

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 CERTAIN CONTINUING CONNECTED TRANSACTIONS

BACKGROUND

Changzhou RSHFC Lease Agreement

Reference is made to the Prospectus in relation to, *inter alia*, the continuing connected transactions between Changzhou Macalline and Changzhou RSHFC under the Changzhou RSHFC Lease Agreement.

Pursuant to the Changzhou RSHFC Lease Agreement, Changzhou Macalline will lease the Changzhou Property from Changzhou RSHFC for a term of ten years commencing from its signing date.

At the time of the Listing in June 2015, the Stock Exchange granted a waiver to the Company in respect of, *inter alia*, the non-exempt continuing connected transactions under the Changzhou RSHFC Lease Agreement from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules provided that the total value of transactions under the Changzhou RSHFC Lease Agreement for each of the three years ending 31 December 2015, 2016 and 2017 will not exceed the relevant proposed annual caps set forth in the Prospectus.

The existing annual caps for the Changzhou RSHFC Lease under the Changzhou RSHFC Lease Agreement will expire on 31 December 2017. As the term of the Changzhou RSHFC Lease Agreement will only expire on 31 March 2021 and Changzhou Macalline will continue to lease the Changzhou Property from Changzhou RSHFC as contemplated thereunder in its ordinary and usual course of business, the Board proposes to set the new annual caps for the Changzhou RSHFC Lease for the remaining term of the Changzhou RSHFC Lease Agreement.

Contract Management Agreements

Further reference is made to the Prospectus in relation to, *inter alia*, the continuing connected transactions between the Group and the Associated Business Partners under the Contract Management Agreements.

Pursuant to the Contract Management Agreements, the Group will manage and operate the home improvement and furnishings shopping malls owned by each of the respective Associated Business Partners.

At the time of the Listing in June 2015, the Stock Exchange granted a waiver to the Company in respect of, *inter alia*, the non-exempt continuing connected transactions under the Contract Management Agreements from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules provided that the total value of transactions under the Contract Management Agreements for each of the three years ending 31 December 2015, 2016 and 2017 will not exceed the relevant proposed annual caps set forth in the Prospectus.

Each of the Contract Management Agreements is for a term ranging from seven to ten years commencing from its respective signing date and will continue beyond the expiry of the existing annual caps for the Contract Management Transactions under the Contract Management Agreements on 31 December 2017. As the Group will continue carrying out the transactions contemplated thereunder in its ordinary and usual course of business, the Board proposes to set the new annual caps for the Contract Management Transactions for the remaining terms of each of the Contract Management Agreements.

IMPLICATIONS UNDER THE LISTING RULES

Changzhou RSHFC is wholly-owned by Mr. Che, an executive Director and a connected person of the Company. The Associated Business Partners are the associates of Mr. Che and Ms. Che, Directors and connected persons of the Company.

Accordingly, Changzhou RSHFC and the Associated Business Partners are connected persons of the Company under the Listing Rules and the Changzhou RSHFC Lease and the Contract Management Transactions contemplated under the Changzhou RSHFC Lease Agreement and the Contract Management Agreements, respectively, constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Each of the applicable percentage ratios for the proposed new annual caps under the Changzhou RSHFC Lease and the Contract Management Transactions is above 0.1%, but below 5%. Therefore, in accordance with Rule 14A.76 of the Listing Rules, the Changzhou RSHFC Lease and 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 exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

Mr. Che and Ms. Che have abstained from voting on the board resolution approving the proposed new annual caps for the Changzhou RSHFC Lease and the Contract Management Transactions for the remaining term of each of the Changzhou RSHFC Lease Agreement and the Contract Management Agreements in view of their interests in the transactions contemplated thereunder. Save as disclosed above, none of the Directors has any material interests in the Changzhou RSHFC Lease Agreement and the Contract Management Agreements.

RSED FRAMEWORK AGREEMENT

The Company's direct wholly-owned subsidiary, Xingyi Tonghui, entered into the RSED Framework Agreement and a supplemental agreement dated 3 June 2015 with RSED pursuant to which Xingyi Tonghui will sell the Company's single-purpose pre-paid cards to the RSED Group. The RSED Framework Agreement has a term of three years from its signing date to 20 March 2018.

RSED is an associate of RSM Holding, a Controlling Shareholder of the Company. As a result, RSED is a connected person of the Company. The RSED Transactions contemplated under the RSED Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Directors have been closely monitoring the RSED Transactions under the RSED Framework Agreement. As a result of the business adjustment to the Company, the single-purpose pre-paid cards business has been adjusted and will no longer be developed, and there was no actual amount occurred with RSED Group under the RSED Framework Agreement for the years ending 31 December 2015 and 2016 and for the period commencing on 1 January 2017 and ending on the Latest Practicable Date. The Directors expect that no actual amount will occur with the RSED Group for the remaining term of the RSED Framework Agreement. Accordingly, the Company does not intend to seek renewal of the RSED Framework Agreement upon the expiration of the term of the RSED Framework Agreement on 20 March 2018.

For the aforementioned reasons, the Board does not propose to set the new cap for the RSED Transactions under the RSED Framework Agreement for the period commencing on 1 January 2018 and ending on 20 March 2018 upon the expiry of the current annual caps of the RSED Transactions under the RSED Framework Agreement. Should there be any change in circumstances, the Company will re-comply with the Listing Rules and ensure its compliance with the reporting, announcement and the Independent Shareholders' approval requirements (where applicable) under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the Prospectus in relation to, *inter alia*, the continuing connected transactions between (i) Changzhou Macalline and Changzhou RSHFC under the Changzhou RSHFC Lease Agreement, (ii) the Group and the Associated Business Partners under the Contract Management Agreements, and (iii) Xingyi Tonghui and RSED Group under the RSED Framework Agreement.

THE CHANGZHOU RSHFC LEASE AGREEMENT

Background

Reference is made to the Prospectus in relation to, *inter alia*, the continuing connected transactions between Changzhou Macalline and Changzhou RSHFC under the Changzhou RSHFC Lease Agreement.

On 1 April 2011, the Company's wholly-owned subsidiary, Changzhou Macalline entered into the Changzhou RSHFC Lease Agreement with Changzhou RSHFC in connection with the leasing of Changzhou Property. The Group plans to use the Changzhou Property for the operation and management of Changzhou Decoration Mall.

Principal terms of the Changzhou RSHFC Lease Agreement

Date:	1 April 2011
Lessor:	Changzhou RSHFC
Lessee:	Changzhou Macalline
Premises:	Changzhou Property, which is located at No. 70, Feilong Road East, Changzhou City, Jiangsu Province, the PRC
Lease area:	the total gross floor area of approximately 40,678 square meters

- Usage: the Changzhou Property is used for the management and operation of Changzhou Decoration Mall by the Group
- Pricing mechanism: pursuant to the terms of the Changzhou RSHFC Lease Agreement, Changzhou Macalline will pay annual rental and service fees in the fixed amount of RMB13.8 million per annum for the initial three years, followed by a 10% increase for the fourth year and a 3% increase for each of the remaining six years
- Lease term: the Changzhou RSHFC Lease Agreement has an initial term of ten years commencing from 1 April 2011, its signing date. During the term of the Changzhou RSHFC Lease Agreement, Changzhou Macalline has the exclusive right to use the Changzhou Property
- Renewal: subject to applicable laws and regulations, the Changzhou RSHFC Lease Agreement may be renewed based on the parties' negotiation following the written notice from Changzhou Macalline at least two months before the expiry of the Changzhou RSHFC Lease

At the time of the Listing in June 2015, the Stock Exchange granted a waiver to the Company in respect of, *inter alia*, the non-exempt continuing connected transactions under the Changzhou RSHFC Lease Agreement from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules provided that the total value of transactions under the Changzhou RSHFC Lease Agreement for each of the three years ending 31 December 2015, 2016 and 2017 will not exceed the relevant proposed annual caps set forth in the Prospectus.

The existing annual caps for the Changzhou RSHFC Lease under the Changzhou RSHFC Lease Agreement will expire on 31 December 2017. As the Changzhou RSHFC Lease Agreement will only expire on 31 March 2021 and Changzhou Macalline will continue to lease the Changzhou Property from Changzhou RSHFC in its ordinary and usual course of business, the Board proposes to set the new annual caps for the Changzhou RSHFC Lease for the remaining term of the Changzhou RSHFC Lease Agreement.

Historical annual caps and transaction amounts

The total rental and service fees paid by Changzhou Macalline pursuant to the Changzhou RSHFC Lease Agreement, together with the relevant annual caps, are as follows:

	For the year ending 31 December 2015	For the year ending 31 December 2016	For the period commencing on 1 January 2017 and ending on the Latest Practicable Date
Annual rental and service fees paid to Changzhou RSHFC	15.5	16.0	13.7
Historical annual caps	15.5	16.0	16.5

(in millions of RMB)

Proposed new annual caps

The Directors have been closely monitoring the Changzhou RSHFC Lease under the Changzhou RSHFC Lease Agreement. According to historical transaction amounts and the pricing mechanism as described above, the Board also proposed the below new annual caps for the Changzhou RSHFC Lease:

	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020	For the three months ending 31 March 2021
Proposed annual caps	19.0	19.5	20.0	5.0

(in millions of RMB)

The proposed new annual caps in respect of the Changzhou RSHFC Lease have been determined on the basis of the pricing mechanism as set forth in the Changzhou RSHFC Lease Agreement. Pursuant to the terms of the Changzhou RSHFC Lease Agreement, Changzhou Macalline will pay annual rental and service fees in the fixed amount of RMB13.8 million per annum for the initial three years, followed by a 10% increase for the fourth year and a 3% increase for each of the remaining six years.

The aforementioned pricing mechanism was determined by reference to the following factors:

- (i) the historical, current and projected rental and service fees for the Changzhou Property;
- (ii) the prevailing and projected market rates for rental and service fees for comparable properties in the nearby areas;
- (iii) the costs of acquisition of the Changzhou Property by Changzhou RSHFC;
- (iv) the depreciation costs of properties;
- (v) development of the Group's business; and
- (vi) inflation.

Reasons for entering into the Changzhou RSHFC Lease Agreement

The Changzhou Property had been used by Changzhou RSHFC to operate Changzhou Decoration Mall as its portfolio shopping mall before April 2011. Changzhou RSHFC ceased to engage in the operation and management of home improvement and furnishings shopping malls starting from April 2011. Since Changzhou RSHFC is an individual proprietorship enterprise established by Mr. Che in his personal capacity, transferring the property to the Group by way of asset transfer would give rise to tax implications for Changzhou RSHFC under applicable the PRC laws, which would ultimately be translated into the purchase price for the Changzhou Property. Accordingly, the Group decided to lease the Changzhou Property from Changzhou RSHFC for the management and operation of Changzhou Decoration Mall. Changzhou RSHFC has been holding the Changzhou Property as landlord since April 2011.

The Directors (including the independent non-executive Directors) consider that the Changzhou RSHFC Lease Agreement was entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Term of the Changzhou RSHFC Lease Agreement

The Changzhou RSHFC Lease Agreement was entered into for a term of ten years commencing from its signing date. As disclosed in the Prospectus, the Directors and the joint sponsors to the Listing are of the view that it is fair and reasonable and is normal business practice for the Changzhou RSHFC Lease Agreement to have a term of more than three years, based on the following reasons:

- (i) It is the industry practice for shopping mall operators to enter into long-term leases in order to retain continued occupation of the existing malls;
- (ii) Changzhou Decoration Mall has operated in the same premises since November 2003 and has established a stable customer base and maintained a long-term relationship with the tenants. Accordingly, it is in the Group's best interest to enter into a long-term lease to prevent unnecessary costs, time and interruption of the operations of the Group caused by relocation arising from a short-term lease;
- (iii) The Group has made large initial investments in designing, decorating and renovating the Changzhou Property in line with the Group's in-house standard and guidelines. It is therefore in the Group's best interest to secure a long-term lease; and
- (iv) The ten years' duration for the Changzhou RSHFC Lease Agreement is in line with market practice.

The Group's independent valuer and the independent property valuer and consultant to the Listing, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, has confirmed that (i) the terms and conditions of the Changzhou RSHFC Lease Agreement are normal commercial terms, fair and reasonable and no less favorable than those offered by an Independent Third Party; (ii) it is normal practice for leases of this type to be of such duration; and (iii) the total amount payable by Changzhou Macalline under the Changzhou RSHFC Lease Agreement is no less favorable than those offered by Independent Third Parties.

THE CONTRACT MANAGEMENT AGREEMENTS

Background

Further reference is made to the Prospectus 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, pursuant to which the Group will manage and operate the home improvement and furnishings shopping malls owned by each respective Associated Business Partner. Under each of the Contract Management Agreements, the Group initially charged the Associated Business Partners a fixed amount of the management fee ranging from RMB2.0 million to RMB6.0 million per annum, as the case may be, which was in line with the Group's pricing policy for contract management arrangements entered into prior to 2013.

In December 2013 and January 2014, the Group entered into supplemental agreements with Xuzhou RSHFC, Xuzhou RSHFP and Jining Hongrui, under which the Group and the relevant Associated Business Partners agreed to revise the pricing mechanism relating to the management fee from a fixed flat rate to a percentage of the total amount of rental received by each respective Associated Business Partner, subject to a minimum amount of the annual management fee. The adjustment was made after arm's length negotiations between the Group and each of the Associated Business Partners to reflect prevailing market conditions. The terms and conditions under the contract management agreements with Yangzhou RSHFP and Shaanxi Hongrui remain unchanged, except that the Group waived part of the management fee payable by Shaanxi Hongrui in 2014 on a one-off basis due to Shaanxi Hongrui's special request. Each of the Contract Management Agreements is for a term ranging from seven to ten years commencing from its signing date.

As the Contract Management Agreements are of the same nature and have been entered into with parties connected with the Company by virtue of being the Associates of Mr. Che and Ms. Che, the Contract Management Agreements have been classified as aggregated and treated as if they were one under the Listing Rules.

Principal terms of the Contract Management Agreements

The following table sets forth a summary of the principal terms of the Contract Management Agreements with the Associated Business Partners, as amended by their respective supplemental agreements:

	Shopping Mall	Total operating area (sq.m. '000)	Location	Date of agreement	Term	Annual Management Fee (in millions of RMB)
Xuzhou RSHFC	Xuzhou Fuxing Mall (Phase I)	37.80	No. 188 Fuxing Road North, Xuzhou City, Jiangsu Province, PRC	26 December 2011 (supplemental agreement dated 31 December 2013)	from 1 January 2012 to 31 December 2019	6% of the total amount of rental received by Xuzhou RSHFC, subject to a minimum annual management fee of RMB1.9 million
Xuzhou RSHFP	Xuzhou Fuxing Mall (Phase II and Phase III)	96.36	No. 188 Fuxing Road North, Xuzhou City, Jiangsu Province, PRC	26 December 2011 (supplemental agreement dated 1 January 2014)	from 1 January 2012 to 31 December 2019	6% of the total amount of rental received by Xuzhou RSHFP, subject to a minimum annual management fee of RMB3.1 million
Yangzhou RSHFP	Yangzhou Runyang Furniture Mall	70.06	No. 88 Banhongqi Road, Jiangwang Street, Xingjiang District Yangzhou City, Jiangsu Province, PRC	28 December 2010	from 1 January 2011 to 31 December 2018	fixed amount of RMB2.0 million per annum
Jining Hongrui	Jining HighTech District Mall	61.79	No. 99 Jinyu Road East, New Advanced Technology Development District, Jining City, Shandong Province, PRC	18 December 2009 (supplemental agreement dated 31 December 2013)	from 29 September 2011 to 28 September 2021	7.5% of the total amount of rental received by Jining Hongrui subject to a minimum annual management fee of RMB3.0 million
Shaanxi Hongrui	Xi'an North Second-ring Mall	113.20	East 2nd Ring Road West, Fengcheng No. 2 Road South and Fengcheng No. 1 Road North, Xi'an City, Shaanxi Province, PRC	29 November 2009	from 30 September 2012 to 30 September 2022	fixed amount of RMB5.0 million per annum

At the time of the Listing in June 2015, the Stock Exchange granted a waiver to the Company in respect of, *inter alia*, the non-exempt continuing connected transactions under the Contract Management Agreements from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules provided that the total value of transactions under the Contract Management Agreements for each of the three years ending 31 December 2015, 2016 and 2017 will not exceed the relevant proposed annual caps set forth in the Prospectus.

Each of the Contract Management Agreements is for a term ranging from seven to ten years commencing from its signing date and will continue beyond the expiry of the existing annual caps for the Contract Management Transactions under the Contract Management Agreements on 31 December 2017. As the Group will continue carrying out the transactions contemplated thereunder in its ordinary and usual course of business, the Board proposes to set the new annual caps for the Contract Management Transactions for the remaining term of each of the Contract Management Agreements.

Historical annual caps and transaction amounts

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

	Annual management fees received for the year ending 31 December 2015	Annual management fees received for the year ending 31 December 2016 <i>(in millions of RMB)</i>	Annual management fees received for the period commencing on 1 January 2017 and ending on the Latest Practicable Date
Xuzhou RSHFC	2.0	2.0	1.5
Xuzhou RSHFP	4.0	3.8	2.5
Yangzhou RSHFP	1.5	1.4	2.0
Jining Hongrui	2.5	2.4	3.0
Shaanxi Hongrui	3.0	2.9	1.5
Sub-total	13.0	12.5	10.5
	Historical annual cap for the year ending 31 December 2015	Historical annual cap for the year ending 31 December 2016 <i>(in millions of RMB)</i>	Historical annual cap for the year ending 31 December 2017
Xuzhou RSHFC	2.1	2.2	2.3
Xuzhou RSHFP	4.2	4.5	4.8
Yangzhou RSHFP	2.0	2.0	2.0
Jining Hongrui	4.0	4.1	4.2
Shaanxi Hongrui	5.0	5.0	5.0
Sub-total	17.3	17.8	18.3

Proposed new annual caps

The Directors have been closely monitoring the Contract Management Transactions under the Contract Management Agreements. According to historical transaction amounts and the considerations as set out below, the Board also proposed the below new annual caps:

	Proposed annual cap for the year ending 31 December 2018	Proposed annual cap for the year ending 31 December 2019	Proposed annual cap for the year ending 31 December 2020 <i>(in millions of RMB)</i>	Proposed annual cap for the year ending 31 December 2021	Proposed annual cap for the year ending 31 December 2022
Xuzhou RSHFC	2.5	2.5	-	-	-
Xuzhou RSHFP	4.0	4.0	-	-	-
Yangzhou RSHFP	2.0	-	-	-	-
Jining Hongrui	5.0	5.0	5.0	3.8 ^a	-
Shaanxi Hongrui	3.0	3.0	3.0	3.0	2.3 ^b
Sub-total	16.5	14.5	8.0	6.8	2.3

Notes:

- (a) This figure represents the proposed cap for the management fees to be received by the Company from Jining Hongrui for the period commencing on 1 January 2021 and ending on 28 September 2021.
- (b) This figure represents the proposed cap for the management fees to be received by the Company from Shaanxi Hongrui for the nine months ending 30 September 2022.

In arriving at the proposed new annual caps in respect of the Contract Management Transactions, the Directors have taken into account:

- (i) the historical, current and projected management fees received by the Company under the Contract Management Agreements;
- (ii) the prevailing market conditions in respect of the property market;
- (iii) the prevailing market rent for comparable properties in nearby areas;
- (iv) the historical, current and projected management fees for comparable properties in nearby areas;
- (v) the current estimation of the future rental income level for each respective shopping mall; and
- (vi) the respective Associated Business Partner's expectation of the future rental income.

As the Associated Business Partners are connected persons of the Company by virtue of their relationships with Mr. Che and Ms. Che, 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.

Reasons for entering into the Contract Management Agreements

Most of the home improvement and furnishings shopping malls managed and operated by the Group under the Contract Management Agreements are located in third- and fourth-tier cities in the PRC. The Associated Business Partners intended to leverage on the Group's operational experience and reputation through cooperation with the Group. The Directors believe that it is in the Group's interest, and in line with the Group's business strategy, to leverage on the Associated Business Partners' knowledge and experience to expand the Group's geographic coverage and improve the market share and brand awareness in these new local markets, with relatively low capital need.

The Directors (including the independent non-executive Directors) consider that the Contract Management Agreements were entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group and Shareholders as a whole.

Term of the Contract Management Agreements

The Contract Management Agreements each has a term ranging from seven to ten years. As disclosed in the Prospectus, the Directors and the joint sponsors to the Listing are of the view that it is fair and reasonable and is normal business practice for such contract management agreements to have a term of more than three years, based on the following reasons:

- (i) The land acquisition, planning, construction and development of a home shopping furnishing mall requires large capital investment. By entering into long-term contract management agreements, the Group would be able to maintain cooperative relationship with high-quality business partners;
- (ii) The Group's business partners are required to implement the Group's in-house standard and guidelines for the property's design, construction, decoration and renovation. Therefore, the Group's business partners would normally require the Group to enter into a long-term contract management agreement to avoid a costly conversion of operator and brand for the shopping mall;

- (iii) A long-term contract management agreement allows the Group to build customer loyalty to a shopping mall at a particular location and to build long-term relationships with third-party merchandise vendors and tenants of the shopping malls. It is therefore in the Group's best interest to secure long-term contract management agreements with the Associated Business Partners to ensure operational stability; and
- (iv) The ten years' duration for the Contract Management Agreements with the Associated Business Partners is generally in line with the terms offered to the Group's other business partners under similar transactions.

The Group's independent industry consultant to the Listing, Frost and Sullivan, has confirmed that (i) the terms and conditions of each of the Contract Management Agreements with the Associated Business Partners are normal commercial terms, fair and reasonable and no less favorable than those offered to an Independent Third Party; (ii) it is normal practice for a contract management agreement of this type to be of such duration; and (iii) the management fee charged under each of the Contract Management Agreements is no less favorable than those offered to Independent Third Parties.

LISTING RULES IMPLICATIONS IN RESPECT OF CHANGZHOU RSHFC LEASE AGREEMENT AND CONTRACT MANAGEMENT AGREEMENTS

Changzhou RSHFC is wholly-owned by Mr. Che, an executive Director and a connected person of the Company. The Associated Business Partners are the associates of Mr. Che and Ms. Che, Directors and connected persons of the Company.

Accordingly, Changzhou RSHFC and the Associated Business Partners are connected persons of the Company under the Listing Rules and the Changzhou RSHFC Lease and the Contract Management Transactions contemplated under the Changzhou RSHFC Lease Agreement and the Contract Management Agreements, respectively, constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Each of the applicable percentage ratios for the proposed new annual caps under the Changzhou RSHFC Lease and the Contract Management Transactions is above 0.1%, but below 5%. Therefore, in accordance with Rule 14A.76 of the Listing Rules, the Changzhou RSHFC Lease and 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 exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

Mr. Che and Ms. Che have abstained from voting on the board resolution approving the proposed new annual caps for the Changzhou RSHFC Lease and the Contract Management Transactions for the remaining term of each of the Changzhou RSHFC Lease Agreement and the Contract Management Agreements in view of their interests in the transactions contemplated thereunder. Save as disclosed above, none of the Directors has any material interests in the Changzhou RSHFC Lease Agreement and the Contract Management Agreements.

RSED FRAMEWORK AGREEMENT

Xingyi Tonghui, a direct wholly-owned subsidiary, entered into the RSED Framework Agreement, a pre-paid cards purchase framework agreement with RSED on 20 March 2015 and a supplemental agreement dated 3 June 2015, pursuant to which Xingyi Tonghui will sell the Company's single-purpose pre-paid cards to the RSED Group for its use as a promotion method in connection with its property sales business.

The RSED Framework Agreement has a term of three years from its signing date to 20 March 2018. Under the RSED Framework Agreement, Xingyi Tonghui and RSED Group will enter into separate pre-paid card purchase agreements on normal commercial terms which will set out the purchase price and the purchase volume. The purchase price shall be determined after arm's length negotiations by reference to the face value of the pre-paid cards, the actual purchase volume, and the then market conditions. Xingyi Tonghui shall provide facilities and services for cardholders to purchase products using the pre-paid cards.

RSED is an associate of RSM Holding, a Controlling Shareholder of the Company. As a result, RSED is a connected person of the Company. The RSED Transactions contemplated under the RSED Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Directors have been closely monitoring the RSED Transactions under the RSED Framework Agreement. As a result of the business adjustment to the Company, the single-purpose pre-paid cards business has been adjusted and will no longer be developed, and there was no actual amount occurred with RSED Group under the RSED Framework Agreement for the years ending 31 December 2015 and 2016 and for the period commencing on 1 January 2017 and ending on the Latest Practicable Date. The Directors expect that no actual amount will occur with the RSED Group for the remaining term of the RSED Framework Agreement. Accordingly, the Company does not intend to seek renewal of the RSED Framework Agreement upon the expiration of the term of the RSED Framework Agreement on 20 March 2018.

For the aforementioned reasons, the Board does not propose to set the new cap for the RSED Transactions under the RSED Framework Agreement for the period commencing on 1 January 2018 and ending on 20 March 2018 upon the expiry of the current annual caps of the RSED Transactions under the RSED Framework Agreement. Should there be any change in circumstances, the Company will re-comply with the Listing Rules and ensure its compliance with the reporting, announcement and the Independent Shareholders' approval requirements (where applicable) under Chapter 14A of the Listing Rules.

INFORMATION ON CHANGZHOU RSHFC

Changzhou RSHFC does not engage in any substantial business activity other than holding the Changzhou Property which has been leased to Changzhou Macalline for the management and operation of Changzhou Decoration Mall.

INFORMATION ON THE ASSOCIATED BUSINESS PARTNERS

Xuzhou RSHFC is primarily engaged in the business operation of furniture, construction and furnishing materials, hardware and site leasing service.

Xuzhou RSHFP is primarily engaged in the business operation of furniture, construction and furnishing materials, hardware and site leasing service.

Yangzhou RSHFP is primarily engaged in the business operation of furniture, construction and furnishing materials, hardware, office necessities, self-owned site leasing, property development and sales.

Jining Hongrui is primarily engaged in the business operation of property leasing, construction furnishing materials, hardware and site leasing service.

Shaanxi Hongrui is primarily engaged in the business operation of furniture, construction and furnishing materials, sale of office necessities and site leasing.

INFORMATION ON RSED GROUP

RSED Group is primarily engaged in real estate development, operation and management of department stores, and the construction and management of multi-purpose complexes.

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 O2O platform business, bulk procurement, home design and decoration, as well as logistics and delivery services.

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
“Changzhou Macalline”	Changzhou Macalline International Computer and Electronics Furnishing Plaza Co., Ltd.* (常州美凱龍國際電腦家電裝飾城有限公司), a limited liability company established in the PRC, which is a direct wholly-owned subsidiary of the Company
“Changzhou Property”	a property located at No. 70, Feilong Road East, Changzhou City, Jiangsu Province, the PRC, with a total gross floor area of approximately 40,678 square meters
“Changzhou RSHFC”	Changzhou Red Star Home Furnishing City* (常州市紅星裝飾城), a limited liability company established in the PRC on 13 November 1998, which is directly wholly-owned by Mr. Che, and a connected person of the Company
“Changzhou RSHFC Lease”	lease of the Changzhou Property by Changzhou Macalline from Changzhou RSHFC pursuant to the terms of the Changzhou RSHFC Lease Agreement
“Changzhou RSHFC Lease Agreement”	the lease agreement dated 1 April 2011 entered into between Changzhou Macalline and Changzhou RSHFC in respect of the lease of Changzhou Property
“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 and traded on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Contract Management Agreements”	the contract management agreements entered into between the Company and each of the Associated Business Partners, together with the supplemental agreements entered into between the Company and each of Xuzhou RSHFC, Xuzhou RSHFP and Jining Hongrui

“Contract Management Transactions”	the continuing connected transactions contemplated under the Contract Management Agreements
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which is/are listed and traded on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Mr. Che, Ms. Che and Mr. Jiang and their respective Associates
“Independent Third Party(ies)”	persons who, as far as the Directors are aware after having made all reasonable enquiries, are not connected persons of the Company within the meanings of the Listing Rules
“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 and directly held as to 50.2% by Ms. Qian Yumei, 26.8% by Ms. Zhang Jianfang and 23% by an Independent Third Party
“Latest Practicable Date”	17 November 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this announcement prior to its publication
“Listing”	listing of the H Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time

“Mr. Che”	Mr. Che Jianxing, chairman, chief executive officer and executive director of the Company and holds 92% equity interests in RSM Holding
“Mr. Che Jianguo”	Mr. Che Jianguo, the brother of Mr. Che and Ms. Che
“Mr. Che Jianlin”	Mr. Che Jianlin, the brother of Mr. Che and Ms. Che
“Mr. Jiang”	Mr. Jiang Xiaozhong, an executive director of the Company and the son of a supervisor of RSM Holding
“Ms. Che”	Ms. Che Jianfang, an executive director of the Company and holds 8% equity interests in RSM Holding
“Ms. Qian Yumei”	Ms. Qian Yumei, the wife of Mr. Che Jianlin
“Ms. Zhang Jianfang”	Ms. Zhang Jianfang, the wife of Mr. Che Jianguo
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Prospectus”	prospectus of the Company dated 16 June 2015
“RMB”	Renminbi, the lawful currency of the PRC
“RSED”	Red Star Macalline Enterprise Development Co., Ltd.* (紅星美凱龍企業發展有限公司) (formerly known as “Shanghai Red Star Macalline Enterprise Development Co., Ltd.” (上海紅星美凱龍企業發展有限公司)), a limited liability company established in the PRC on 11 June 2010, which is a connected person of the Company and held as to 86.35% by RSM Holding
“RSED Framework Agreement”	the framework agreement dated 20 March 2015 entered into between Xingyi Tonghui and RSED, as amended and supplemented by a supplemental agreement dated 3 June 2015 in connection with the sale of the Company’s single-purpose pre-paid cards to the RSED Group for its use as a promotion method in connection with its property sales business
“RSED Group”	RSED and/or its subsidiaries

“RSED Transactions”	the continuing connected transactions contemplated under the RSED Framework Agreement
“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 and held as to 92% by Mr. Che and 8% by Ms. Che
“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 established in the PRC, which is a connected person of the Company and held as to 34.4% by Ms. Qian Yumei, 51.6% by Ms. Zhang Jianfang and 14% by other Independent Third Parties
“Shareholder(s)”	the 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
“Xingyi Tonghui”	Shanghai Xingyi Tonghui Business Service Company Limited* (上海星易通匯商務服務有限公司), a limited liability company established in the PRC and a direct wholly-owned subsidiary of the Company
“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 established in the PRC, which is a connected person of the Company and directly held as to 50% by Mr. Che Jianlin, 25% by Mr. Che Jianguo and 25% by other Independent Third Parties
“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 and directly held as to 75% by Mr. Che Jianlin and 25% by Mr. Che Jianguo

“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 and directly held as to 95% by Mr. Che Jianlin and 5% by an Independent Third Party

“%”

percent

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

Shanghai, the PRC
20 November 2017

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 CHEN Shuhong, XU Guofeng, Joseph Raymond GAGNON, ZHANG Qiqi; and the independent non-executive Directors are LI Zhenning, DING Yuan, LEE Kwan Hung and QIAN Shizheng.

* *For identification only*