on 21 February 2020)
- (ii) Validity Period: 1 year and 2 years, respectively (period commencing from Date of Grant and ending on the first date of exercise for each respective period)
- (iii) Historic volatility: 19.62% and 19.34% (annualized volatility for the corresponding period of SSE Composite Index)
- (iv) Risk-free interest rate: 1.50% and 2.10% (based on one-year and two-year RMB deposit benchmark interest rate, respectively, of financial institutes developed by the People's Bank of China)

B. Expected impact of the implementation of Share Options on operating performance in each period

The Company granted 27,765,000 Share Options to the Participants for the First Grant of Share Options. The fair value of the Share Options on the date of Grant was estimated based on the relevant valuation tools. The total fair value of the equity instruments granted this time is estimated to be RMB32,184,300. The total fair value as the Company's incentive cost of the Scheme will be recognized in stages during the implementation of the Scheme in accordance with the exercise percentage, and will be charged to the recurring profit or loss. According to the requirements of the accounting standards, the specific amount shall be subject to the fair value of the Shares calculated on the actual Date of Grant. Assuming that the Company grants Share Options in April 2020, where all the granted Participants meet the Exercise Conditions specified in the Scheme and have

exercised during respective Exercise Periods, the amortization of Share Options costs from 2020 to 2022 is as follows:

Amortized costs of the Share Options	<i>Unit: RMB</i>		
	2020	2021	2022
32,184,300	14,996,300	13,958,100	3,230,000

The costs of the Scheme shall be charged to the costs and expenses. Based on the current information, the Company estimates that without considering the positive effect of the Scheme on the Company's performance, the amortization of the costs of the Scheme will have an impact on the net profit each year within the Validity Period, but the impact is not significant. Taking into account the positive effect of the Scheme on the Company's operation and development, which stimulates the enthusiasm of management and business teams, improves operating efficiency, and reduces operating costs, the performance improvement of the Company brought by the Scheme will be higher than the increase in costs caused by it.

5. IMPLICATIONS UNDER THE LISTING RULES

The A Share Option Incentive Scheme constitutes a share option scheme under Chapter 17 of the Listing Rules. Pursuant to the requirements of Rule 14A.92(3)(a) of the Listing Rules, issue of new securities to connected persons of the Company is fully exempted from the requirements of approval by Shareholders, annual review, announcement and circular under Chapter 14A of the Listing Rules. Directors who are the proposed Participants under the proposed A Share Option Incentive Scheme have abstained from voting on the proposed A Share Option Incentive Scheme and/or the proposed Grant to themselves.

6. WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

As the Scheme involves the issuance of new A Shares by the Company, Chapter 17 and certain provisions under the Listing Rules are therefore applicable to the Scheme, and the relevant PRC laws and regulations relating to the establishment of the Scheme and the Grant of Share Options are also applicable. Therefore, the Company has complied with the requirements of the relevant PRC laws and regulations as well as the Listing Rules as far as possible when preparing the terms of the Scheme, and has applied to the Hong Kong Stock Exchange for waivers from strict compliance with the requirements for Exercise Price and its adjustment under the Rule 17.03 of the Listing Rules.

(1) Waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules regarding the basis of determine of the Exercise Price

Note (1) to Rule 17.03(9) of the Listing Rules requires that the exercise price of relevant share options must be at least the higher of (i) the closing price of the securities on the date of granting the options; and (ii) the average closing price of the securities for the five business days immediately preceding the date of granting the options. However, the relevant PRC laws and regulations require that the exercise price of A Share Option

Incentive Scheme shall be the highest of: (i) the average trading price of the A Shares on the trading day immediately preceding the date of announcement of the A Share Option Incentive Scheme; and (ii) one of the average trading price of the A Shares for the 20/60/120 trading days immediately preceding the date of announcement of the A Share Option Incentive Scheme.

Since the Share Options proposed to be granted under the Scheme involve A Shares only, and the Exercise Price must be determined based on the relevant PRC laws and regulations, the Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules in respect of the Exercise Price of the Share Options proposed to be granted under the Scheme.

For details of the Exercise Price and the basis of determination, see the section headed “Proposed Grant Under the A Share Option Incentive Scheme — Exercise Price and basis of determination” in this announcement.

(2) Waiver from strict compliance with Rule 17.03(13) of the Listing Rules regarding the adjustment of Exercise Price in the event of dividend distribution

Rule 17.03(13) of the Listing Rules required the scheme document must include a provision for adjustment of the exercise price or the number of securities subject to options already granted and to the scheme in the event of capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital.

On the basis of the following factors, the Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance with Rule 17.03(13) of the Listing Rules regarding the adjustment of Exercise Price in the event of dividend distribution: (i) the proposed terms of the Scheme, including the provision of adjustment of Exercise Price in the event of dividend distribution, are prepared in accordance with the relevant requirements under the PRC laws and regulations and the requirements of the relevant regulatory authorities in the PRC; (ii) the number of A Share Options proposed to be granted under the Scheme is 30,850,000, representing approximately 0.87% of the total issued share capital of the Company and approximately 1.07% of the total issued A Share capital of the Company as at the date of announcement of the draft Scheme. The dilutive impact of the Scheme is minimal. Further, according to the relevant PRC laws and regulations, the issue price of a Share shall not be below the nominal value of the Shares and therefore, the A Shares shall not be issued at less than its nominal value of RMB1.0 per A Share pursuant to the exercise of the Share Options; (iii) the A Shares, being the underlying Shares of the Share Options, have been trading at a premium over the H Shares. Taking into account the deviation in the trading prices of the A Shares and H Shares, the dilutive impact on the H Share Shareholders as a result of issue of new A Shares pursuant to the exercise of Share Options is negligible; and (iv) notwithstanding the adjustment for dividend distribution, the adjusted Exercise Price of the Share Options in the event of dividend distribution is expected to remain higher than the then prevailing trading price of the H Shares.

For details of the adjustment of Exercise Price in the event of dividend distribution, see the section headed “Proposed Adoption of the A Share Option Incentive Scheme — Methods of and procedures for adjustment of the Scheme” in this announcement.

7. THE SHAREHOLDERS’ GENERAL MEETING

The Scheme is proposed to be considered by Shareholders at the Shareholders’ general meeting. The Company will deliver a circular to Shareholders in due course, stating the terms of the Scheme and the details of the proposed Grant.

DEFINITIONS

“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
“Administrative Measures”	the Administrative Measures on Share Incentives of Listed Companies (《上市公司股權激勵管理辦法》)
“Articles of Association”	the articles of association of the Company
“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)
“Company Law”	the Company Law of the People’s Republic of China
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Date of Grant”	the date on which the Company grants the Share Options to the Participants, which must be a trading day under the SSE Listing Rules
“Depository and Clearing Corporation”	China Securities Depository and Clearing Corporation Limited, Shanghai Branch
“Director(s)”	the director(s) of the Company
“Exercise Date”	the date on which the Participants are entitled to exercise the Share Options, which must be a trading day under the SSE Listing Rules

“Exercise Period”	the exercise period as set out in the Scheme
“Exercise Price”	the price for the Participants to purchase A Shares, as determined by the Company when the Participants are being granted with the Share Options
“Exercise Conditions”	the conditions required to be satisfied by the Participants to exercise the Share Options under the Scheme
“Grant”	a total of 30,850,000 Share Options granted by the Company to the Participants under the Scheme
“H Share(s)”	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 Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Director(s)”	the independent non-executive director(s) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Participant(s)”	the core cadres who are granted with Share Options under the Scheme
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Remuneration and Evaluation Committee”	the Remuneration and Evaluation Committee under the Board
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme” or “A Share Option Incentive Scheme”	the 2020 Share Option Incentive Scheme of Red Star Macalline Group Corporation Ltd.
“Securities Law”	the Securities Law of the People’s Republic of China
“Share(s)”	A Share(s) and H Share(s)
“Share Options”	the right to be granted to a Participant by the Company to acquire certain number of shares of the Company under the pre-determined conditions in a particular period of time in the future

“Shareholder(s)”	the A Share Shareholder(s) and the H Share Shareholder(s) of the Company
“stock exchange”	the SSE and the Stock Exchange
“SSE”	the Shanghai Stock Exchange
“SSE Listing Rules”	the Shanghai Stock Exchange Listing Rules
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Validity Period”	the period from the date on which Share Options are granted to the date on which all Share Options are exercised or cancelled
“Vesting Period”	the period from the date on which the registration of the grant of Share Options are completed to the Exercise Date of the Share Options
“%”	percent.

By Order of the Board
Red Star Macalline Group Corporation Ltd.
GUO Binghe
Vice Chairman

Shanghai, the PRC

23 February 2020

This announcement is prepared in both Chinese and English versions. In case of inconsistency, the Chinese version shall prevail.

As at the date of this announcement, the executive Directors of the Company are CHE Jianxing, GUO Binghe, CHE Jianfang and JIANG Xiaozhong; the non-executive Directors are CHEN Shuhong, XU Guofeng, JING Jie and XU Hong; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, Eddie, WANG Xiao and ZHAO Chongyi.