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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 NEW ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS UNDER
THE CONTRACT MANAGEMENT AGREEMENTS
WITH YANGZHOU RSHFP
AND JINING HONGRUI**

INTRODUCTION

References are made to the Prospectus and the announcements of the Group dated 20 November 2017, 29 November 2018, 25 November 2019 and 28 November 2019 in relation to, inter alia, the continuing connected transactions between the Group and the Associated Business Partners under the Contract Management Agreements.

Prior to 2013, the Group entered into a Contract Management Agreement with each of the Associated Business Partners (including among others, Yangzhou RSHFP and Jining Hongrui), pursuant to which the Group will manage and operate the home improvement and furnishings shopping malls owned by each of the Associated Business Partners. Each of the Contract Management Agreements has a term ranging from seven to ten years commencing from its respective signing date.

On 29 November 2018, the Company entered into a Contract Management Agreement with Yangzhou RSHFP, for a term from 31 December 2018 to 31 December 2021, and accordingly adjusted the overall annual caps for the Contract Management Transactions for the years ended/ending 31 December 2019, 2020 and 2021.

On 25 November 2019, the Company entered into Contract Management Agreements with Xuzhou RSHFC and Xuzhou RSHFP, respectively, for a term from 1 January 2020 to 31 December 2022, and accordingly adjusted the overall annual caps for the Contract Management Transactions for the years ended/ending 31 December 2020, 2021 and 2022.

The Contract Management Agreements that the Company entered into with Yangzhou RSHFP and Jining Hongrui will expire on 31 December 2021 and 28 September 2021, respectively. The Board is pleased to announce that, on 17 September 2021, the Company entered into supplemental agreements with Yangzhou RSHFP and Jining Hongrui, respectively, to extend the term for a period of three years. The Company proposes to set new annual caps for the Contract Management Agreements entered into with Yangzhou RSHFP and Jining Hongrui, which in turn will also lead to changes to the overall annual caps for the Contract Management Transactions for the years ending 31 December 2021, 2022, 2023 and 2024.

PRINCIPAL TERMS OF THE CONTRACT MANAGEMENT AGREEMENTS

The following table sets forth a summary of the principal terms of the Contract Management Agreements that the Company has entered into with Yangzhou RSHFP and Jining Hongrui, respectively. For the summary of the principal terms of the Contract Management Agreements entered into by the Company with other Associated Business Partners, please refer to the announcement of the Company dated 25 November 2019.

| Shopping Mall | Total Operating Area (sq.m.'000) | Location | Date of Agreement | Term | Annual Management Fee (in millions of RMB) | Payment Terms |
|----------------|-------------------------------------|---|---|--|--|--|
| | | | | | | |
| Yangzhou RSHFP | 70.06 | No. 88 Hongqi Road, Jiangwang Street, Hanjiang District, Yangzhou City, Jiangsu Province, PRC | 28 December 2010 (supplemental agreements entered into on 29 November 2018 and 17 September 2021, respectively) | From 1 January 2011 to 31 December 2018 (From 1 January 2019 to 31 December 2021 and from 1 January 2022 to 31 December 2024, respectively, for the renewal term(s)) | Fixed amount of RMB3.0 million per annum | Annual management fee for the next year shall be payable in one lump sum before 25 December each year |
| Jining Hongrui | 61.79 | No. 99 Jinyu Road East, High-tech Development Zone, Jining City, Shandong Province, PRC | 18 December 2009 (supplemental agreements entered into on 31 December 2013 and 17 September 2021, respectively) | From 29 September 2011 to 28 September 2021 (From 29 September 2021 to 28 September 2024 for the renewal term) | On and before 28 September 2021: 7.5% of the total rental received by Jining Hongrui (subject to a minimum annual management fee of RMB3.0 million); On and after 29 September 2021: fixed amount of RMB4.5 million per year | On and before 28 September 2021: Monthly deduction of management fee from the rental collected from merchants; On and after 29 September 2021: Management fee for the quarter shall be payable before the 15th of the last month of each quarter; Management fee of RMB1 million for the next year shall be prepaid before 25 December each year and management fee in excess of the prepayment shall be payable quarterly |

As the Group will continue to carry out the Contract Management Transactions contemplated under the Contract Management Agreements in its ordinary and usual course of business, the Board proposes to set new annual caps for the Contract Management Transactions under the Contract Management Agreements entered into with Yangzhou RSHFP and Jining Hongrui, respectively, which in turn will also lead to changes to the overall annual caps for the Contract Management Transactions for the years ending 31 December 2021, 2022, 2023 and 2024.

HISTORICAL ANNUAL CAPS AND TRANSACTION AMOUNTS

The total management fee received by the Company pursuant to the Contract Management Agreements, together with the relevant annual caps, are set out as follows:

| | Annual management fee received for the year ended 31 December 2019* <i>(in millions of RMB)</i> | Annual management fee received for the year ended 31 December 2020* <i>(in millions of RMB)</i> | Annual management fee received for the period commencing on 1 January 2021 and ended on 30 June 2021* <i>(in millions of RMB)</i> |
|------------------|---|---|---|
| Xuzhou RSHFC | 2.1 | 1.6 | 0.9 |
| Xuzhou RSHFP | 3.4 | 2.7 | 1.5 |
| Yangzhou RSHFP | 2.8 | 2.6 | 1.4 |
| Jining Hongrui | 5.0 | 4.1 | 1.4 |
| Shaanxi Hongrui | 2.8 | 2.6 | 1.4 |
| Sub-total | 16.2 | 13.7 | 6.7 |

* *Relevant figures have been subject to rounding adjustments*

| | Historical annual cap for the year ended 31 December 2019 <i>(in millions of RMB)</i> | Historical annual cap for the year ended 31 December 2020 <i>(in millions of RMB)</i> | Historical annual cap for the year ending 31 December 2021 <i>(in millions of RMB)</i> |
|------------------|---|---|--|
| Xuzhou RSHFC | 2.5 | 1.9 | 1.9 |
| Xuzhou RSHFP | 4.0 | 4.5 | 4.72 |
| Yangzhou RSHFP | 3.0 | 3.0 | 3.0 |
| Jining Hongrui | 5.0 | 5.0 | 3.8 ^{Note} |
| Shaanxi Hongrui | 3.0 | 3.0 | 3.0 |
| Sub-total | 17.5 | 17.4 | 16.42 |

Note: This figure represents the historical annual cap for the management fee to be received by the Company from Jining Hongrui for the period commencing on 1 January 2021 and ending on 28 September 2021.

PROPOSED NEW ANNUAL CAPS

The Directors have been closely monitoring the Contract Management Transactions under the Contract Management Agreements. According to the historical transaction amounts as set out below, the Board proposes to set new annual caps for the following Contract Management Transactions under the Contract Management Agreements entered into with Yangzhou RSHFP and Jining Hongrui, respectively, which in turn will lead to changes to the overall annual caps for the Contract Management Transactions for the year ending 31 December 2021, 2022, 2023 and 2024:

| | Proposed annual cap for the year ending 31 December 2021 <i>(in millions of RMB)</i> | Proposed annual cap for the year ending 31 December 2022 <i>(in millions of RMB)</i> | Proposed annual cap for the year ending 31 December 2023 <i>(in millions of RMB)</i> | Proposed annual cap for the year ending 31 December 2024 <i>(in millions of RMB)</i> |
|------------------|--|--|--|--|
| Xuzhou RSHFC | 1.9 | 1.9 | – | – |
| Xuzhou RSHFP | 4.72 | 4.96 | – | – |
| Yangzhou RSHFP | 3.0 | 3.0 | 3.0 | 3.0 |
| Jining Hongrui | 4.93 | 4.5 | 4.5 | 3.38 ^(a) |
| Shaanxi Hongrui | 3.0 | 2.3 ^(b) | – | – |
| Sub-total | 17.55 | 16.66 | 7.5 | 6.38 |

Notes:

- (a) This figure represents the proposed annual cap for the management fee to be received by the Company from Jining Hongrui for the period commencing on 1 January 2024 and ending on 28 September 2024.
- (b) This figure represents the proposed annual cap for the management fee to be received by the Company from Shaanxi Hongrui for the period commencing on 1 January 2022 and ending on 30 September 2022.

In arriving at the proposed new annual caps in respect of the Contract Management Agreements entered into with Yangzhou RSHFP and Jining Hongrui, respectively, the Directors have taken into account the following factors:

- (i) the total annual revenue of the shopping malls of Yangzhou RSHFP and Jining Hongrui;
- (ii) the historical, current and projected management fee received by the Company under the Contract Management Agreements entered into with Yangzhou RSHFP and Jining Hongrui, respectively;
- (iii) the prevailing market conditions in respect of the property market;
- (iv) the prevailing market rent for comparable properties in nearby areas;
- (v) the historical, current and projected management fee for comparable properties in nearby areas;
- (vi) the current estimation of the future rental income level for the shopping malls; and
- (vii) the Associated Business Partners' expectation of the future rental income.

Reasons for renewing the Contract Management Agreements with Yangzhou RSHFP and Jining Hongrui

Yangzhou RSHFP and Jining Hongrui have introduced high-end brand names in Yangzhou and Jining, and many leading home improvement and furnishings companies in the industry. The one-stop home furnishings shopping experience provided by Yangzhou RSHFP and Jining Hongrui have also attracted a large number of customers and drawn the key attention of industry dealers. The Directors believe that it is in the Group's interests and in line with the Group's business strategy to renew the Contract Management Agreements with Yangzhou RSHFP and Jining Hongrui.

The Directors (including independent non-executive Directors) consider that the Contract Management Agreements with Yangzhou RSHFP and Jining Hongrui, respectively, are entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group and Shareholders as a whole.

Internal Control Measures

In order to ensure that the terms of the Contract Management Agreements are fair and reasonable and that the Company complies with the pricing terms of the relevant Contract Management Agreements, the Company has adopted the following internal control procedures:

- (1) the Company has arranged the finance department to monitor the transaction amounts of the Contract Management Transactions;

- (2) relevant information and materials in relation to the Contract Management Transactions will be reviewed and considered by the Company's finance department and the secretariat of the Board to ensure compliance with the requirements of the Listing Rules;
- (3) the independent non-executive Directors have reviewed and will continue to review the Contract Management Transactions, to ensure that the terms of such transactions are fair and reasonable, and such transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interest of the Company and the Shareholders as a whole; and
- (4) the auditors of the Company will conduct annual reviews on the caps for the Contract Management Transactions.

LISTING RULES IMPLICATIONS

As Associates of Mr. Che and Ms. Che, the Associated Business Partners are connected persons of the Company under the Listing Rules and the Contract Management Transactions contemplated under each of the Contract Management Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Contract Management Agreements are of the same nature and have been classified as aggregated and treated as if they were one under the Listing Rules. Accordingly, the proposed new annual caps in respect of the Contract Management Transactions are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the proposed new annual caps under the Contract Management Transactions, on an aggregated basis, is above 0.1%, but below 5%. Therefore, in accordance with Rule 14A.76 of the Listing Rules, the Contract Management Transactions are only subject to the annual review, reporting and announcement requirements as set out in Chapter 14A of the Listing Rules, but are exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements.

Mr. Che, Ms. Che and Ms. CHEN Shuhong (as spouse of Mr. Che) have abstained from voting on the Board resolutions approving the proposed new annual caps for the Contract Management Agreements entered into with Yangzhou RSHFP and Jining Hongrui, respectively, the Contract Management Transactions and the adjustments on the overall annual caps for the Contract Management Transactions, in view of their interests in the transactions contemplated thereunder. Save as disclosed above, none of the Directors has any material interests in the Contract Management Agreements.

INFORMATION ON YANGZHOU RSHFP AND JINING HONGRUI

Yangzhou RSHFP, a limited liability company established in the PRC, is mainly engaged in dealing in furniture, construction and furnishing materials, hardware, office necessities, self-owned site leasing, real estate development, sales and other businesses. Yangzhou RSHFP is held as to 95% and 5% by Mr. CHE Jianlin (Mr. CHE Jianlin is a relative of Mr. Che and Ms. Che) and Mr. YAN Xiaojing (an Independent Third Party) respectively.

Jining Hongrui, a limited liability company established in the PRC, is mainly engaged in dealing in house leasing, furniture, construction materials, office necessities, sale of electricity and other businesses. Jining Hongrui is directly held as to 50.2%, 26.8% and 23% by Ms. QIAN Yumei (Ms. QIAN Yumei is a relative of Mr. Che and Ms. Che), Mr. CHE Jianlin and Jining Xinghong Building Materials Sales Co., Ltd. (濟寧市星鴻建材銷售有限公司) (“**Jining Xinghong Building Materials**”) (an Independent Third Party), respectively. Jining Xinghong Building Materials is primarily engaged in the sales of construction materials, furnishing materials, hardware and electric material, sanitary ware, household items, waterproof materials and commodity and site leasing service (whereby operational activities in connection with the projects shall be subject to approval in accordance with relevant laws and regulations by the competent authorities) and other businesses. Jining Xinghong Building Materials is in turn held as to 50% by Mr. XU Hai indirectly and 50% by Mr. SHENG Li directly, its ultimate beneficial owners, respectively, both of whom are Independent Third Parties.

INFORMATION ON THE GROUP

The Group is a leading home improvement and furnishings shopping mall operator in the PRC. The Group mainly engages in the business of offering comprehensive services to the merchants, consumers and partners of the home improvement and furnishings shopping malls under “Red Star Macalline” through the operation and management of both portfolio shopping malls and managed shopping malls. Meanwhile, the Group is also involved in pan home furnishings consumption service and logistics and delivery service, such as Internet home decoration and online retailing.

DEFINITIONS

| | |
|------------------------------------|--|
| “Associate(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Associated Business Partners” | Xuzhou RSHFC, Xuzhou RSHFP, Yangzhou RSHFP, Jining Hongrui and Shaanxi Hongrui |
| “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, the H Shares of which are listed on the Main Board of the Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Contract Management Agreement(s)” | the contract management agreement(s) entered into between the Company and each of the Associated Business Partners and the supplemental agreements |

| | |
|------------------------------------|--|
| “Contract Management Transactions” | the continuing connected transactions contemplated under the Contract Management Agreements |
| “controlling shareholder” | has the meaning ascribed thereto under the Listing Rules |
| “Director(s)” | director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “Independent Third Party(ies)” | persons who, to be knowledge of the Directors after having made all reasonable enquiries, are not connected persons of the Company |
| “Jining Hongrui” | Jining Hongrui Real Estate Co., Ltd.* (濟寧鴻瑞置業有限公司), a limited liability company established in the PRC, which is a connected person of the Company |
| “Listing Rules” | The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited |
| “Mr. Che” | Mr. CHE Jianxing, the chairman of the Board, chief executive officer of the Company and executive Director, holding 92% equity interests in RSM Holding |
| “Ms. Che” | Ms. CHE Jianfang, an executive Director, holding 8% equity interests in RSM Holding |
| “PRC” | the People’s Republic of China |
| “Prospectus” | prospectus of the Company dated 16 June 2015 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “RSM Holding” | Red Star Macalline Holding Group Company Limited* (紅星美凱龍控股集團有限公司), (formerly known as “Shanghai Red Star Macalline Investments Company Limited” (上海紅星美凱龍投資有限公司)), a limited liability company incorporated in the PRC, which is a controlling shareholder of the Company |
| “Shaanxi Hongrui” | Shaanxi Hongrui Home Furnishings Plaza Co., Ltd.* (陝西鴻瑞家居生活廣場有限公司), a limited liability company incorporated in the PRC, which is a connected person of the Company |
| “Shareholder(s)” | the A Share Shareholder(s) and the H Share Shareholder(s) of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed thereto under the Listing Rules |

- “Xuzhou RSHFC” Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd.* (徐州紅星美凱龍國際傢俱裝飾城有限公司), a limited liability company established in the PRC, which is a connected person of the Company
- “Xuzhou RSHFP” Xuzhou Red Star Macalline Global Home Furnishings Plaza Co., Ltd.* (徐州紅星美凱龍全球家居生活廣場有限公司), a limited liability company established in the PRC, which is a connected person of the Company
- “Yangzhou RSHFP” Yangzhou Red Star Macalline Global Home Furnishings Plaza Property Co., Ltd.* (揚州紅星美凱龍全球家居生活廣場置業有限公司), a limited liability company established in the PRC, which is a connected person of the Company

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

Hong Kong
17 September 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, JING Jie, XU Hong and CHEN Zhaohui; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, Eddie, WANG Xiao, ZHAO Chongyi and QIN Hong.