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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)

CONTINUING CONNECTED TRANSACTION – LEASE AGREEMENT

THE LEASE AGREEMENT

The Company announces that on 25 September 2015, the Company entered into the Lease Agreement with Shanghai Hongmei in connection with the leasing of the Jinshan Property. The Group plans to use the Jinshan Property as the premises for a home improvement and furnishings shopping mall to be opened and operated by the Group.

LISTING RULES IMPLICATIONS

Shanghai Hongmei is an indirect subsidiary of RSI, a controlling shareholder of the Company. In addition, RSI is a company controlled by Mr. Che, a controlling shareholder and an executive Director of the Company. As a result, Shanghai Hongmei is a connected person of the Company. The Lease constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Lease is more than 0.1% but less than 5%, the Lease is subject to the reporting, announcement and annual review requirements but is exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Company announces that on 25 September 2015, the Company entered into the Lease Agreement with Shanghai Hongmei in connection with the leasing of the Jinshan Property. The Group plans to use the Jinshan Property as the premises for a home improvement and furnishings shopping mall to be opened and operated by the Group.

THE LEASE AGREEMENT

- Date: 25 September 2015.
- Lessor: Shanghai Hongmei.
- Lessee: the Company. Pursuant to the Lease Agreement, the Company may transfer its rights and obligations thereunder to one of its wholly-owned subsidiaries.
- Premises: the Jinshan Property, which is located at No. 1808 Hangzhou Bay Road, Shanghai, the PRC (property ownership certificate Hu Fang Di Jin Zi (2013) No. 010389).
- Lease area: the gross floor area of the Jinshan Property is approximately 74,917.88 square meters.
- Usage: the Jinshan Property is a commercial property and will be used as the premises of a home improvement and furnishings shopping mall to be opened and operated by the Group.
- Rent: Shanghai Hongmei has agreed to grant a rent-free period from the date that the Company occupies the Jinshan Property to 31 December 2015 pursuant to the Lease Agreement. During the rent-free period, the Company will not pay any rent for the Lease, but shall be liable for water, electricity, air conditioning and heating charges. It is expected that the Jinshan Property may commence business on 31 December 2015. If the Jinshan Property could not commence business on 31 December 2015 due to any reason caused by Shanghai Hongmei, the Company shall not be liable to pay any rent for the Lease until it actually commences business.

After the end of the rent-free period or the date upon which the Jinshan Property actually commences business (whichever is the later), the monthly rent payable by the Company for the Lease is initially fixed at RMB10 per square meter for the first year. From the second year onwards, the monthly rent payable by the Company for the Lease may be increased to 20% of the amount actually received by the Company from the tenants in the shopping mall to be opened at the Jinshan Property, if such amount received by the Company exceeds RMB60 per square meter during the previous accounting year, provided that the rent and any other fees payable by the Company for the Lease shall not exceed the annual caps as set out in the paragraph headed "Annual Caps of the Lease Agreement" below.

The rent for the Lease is payable by the Company every six months in advance.

Lease term: three years after the end of the rent-free period or the date upon which the Jinshan Property actually commences business (whichever is the later).

Renewal: the Company has a right of first refusal to renew the Lease upon its expiry on no less favourable terms. If the Company wishes to renew the Lease, it shall notify Shanghai Hongmei at least 90 days prior to the expiry of the Lease and the parties shall negotiate and enter into a renewal agreement, subject to compliance with the applicable requirements under the Listing Rules.

ANNUAL CAPS OF THE LEASE AGREEMENT

The annual caps in respect of the Lease Agreement based on the annual rent and any other fees payable by the Company set out therein are as follows:

	For the year ending 31 December 2016 (RMB)	For the year ending 31 December 2017 (RMB)	For the year ending 31 December 2018 (RMB)
Annual caps	7,000,000	9,000,000	12,000,000

There was no historical transaction between the Group and Shanghai Hongmei, as the Jinshan Property is a newly built property. The rent payable in respect of the Lease pursuant to the Lease Agreement was determined following arm's length negotiation between the Company and Shanghai Hongmei with reference to the prevailing pricing mechanisms of other shopping malls operated by the Group in nearby areas and in similarly-ranked cities; the expected rent that may be received by the Company from the tenants in connection with the shopping mall to be opened at the Jinshan Property, and development stage of the home improvement and furnishings market in the local area.

REASONS FOR AND BENEFITS OF THE LEASE

The area where the Jinshan Property is located is a developing area in Shanghai, the PRC, and the Group plans to open the first upscale large home improvement and furnishings shopping mall in this area. The Directors believe that the Lease will enable the Group to enter into a neighbouring market of Shanghai at reasonable costs and to further improve the Group's market share and brand awareness in Shanghai, which will help the Group to consolidate its leading position in the Shanghai market and will be beneficial to its long-term development.

The Directors (including the independent non-executive Directors) consider that the terms of the Lease Agreement are on normal commercial terms that are fair and reasonable, and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Group and are in the interest of the Company and its shareholders as a whole.

INFORMATION ON THE PARTIES

The Group

The Group is a leading home improvement and furnishings shopping mall operator in China. As at 30 June 2015, the Group operated a total of 163 shopping malls with a nationwide coverage across 120 cities in 27 provinces, autonomous regions and municipalities.

The Group's shopping malls are an attractive third-party platform, connecting brands and customers, catering to changing customer needs through tailored product and service offerings, and providing a superior one-stop shopping experience. The Group has also expanded into other home improvement and furnishings services, including home design, consumer financing and pre-paid cards, delivery and logistics, and bulk procurement.

Shanghai Hongmei

Shanghai Hongmei is a company incorporated in the PRC and an indirect subsidiary of RSI. Shanghai Hongmei is primarily engaged in property development.

LISTING RULES IMPLICATIONS

Shanghai Hongmei is an indirect subsidiary of RSI, a controlling shareholder of the Company. In addition, RSI is a company controlled by Mr. Che, a controlling shareholder and an executive Director of the Company. As a result, Shanghai Hongmei is a connected person of the Company. The Lease constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Lease is more than 0.1% but less than 5%, the Lease is subject to the reporting, announcement and annual review requirements but is exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Che, Ms. Che Jianfang, Mr. Xu Guofeng, Ms. Chen Shuhong, Mr. Jiang Xiaozhong, Mr. Joseph Raymond Gagnon and Mr. Zhang Qiqi have abstained from voting on the board resolution to approve the Lease Agreement in view of their interests in the transactions contemplated thereunder. Save as disclosed above, none of the Directors has any material interests in the Lease.

DEFINITIONS

“Company”	Red Star Macalline Group Corporation Ltd. a company incorporated in the PRC, the H shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Jinshan Property”	a building located at No. 1808 Hangzhou Bay Road, Shanghai, the PRC (property ownership certificate Hu Fang Di Jin Zi (2013) No. 010389) with a total gross floor area of approximately 74,917.88 square meters
“Lease”	lease of the Jinshan Property by the Company from Shanghai Hongmei pursuant to the terms of the Lease Agreement
“Lease Agreement”	the lease agreement dated 25 September 2015 entered into between the Company and Shanghai Hongmei in respect of the Lease
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Che”	Mr. Che Jianxing, a controlling shareholder and an executive Director of the Company;
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“RSI”	Shanghai Red Star Macalline Investment Company Limited* (上海紅星美凱龍投資有限公司), a limited liability company established in the PRC and a controlling shareholder of the Company, which is directly controlled by Mr. Che

“Shanghai Hongmei” Shanghai Hongmei Properties Limited* (上海洪美置業有限公司), a company incorporated in the PRC and an indirect subsidiary of RSI

“Stock Exchange” The Stock Exchange of Hong Kong Limited

* *for identification purposes only*

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

Hong Kong
25 September 2015

As at the date of this announcement, the executive Directors of the Company are CHE Jianxing, ZHANG Qi, CHE Jianfang and JIANG Xiaozhong; the non-executive Directors are XU Guofeng, CHEN Shuhong, Joseph Raymond GAGNON, ZHANG Qiqi; and the independent non-executive Directors are ZHOU Qinye, LI Zhenning, DING Yuan, LEE Kwan Hung.