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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 AGREEMENT WITH YANGZHOU RED STAR MACALLINE GLOBAL HOME FURNISHINGS PLAZA PROPERTY CO., LTD*

BACKGROUND

Contract Management Agreements

References are made to the Prospectus and the announcement of the Group dated 20 November 2017 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 on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), 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 ended 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, while the Contract Management Agreement with Yangzhou RSHFP is for a term ending on 31 December 2018. On 29 November 2018, the Company entered into a new Contract Management Agreement

with Yangzhou RSHFP for a fixed term of three years. 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 Agreement with Yangzhou RSHFP which in turn also lead to changes to the overall annual caps for the Contract Management Transactions for the years ending 31 December 2019, 2020 and 2021.

IMPLICATIONS UNDER THE LISTING RULES

The Associated Business Partners are Mr. Che and Ms. Che, both of whom are Directors and associates of connected persons of the Company. Accordingly, the Associated Business Partners are connected persons of the Company under the Listing Rules and the Contract Management Transactions contemplated under the Contract Management Agreements, respectively, constitutes 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 Contract Management Transactions 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 and Ms. Che have abstained from voting on the board resolution approving the proposed new annual caps for the Contract Management Agreement with Yangzhou RSHFP and 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.

THE CONTRACT MANAGEMENT AGREEMENTS

Introduction

References are made to the Prospectus and the announcement of the Group dated 20 November 2017 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 respective 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.

The Yangzhou RSHFP Contract Management Agreement and the annual caps of the transactions thereunder will expire on 31 December 2018. On 29 November 2018, the Company entered into a new Contract Management Agreement with Yangzhou RSHFP for a fixed term of three years. The Company proposes to set the new annual caps for the Contract Management Agreement with Yangzhou RSHFP which in turn also lead to changes to the overall annual caps for the Contract Management Transactions for the years ending 31 December 2019, 2020 and 2021.

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 (renewal agreement dated 29 November 2018)	from 1 January 2011 to 31 December 2018 (From 1 January 2019 to 31 December 2021 for the renewal agreement)	fixed amount of RMB3.0 million per annum (From 1 January 2019 to 31 December 2021 for the renewal agreement)
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 ended 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, while the Contract Management Agreement with Yangzhou RSHFP is for a term ending on 31 December 2018. On 29 November 2018, the Company entered into a new Contract Management Agreement with Yangzhou RSHFP for a fixed term for three years. 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 Agreement with Yangzhou RSHFP which in turn also lead to changes to the overall annual caps for the Contract Management Transactions for the years ending 31 December 2019, 2020 and 2021.

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 ended 31 December 2016* <i>(in millions of RMB)</i>	Annual management fees received for the year ended 31 December 2017* <i>(in millions of RMB)</i>	Annual management fees received for the period commencing on 1 January 2018 and ending on the Latest Practicable Date* <i>(in millions of RMB)</i>
Xuzhou RSHFC	2.0	1.4	1.3
Xuzhou RSHFP	3.8	2.3	2.1
Yangzhou RSHFP	1.4	1.9	1.7
Jining Hongrui	2.4	3.8	2.6
Shaanxi Hongrui	2.9	2.8	2.6
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Sub-total	12.5	12.3	10.4
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* Relevant figures have been subject to rounding adjustments

	Historical annual cap for the year ended 31 December 2016 <i>(in millions of RMB)</i>	Historical annual cap for the year ended 31 December 2017 <i>(in millions of RMB)</i>	Historical annual cap for the year ending 31 December 2018 <i>(in millions of RMB)</i>
Xuzhou RSHFC	2.2	2.3	2.5
Xuzhou RSHFP	4.5	4.8	4.0
Yangzhou RSHFP	2.0	2.0	2.0
Jining Hongrui	4.1	4.2	5.0
Shaanxi Hongrui	5.0	5.0	3.0
Sub-total	17.8	18.3	16.5

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 proposed the below new annual caps for the Contract Management Agreement with Yangzhou RSHFP which in turn lead to changes to the overall annual caps for the Contract Management Transactions for the year ending 31 December 2019, 2020 and 2021:

	Proposed annual cap for the year ending 31 December 2019 <i>(in millions of RMB)</i>	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 <i>(in millions of RMB)</i>
Xuzhou RSHFC	2.5	–	–
Xuzhou RSHFP	4.0	–	–
Yangzhou RSHFP	3.0	3.0	3.0
Jining Hongrui	5.0	5.0	3.8 ^(a)
Shaanxi Hongrui	3.0	3.0	3.0
Sub-total	17.5	11.0	9.8

Note:

- (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.

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

- (i) the annual total revenue of the shopping mall of Yangzhou RSHFP;
- (ii) the historical, current and projected management fees received by the Company under the Contract Management Agreement with Yangzhou RSHFP;
- (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 fees for comparable properties in nearby areas;
- (vi) the current estimation of the future rental income level for the shopping mall; and
- (vii) the 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 renewing the Yangzhou RSHFP Contract Management Agreement

Yangzhou RSHFP has attracted more than 95% of the imported and high-end brand names in Yangzhou and many leading home improvement and furnishing companies. Customers are attracted by the one-stop home furnishing shopping experience offered in Yangzhou RSHFP. Distributors in the industry placed major focus on the shopping mall of Yangzhou RSHFP. The Directors believe that it is in the Group's interest and in line with the Group's business strategy to renew the Yangzhou RSHFP Contract Management Agreement.

The Directors (including the independent non-executive Directors) consider that the Contract Management Agreement with Yangzhou RSHFP was 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.

LISTING RULES IMPLICATIONS IN RESPECT OF CONTRACT MANAGEMENT AGREEMENTS

The Associated Business Partners are the associates of Mr. Che and Ms. Che, Directors and connected persons of the Company.

Accordingly, the Associated Business Partners are connected persons of the Company under the Listing Rules and the Contract Management Transactions contemplated under 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 Contract Management Transactions 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 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 Contract Management Agreement with Yangzhou RSHFP and 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 THE ASSOCIATED BUSINESS PARTNERS

Xuzhou RSHFC is primarily engaged in the business operation of furniture, construction and furnishing materials, 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, furniture, construction materials, office necessities and sale of electricity.

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

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 Internet 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 and traded on the Main Board of the 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, together with the supplemental agreements entered into between the Company and each of Xuzhou RSHFC, Xuzhou RSHFP, Shaanxi Hongrui and Jining Hongrui
“Contract Management Transactions”	the continuing connected transactions contemplated under the Contract Management Agreements
“Director(s)”	director(s) of the Company

“Group”	the Company and its subsidiaries
“H Share(s)”	means 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 on The Stock Exchange of Hong Kong Limited and traded in HK\$
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“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”	28 November 2018, 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 and holds 92% equity interests in RSM Holding
“Ms. Che”	Ms. Che Jianfang, an executive Director 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

“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 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 incorporated in the PRC, which is a connected person of the Company and directly held as to 39.6%, 26.4% and 34% respectively by Ms. Zhang Jianfang, Ms. Qian Yumei and 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
“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
Vice Chairman

Shanghai, the PRC
29 November 2018

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, Joseph Raymond GAGNON, ZHANG Qiqi; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, WANG Xiao and ZHAO Chongyi.

* For identification only