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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 THIRD PHASE OF THE A SHARE EMPLOYEE STOCK OWNERSHIP PLAN

The Company announced that the Board has resolved on 6 February 2021 to propose the adoption of the Third Phase of the Employee Stock Ownership Plan by the Company, which will be implemented subject to the approval at the shareholders' general meeting. The Employee Stock Ownership Plan will become effective upon approval by the shareholders at the shareholders' general meeting.

INTRODUCTION

The Company announced that the Board has resolved on 6 February 2021 to propose the adoption of the Third Phase of the Employee Stock Ownership Plan by the Company, which will be implemented subject to the approval at the shareholders' general meeting. The Employee Stock Ownership Plan will become effective upon approval by the shareholders at the shareholders' general meeting.

THE THIRD PHASE OF THE EMPLOYEE STOCK OWNERSHIP PLAN

1. Purposes

The draft of the Employee Stock Ownership Plan is formulated by the Company in accordance with the requirements under the Company Law, the Securities Law, the Guiding Opinions, the relevant laws, regulations, rules, 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 employees and the shareholders;
- (II) to further improve the corporate governance of the Company, enhance the cohesion of employees and the competitiveness of the Company, and promote the Company's long-term, sustainable and healthy development;

(III) to help enhance the employees' sense of responsibility towards the Company effectively, attract and retain outstanding management talents and core calibers, which in turn will further enhance employees' cohesion and the vitality of the Company.

2. Basis for Determination and Scope of Holders

A. Basis for Determination of Holders

The Holders of the Plan will be 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. Employees of the Company participate in the Plan in accordance with laws and regulations on a voluntary basis at their own risks.

B. Scope of Holders

The participants of the Plan are Directors, Supervisors, senior management of the Company and management and core personnel of its subsidiaries.

Unless otherwise stipulated, all participants are required to enter into a labor contract or an employment contract with the Company or its subsidiaries during the term of the Plan.

C. Allocation of Shares among Holders

The total funds under the Plan upon establishment shall not be more than RMB300 million, divided into "units" for subscription and each unit is equal to RMB1.00. The Employee Stock Ownership Plan has a maximum of 300 million units. The specific number of units to be held by a Holder of the Employee Stock Ownership Plan is subject to his/her actual amount of contribution upon final confirmation.

The total number of the Employee Stock Ownership Plan participants shall not be more than 800. The specific number and list of participants will be selected by the Company and will be determined according to the actual amount of contribution made by employees.

The maximum number of units and proportion proposed to be held by the Holders are as follows:

	Name of Holder	Position	Maximum number of units (10 thousand)	Maximum proportion (%)
1	CHE Jianxing	Chairman, general manager		
2	CHE Jianfang	Director, vice general manager		
3	CHEN Shuhong	Director		
4	JIANG Xiaozhong	Director, vice general manager		
5	GUO Binghe	Vice Chairman, vice general manager, secretary to the Board	2,360.00	7.87
6	PAN Ning	Chairman of the Supervisory Committee		
7	CHAO Yanping	Supervisor		
8	LIU Yuanjin	Vice general manager		
9	LI Jianhong	Vice general manager		
10	XI Shichang	Chief financial officer		
11	ZHANG Xian	Vice general manager		
	Other employees of the Company and its controlling subsidiaries (not more than 789 employees)		<u>27,640.00</u>	<u>92.13</u>
	Total		<u><u>30,000.00</u></u>	<u><u>100.00</u></u>

Note: The final number of units in the Employee Stock Ownership Plan to be subscribed for by a participant is subject to his/her actual amount of contribution.

The total number of Shares held under this Employee Stock Ownership Plan shall not exceed 1.00% of the total share capital of the Company. The total number of Shares held under all effective employee stock ownership plans shall not be more than 10.00% of the total share capital of the Company. The total number of Shares to be held by any employee according to the number of units he/she subscribed for in the Stock Ownership Plan (including each Phase) shall not be more than 0.10% of the total share capital of the Company.

The total number of Shares held under the Employee Stock Ownership Plan excludes the Shares acquired by employees before the initial public offering of the Company and the Shares acquired independently from the secondary market.

3. Source of Funds, Source of Shares and Size

A. Source of Funds

The source of the funds for the Plan includes the participants' self-raised funds, funds withdrawn by the Company from incentive payments and other sources as permitted under the laws and regulations. The Company shall withdraw funds from the incentive payments for funding the Employee Stock Ownership Plan in the proportion of the amount of self-raised funds contributed by employees.

The funds raised for the Plan shall not exceed RMB300 million in total, divided into "units" for subscription and each unit is equal to RMB1.00. The total number of Shares of the Company to be held by any Holder according to the number of units he/she subscribed for in the Plan shall not exceed 0.10% of the total share capital of the Company. The specific number of units to be held by a Holder of the Employee Stock Ownership Plan is subject to his/her actual amount of contribution upon final confirmation.

Holders of the Plan shall pay the subscription amount in full and on time according to the subscribed units, and the payment schedule of the Employee Stock Ownership Plan will be notified and arranged centrally by the Company. A Holder who fails to pay the subscription amount on time and in full will automatically lose his/her subscription right.

B. Source of Shares

Upon the approval of the draft of the Plan at the shareholders' general meeting of the Company, the Company will entrust a professional agency with asset management qualifications to establish and manage the Directional Plan. The maximum amount of proceeds to be raised from the Directional Plan is RMB300 million, divided into "units" for subscription and each unit is equal to RMB1.

Within six months after consideration and approval of the Employee Stock Ownership Plan at the shareholders' general meeting, the Directional Plan will obtain and hold Shares of the Company through purchases on the secondary market or other means as permitted under the laws and regulations and will not purchase shares of other companies.

C. Size

Since there are uncertainties as to the date, price and funds for the actual purchase of Shares under the Directional Plan due to the implementation of the Plan and market conditions, the final number of the Underlying Shares is uncertain.

4. Term and Lock-up Period

A. Term

- (1) The term of the Plan is 24 months, commencing from the date when the draft of the Plan is considered and approved at the shareholders' general meeting of the Company and the Company announces the registration of the last tranche of the Underlying Shares under the Directional Plan. The Plan will be automatically terminated if it is not extended upon the expiry of the term.
- (2) After the lock-up period of the Plan expires, the Plan may be terminated in advance after all the Shares held by the Employee Stock Ownership Plan are transferred out and all monetary assets (if any) under the Employee Stock Ownership Plan have been liquidated and distributed.
- (3) If the Shares of the Company held are still not fully sold or transferred to the Holders of the Employee Stock Ownership Plan, the term of the Employee Stock Ownership Plan may be extended within two months before the expiry of the term of the Plan, as agreed by the Holders holding more than two-thirds (inclusive) of the total units and attending the Holders' Meeting, and as considered and approved by the Board of the Company.
- (4) If the Shares held by the Plan cannot be fully realized prior to the expiry of the maximum term of the Plan due to suspension of trading of the Shares or information sensitive period, the term of the Employee Stock Ownership Plan may be extended as agreed by the Holders holding more than two-thirds (inclusive) of the total units and attending the Holders' Meeting, and as considered and approved by the Board.

B. Lock-up Period

- (1) The lock-up period of the Underlying Shares allotted to the Directional Plan shall be 12 months, commencing from the date when the draft of the Plan is considered and approved at the shareholders' general meeting of the Company and the Company announces the registration of the last tranche of the Underlying Shares under the Directional Plan. The Management Committee will, within 12 months after the expiry of the lock-up period, be entitled to authorize the Asset Management Agency to sell or transfer the purchased Shares of the Company in accordance with the arrangements of the Employee Stock Ownership Plan and the prevailing market conditions.

The Underlying Shares allotted to the Plan 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 of the Employee Stock Ownership Plan and the Directional Plan must strictly abide by the market trading rules and the requirement that no shares can be traded during the information sensitive period. All parties must not exploit the Employee Stock Ownership Plan for security frauds such as insider trading and market manipulation.

The aforementioned sensitive period refers to:

- (i) 60 days prior to the announcement of the Company's annual report, including the date of announcement of the annual report, or the period from the last day of the financial year to the date of announcement of the annual report (the shorter one prevails);
- (ii) 30 days prior to the review of the announcement of the Company's interim report or quarterly report, including the date of announcement of the interim report or the quarterly report, or the period from the last day of the quarter or the half year to the date of announcement of the periodic 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 issue, which may significantly affect the Company's share price, occurs or is in the process of decision-making to 2 trading days after its lawful disclosure;
- (v) Other periods as stipulated by the stock exchange.

5. Management Agency and Management Mode

The Plan will be managed by an appointed professional agency with asset management qualifications and the Holders' Meeting represents the highest internal management authority. Holders' Meeting consists of all Holders of the 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 Plan (including but not limited to reducing the Shares of the Company held under the Plan upon the expiry of the lock-up period, distributing gains and cash assets to the Holders on behalf of the Plan, etc.), and exercise the power of shareholder on behalf of the Holders of the Employee Stock Ownership Plan or authorize an asset management agency to do so. The Company has adopted appropriate risk prevention and isolation measures to properly protect the legitimate interests of the Holders of the Employee Stock Ownership Plan. The Board shall be responsible for drafting and revising the Plan, and shall deal with other matters related to the Plan within the scope of authorization as granted by the shareholders' general meeting.

6. Amendment and Termination of the Employee Stock Ownership Plan and Disposal of Rights and Interests of Holders

A. Change of Actual Control, Merger 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 Plan.

B. Amendment to the Employee Stock Ownership Plan

Within the term, any amendment to the Plan shall be passed by the Holders holding more than two-thirds (inclusive) of the total units and attending the Holders' Meeting and be submitted to the Board for consideration and approval.

C. Termination of the Employee Stock Ownership Plan

- (1) The Plan will be terminated automatically after the expiry of the term;
- (2) After the lock-up period of the Plan expires, if the assets held under the Employee Stock Ownership Plan are all monetary funds and have been fully liquidated and distributed, the Plan can be terminated in advance;
- (3) If the Shares of the Company held are still not fully sold or transferred to the Holders of the Employee Stock Ownership Plan, the term of the Plan may be extended within two months before the expiry of the term of the Plan, as agreed by the Holders holding more than two-thirds (inclusive) of the total units and attending the Holders' Meeting, and as considered and approved by the Board;
- (4) Where the Company's Shares held under the Plan cannot be fully realized prior to the expiry of the maximum term due to suspension of trading of the Shares of the Company or short trading window, the term of the Employee Stock Ownership Plan may be extended as agreed by the Holders holding more than two-thirds (inclusive) of the the total units and attending the Holders' Meeting, and as considered and approved by the Board.

D. 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. Any transfer without consent shall be void and invalid.
- (3) Upon occurrence of (a) - (g) below, the rights and interests shall be disposed of in accordance with clause (i) or clause (ii) depending on the time of occurrence:
 - (a) both parties agree not to renew the labor contract or employment contract upon its expiry;
 - (b) early termination of the labor contract or employment contract by a Holder upon mutual agreement with the Company;
 - (c) the Company's unilateral termination or cancellation of a Holder's labor contract or employment contract due to operational considerations;
 - (d) change of position of the Holders or failure to meet the conditions of relevant position or eligibility requirements for participating in the Employee Stock Ownership Plan due to internal decision of the Company,;
 - (e) unilateral termination or cancellation of labor contract or employment contract by a Holder without mutual agreement with the Company;

- (f) termination or cancellation of labor contract or employment contract by the Company due to personal reasons of a Holder (including being dismissed or removed by the Company);
 - (g) other circumstances where the Management Committee determines that a Holder is not eligible to participate in the Plan.
 - (i) If any of the above happens during the term and prior to the liquidation of the Plan, the Shares that are purchased with the incentive payments withdrawn by the Company in the funds shall be acquired by the Management Committee without compensation, and the amount received from the disposal at an appropriate time shall be distributed among the remaining Holders in proportion to their respective units held upon expiry of the term or early liquidation (whichever is earlier). Shares that are purchased with the self-raised funds shall be disposed of by the Management Committee at an appropriate time, and the amount received from the disposal shall be returned to the individuals upon expiry of the term or early liquidation (whichever is earlier) according to the units they hold at that time;
 - (ii) If any of the above happens during the period when the Plan is extended, the Shares that are purchased with the incentive payments withdrawn by the Company or the self-raised funds will be retained and be disposed of by the Management Committee at an appropriate time, and the amount received will be returned to the individuals within 3 months from the date of occurrence of such circumstance according to the units the individuals hold at that date of occurrence.
- (4) Upon occurrence of any one of the following circumstances, the Management Committee may decide that the interests held by the Holders shall remain unchanged:
- (a) loss of working capacity;
 - (b) resignation from his office in the Company due to organizational restructuring;
 - (c) retirement;
 - (d) death, and the rights and interests shall be obtained by his designated estate successor or legal successor;
 - (e) other reasons which the Management Committee considers appropriate that cause the Holder to cease to hold any position in 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.

CONFIRMATION OF DIRECTORS

The Board considered that the terms of the Employee Stock Ownership Plan are on normal commercial terms and are fair and reasonable and in the interests of the Company and the shareholders as a whole. In accordance with the requirements of relevant laws and regulations, Mr. CHE Jianxing, Ms. CHE Jianfang, Mr. JIANG Xiaozhong, Mr. GUO Binghe, Mr. XU Guofeng and Ms. CHEN Shuhong abstained from voting on the relevant Board resolutions due to conflict of interest or potential conflict of interest with the Plan. Save as disclosed above, none of the Directors has a material interest in the Employee Stock Ownership Plan.

LISTING RULES IMPLICATIONS

The Plan is a discretionary employee stock ownership plan of the Company and does not involve granting the Company the option to issue new shares or any other new securities, and does not constitute a share option plan under Chapter 17 of the Listing Rules.

The Company will continue to evaluate whether the Employee Stock Ownership Plan will constitute a connected transaction under Chapter 14A of the Listing Rules and will abide by the applicable requirements when appropriate (including the requirements for resolutions involved connected transactions requiring abstain from voting). The Company will also make sure that it will comply with the public float requirement under the Listing Rules.

SHAREHOLDERS' GENERAL MEETING

It is recommended that the Plan shall be considered by shareholders at the shareholders' general meeting. The Company will dispatch to shareholders a circular containing the terms of the Plan and the details of the proposed grant in due course.

DEFINITIONS

“A Share(s)”	ordinary share(s) issued by the Company with nominal value of RMB1.0 each, which is/are listed on the Shanghai Stock Exchange and traded in RMB
“Articles of Association”	the Articles of Association of the Company
“Asset Management Agency”	the professional asset management agency 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 limited company incorporated in the PRC, the H Shares of which 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 parties”	has the meanings ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Directional Plan”	the directional plan established by a professional agency with asset management qualifications entrusted after the establishment of the Employee Stock Ownership Plan
“Director(s)”	the director(s) of the Company
“Employee Stock Ownership Plan” or “Plan”	the Third Phase of the Employee Stock Ownership Plan of Red Star Macalline Group Corporation Ltd.
“Guiding Opinions”	the Guiding Opinions on the Implementation of Pilot Program on Employee Stock Ownership Plan by Listed Companies
“Holder(s)”	the employees of the Company who pay to participate in the Employee Stock Ownership Plan, comprising Directors, Supervisors, senior management of the Company and management and core personnel of its subsidiaries
“Holders’ Meeting”	meeting of holders of the Employee Stock Ownership Plan
“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 and traded on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Management Committee”	the management committee of the Employee Stock Ownership Plan
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the People’s Republic of China

“Share(s)” the A Share(s) or H Share(s)

“Stock Exchange” or “Hong Kong Stock Exchange” The Stock Exchange of Hong Kong Limited

“Supervisor(s)” supervisor(s) of the Company

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

Shanghai, the PRC
7 February 2021

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, XU Hong and LIU Jin; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, Eddie, WANG Xiao, ZHAO Chongyi and QIN Hong.