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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)

CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF JINSHAN PROPERTY

On 28 August 2017, the Company entered into the Equity Transfer Agreement with the Seller, pursuant to which the Seller conditionally agreed to sell and the Company conditionally agreed to acquire 100% equity interests in the Project Company for an aggregate consideration of RMB520,000,000.

Reference is made to the announcement of the Company dated 25 September 2015 in connection with the leasing of Jinshan Property (the “**CCT Announcement**”). Upon completion of the Transaction, the Lease as referred to in the CCT Announcement will then cease to be a continuing connected transaction of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As the Seller is an indirect non wholly-owned subsidiary of RSM Holding, the controlling shareholder of the Company, the Seller is a connected person of the Company and the Transaction between the Seller and the Company constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio applied in accordance with Rule 14.07 of the Listing Rules in respect of the Transaction is more than 0.1% but less than 5%, the Transaction is subject to announcement and reporting requirements but is exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of the interests of Mr Che, Ms Che and Mr Jiang in RSM Holding, Mr Che, Ms Che and Mr Jiang and their respective Associates (including Mr Xu Guofeng (Ms Che's husband) and Ms Chen Shuhong (Mr Che's wife)) will abstain from voting in relation to the board resolution approving the Transaction.

BACKGROUND

On 28 August 2017, the Company entered into the Equity Transfer Agreement with the Seller, pursuant to which the Seller conditionally agreed to sell and the Company conditionally agreed to acquire 100% equity interests in the Project Company for an aggregate consideration of RMB520,000,000.

Reference is made to the announcement of the Company dated 25 September 2015 in connection with the leasing of Jinshan Property (the “**CCT Announcement**”). During the term of the Lease, the Project Company was incorporated by the Seller (which also owns 100% equity interests in Shanghai Hongmei) and the Seller has transferred the Jinshan Property from Shanghai Hongmei to the Project Company for internal corporate management efficiency purposes. Upon completion of the Transaction, the Project Company will become a wholly-owned subsidiary of the Company and no longer a connected person of the Company and the Lease will then cease to be a continuing connected transaction of the Company.

THE EQUITY TRANSFER AGREEMENT

Connected Transaction under the Equity Transfer Agreement

Date:	28 August 2017
Parties:	The Company, as Purchaser Shanghai Red Star Macalline Real Estate Co. Ltd., as Seller The Project Company Shanghai Hongmei
Subject:	100% equity interests in the Project Company which in turn holds the Jinshan Property
Consideration:	RMB25,000,000 will be paid for the acquisition of 100% equity interests in the Project Company. In addition, there will be a provision of a shareholder’s loan in the amount RMB495,000,000 from the Company to the Project Company for the repayment of debt owed by the Project Company to Shanghai Hongmei.

Representations and
Warranties:

The representations and warranties made by the Parties to the Equity Transfer Agreement are, including but not limited to, the following:

By the Seller, the Project Company and Shanghai Hongmei

- a. The construction of the Jinshan Property complies with all relevant laws and regulations and there is no illegal construction work or possibility of penalty rendered by the relevant government authority;
- b. The Jinshan Property has passed the property inspection tests conducted by the relevant government authority.

By the Seller and the Project Company

- a. The Seller and the Project Company have made true and complete disclosure to the Company including any property encumbrances, details of business operations, rights and obligations and liabilities of the Project Company;
- b. The Project Company has no material guarantees, loans or indebtedness other than the loan owed by the Project Company to Shanghai Hongmei as stipulated in the Equity Transfer Agreement.

By Shanghai Hongmei

- a. There are no joint debt obligations of Shanghai Hongmei which are to be borne or performed by the Project Company.

Conditions Precedent:

Completion of the Transaction is conditional upon, *inter alia*, the satisfaction of the following:

- a. The repayment of all outstanding debt owed by the Project Company and Shanghai Hongmei to Shengjing Bank and the release of pledge on part of the Jinshan Property;

- b. The Project Company having successfully obtained any third party consent and approval required for the change of equity interests in the Project Company.

Payment Terms and
Completion:

The Consideration of the Transaction consists of RMB25,000,000 for the acquisition of 100% equity interests in the Project Company and the provision of a shareholder's loan in the amount RMB495,000,000 from the Company to the Project Company for the repayment of debt owed by the Project Company to Shanghai Hongmei. The Consideration shall be paid in accordance with the following terms:

- a. The Company shall pay a deposit of RMB100,000,000 (the "**Deposit**") to the Seller by installments within 60 days upon signing of the Equity Transfer Agreement;
- b. Within 10 business days upon satisfaction of all conditions precedent, the parties shall carry out the industrial and commercial registration effecting the transfer of 100% equity interests in the Project Company from the Seller to the Purchaser (the "**Registration**"). Upon transfer of the equity interests, RMB25,000,000 of the Deposit paid by the Company to the Seller shall be treated as consideration for the equity transfer (the Company shall not be liable to make any further payment for equity transfer to the Seller), and RMB75,000,000 of the Deposit shall be utilized to repay part of the debt owed by the Project Company to Shanghai Hongmei;
- c. Within 30 days upon the completion of the Registration and the handover of company seal and information of the Project Company, the Company shall provide a shareholder's loan of no more than RMB420,000,000 to the Project Company, which shall be utilised to repay the remaining part of the debt owed by the Project Company to Shanghai Hongmei.

The Seller shall ensure that the Registration will be completed no later than 31 December 2017.

Termination:

The Company is entitled to unilaterally terminate the Equity Transfer Agreement in the following circumstances:

- a. At any time, upon the Company's discovery of (i) false, inaccurate or incomplete disclosure made by the Seller or the Project Company of the financial conditions, assets and/or liabilities of the Project Company or (ii) any newly incurred indebtedness of the Project Company by the Seller not provided in the Equity Transfer Agreement;
- b. Failure by the Seller to discharge existing pledges on the Jinshan Property;
- c. Failure by the Seller to satisfy all conditions precedent stipulated in the Equity Transfer Agreement;
- d. Breach of any representation and warranties by each of the Seller, the Project Company or Shanghai Hongmei; and
- e. Failure by the Seller to perform any of its obligations under the Equity Transfer Agreement.

In the event of the occurrence of any of the events as described in (a) to (e) above, the Company may demand a penalty fee ranging from RMB10,000,000 to RMB20,000,000 from the Seller, the Project Company and/or Shanghai Hongmei.

In the event of the Company's failure to pay the remaining balance of the Consideration to the Seller on a timely manner as stipulated in the Equity Transfer Agreement, the Seller may demand a penalty fee of RMB10,000,000 from the Company.

BASIS OF THE CONSIDERATION

The Company has engaged an independent valuer to conduct a valuation on the Project Company. The Consideration was arrived at after arm's length negotiations between the Seller and the Purchaser on normal commercial terms with reference to the Project Company Valuation Report. The valuation adopted the asset-based approach. Pursuant to the Project Company Valuation Report, the valuation of the Project Company as of 4 August 2017 was as follows:

- (1) Total shareholders interests at RMB23,498,742;
- (2) Total assets at RMB522,677,094; and
- (3) Total debt at RMB499,178,352.

The original acquisition cost of the Jinshan Property was RMB554,161,630.

INFORMATION ON THE PROJECT COMPANY

The Project Company is a company incorporated in the PRC and an indirect non wholly-owned subsidiary of RSM Holding. The Project Company is primarily engaged in the business of home furnishings, furniture's and construction materials.

Financial information of the Project Company

Set out below are certain financial information of the Project Company for the year ended 31 December 2016 and for the six months ended 30 June 2017.

	For the six months ended 30 June 2017 (RMB)	For the year ended 31 December 2016 (RMB)
Loss before Taxation	(7,716,666)	(13,140,846)
Net Loss after Taxation	(5,787,499)	(9,855,634)
Operating Profit	3,391,587	–

As the Project Company was incorporated in July 2016, no financial information is available for the financial year ended 31 December 2015.

REASONS FOR AND BENEFITS OF THE TRANSACTION

Upon completion of the acquisition contemplated under the Transaction, the Group will no longer incur rental costs thereby enhancing the recurrent profit and loss of the Group. In addition, the shopping mall at Jinshan Property has been in operation over a year and its business operation is entering the maturity stage. The Directors wish to note that the primary purpose of the Transaction is to acquire the Jinshan Property rather than to enjoy the operating profits of the shopping mall located at the Jinshan Property. The Transaction will allow the Group to further consolidate its leading position in the owned shopping mall market in Shanghai and will be beneficial to the long-term development of the core business of the Group.

The Directors (including the independent non-executive Directors of the Company) take the view that the terms of the Transaction are fair and reasonable, and the Transaction is on normal commercial terms, in the ordinary and usual course of business of the Group, and is in the interests of the Company and its Shareholders as a whole.

EFFECT OF THE TRANSACTION

After completion of the Transaction, the Project Company will become a direct wholly-owned subsidiary of the Company and its financial results, assets and liabilities will be included in the consolidated financial statements of the Group.

Upon completion of the Transaction, the Project Company will become a wholly-owned subsidiary of the Company and no longer a connected person of the Company and the Lease will then cease to be a continuing connected transaction of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As the Seller is an indirect non wholly-owned subsidiary of RSM Holding, a controlling shareholder of the Company, the Seller is a connected person of the Company and the Transaction between the Seller and the Company constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

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In view of the interests of Mr Che, Ms Che and Mr Jiang in RSM Holding, Mr Che, Ms Che and Mr Jiang and their respective Associates (including Mr Xu Guofeng (Ms Che's husband) and Ms Chen Shuhong (Mr Che's wife)) will abstain from voting in relation to the board resolution approving the Transaction.

INFORMATION ON THE SELLER

The Seller is a company incorporated in the PRC and is primarily engaged in the businesses of real estate development, investment consultation, industrial investment, property management, leasing of self-owned equipment and consultation on corporate management.

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. The Group is also involved in pan-home furnishings consumption, including internet home decoration, internet retail, as well as logistics and delivery services.

DEFINITIONS

“Associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“Company”	Red Star Macalline Group Corporation Ltd., 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), also known as the “ Purchaser ”
“Completion”	the completion of the sale and purchase of the 100% equity interests in the Project Company in accordance with the terms and conditions of the Equity Transfer Agreement
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	RMB520,000,000
“controlling shareholder”	has the meaning ascribed under the Listing Rules
“Director(s)”	the directors of the Company

“Equity Transfer Agreement”	the equity transfer agreement dated 28 August 2017 entered into between the Seller and the Company in relation to the sale and purchase of 100% equity interests in the Project Company
“Group”	the Company together with its subsidiaries
“Independent Shareholders”	shareholders other than Mr Che, Ms Che and Mr Jiang and their respective Associates
“Jinshan Property”	a building located at Hangzhou Bay Road, Shanghai, the PRC, with a total gross floor area of approximately 74,753.54 square meters
“Lease”	lease of the Jinshan Property by the Company from Shanghai Hongmei pursuant to the terms of the lease agreement dated 25 September 2015 entered into between the Company and Shanghai Hongmei
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr Che”	Mr Che Jianxing (車建興), chairman, chief executive officer and executive director of the Company and holds 92% equity interests in RSM Holding
“Mr Jiang”	Mr Jiang Xiaozhong (蔣小忠), an executive director of the Company and a son of the supervisor of RSM Holding
“Ms Che”	Ms Che Jianfang (車建芳), an executive director of the Company and holds 8% equity interests in RSM Holding
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Project Company” or “Shanghai Jinshan”	Shanghai Jinshan Red Star Macalline Global Home Furnishing Company Limited* (上海金山紅星美凱龍全球家居有限公司), a company incorporated in the PRC and a direct wholly-owned subsidiary of the Seller. The Project Company owns the Jinshan Property, which is the only asset of the Project Company

“Project Company Valuation Report”	the valuation report prepared by an independent professional third party valuer, Wanlong (Shanghai) Asset Valuation Company Limited* (萬隆(上海)資產評估有限公司), dated 10 August 2017 in relation to a valuation of the shareholders’ equity value of the Project Company as of 4 August 2017
“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 and is a controlling shareholder of the Company, which is held as to 92% by Mr Che Jianxing and 8% by Ms Che Jianfang
“Seller”	Shanghai Red Star Macalline Real Estate Co. Ltd* (上海紅星美凱龍置業有限公司), a company incorporated in the PRC and an indirect non wholly-owned subsidiary of RSM Holding, which directly owns the Project Company
“Shanghai Hongmei”	Shanghai Hongmei Properties Limited* (上海洪美置業有限公司), a company incorporated in the PRC and a direct wholly-owned subsidiary of the Seller
“Shareholder(s)”	the shareholders of the Company
“Transaction”	the connected transaction contemplated under the Equity Transfer Agreement as set out in the section headed “The Equity Transfer Agreement” in this announcement

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

Shanghai, the PRC
28 August 2017

At the date of this announcement, our executive directors are CHE Jianxing, ZHANG Qi, CHE Jianfang, and JIANG Xiaozhong; non-executive directors are CHEN Shuhong, XU Guofeng, Joseph Raymond GAGNON and ZHANG Qiqi; and independent non-executive directors are LI Zhenning, DING Yuan, LEE Kwan Hung and QIAN Shizheng.

* For identification only