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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 DISPOSAL OF A WHOLLY-OWNED SUBSIDIARY**

On 8 August 2019, the Company entered into the Equity and Creditor's Rights Acquisition Agreement with the Purchaser, pursuant to which the Purchaser agreed to acquire and the Company agreed to sell its 100% equity interests in the Project Company and transfer its creditor's rights in the Project Company at an aggregate consideration of RMB571,959,884.71 (in which, the amount of interest until the date when the principal of the creditor's rights is paid off shall be subject to the amount on the actual payment date).

## **IMPLICATIONS UNDER THE LISTING RULES**

As the Purchaser is a wholly-owned subsidiary of RSM Holding, a controlling shareholder of the Company, the Purchaser is a connected person of the Company and the Transaction between the Purchaser 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.

Our Directors, namely Mr. CHE Jianxing, Ms. CHEN Shuhong, Ms. CHE Jianfang, Mr. XU Guofeng and Mr. JIANG Xiaozhong have abstained from voting on the Board resolution to approve the Transaction in view of their conflict of interests or potential interests in the Transaction contemplated thereunder. Save as disclosed above, none of Directors has any material interests in the Transaction.

## **BACKGROUND**

On 8 August 2019, the Company entered into the Equity and Creditor's Rights Acquisition Agreement with the Purchaser, pursuant to which the Purchaser agreed to acquire and the Company agreed to sell its 100% equity interests in the Project Company and transfer its creditor's rights in the Project Company. The aggregate consideration of the relevant Transaction is RMB571,959,884.71 (in which, the amount of interest until the date when the principal of the creditor's rights is paid off shall be subject to the amount on the actual payment date).

## **THE EQUITY AND CREDITOR'S RIGHTS ACQUISITION AGREEMENT**

### **Connected Transaction under the Equity and Creditor's Rights Acquisition Agreement**

Date: 8 August 2019

Parties: The Company, as Seller

Shanghai Aegean Outlets Business Management Co., Ltd. (上海愛琴海奧萊商業管理有限公司), as Purchaser

The Project Company

Subject: 100% equity interests in the Project Company and the creditor's rights of the Company in the Project Company

Consideration: RMB1 will be paid by Purchaser for the acquisition of 100% equity interests in the Project Company. In addition, the Project Company has owed the Company RMB580,511,402.78 as of 30 June 2019, and the Company has offered the Project Company a debt relief of RMB17,446,350.48 in accordance with the net asset based on the Project Company Valuation Report. Consequently, the Purchaser will make payment of RMB563,065,052.30 in respect of the principal amount for the creditor's rights transfer and interest of RMB8,894,831.41 (the amount of interest is provisionally estimated on the basis of the latest date of the installment payment as set out in the Equity and Creditor's Rights Acquisition Agreement, and is subject to the amount on the actual payment date) in respect of the installment payment arrangement to the Company.

Representations and Warranties:

The representations and warranties made by the parties to the Equity and Creditor's Rights Acquisition Agreement are in accordance with general business conditions, which include but are not limited to: the Company guarantees that the Company and its related parties do not have any form of direct, indirect or actual or potential debts to the Project Company, the Purchaser and its related parties; the Company agrees that it shall complete the clearance of existing tenants prior to the completion of the industrial and commercial registration of changes for the agreed target equity transfer. The Purchaser guarantees that it has sufficient funds to perform the acquisitions as stipulated in the Equity and Creditor's Rights Acquisition Agreement and the payment obligations.

Payment Terms and Completion:

The Consideration of the Transaction consists of RMB1 for the acquisition of 100% equity interests in the Project Company and the Purchaser will make payment of RMB563,065,052.30 in respect of the principal amount for the creditor's rights transfer and interest of RMB8,894,831.41 (the amount of interest is provisionally estimated on the basis of the latest date of the installment payment as set out in the Equity and Creditor's Rights Acquisition Agreement, and is subject to the amount on the actual payment date) in respect of the installment payment arrangement to the Company. The Consideration shall be paid in accordance with the following terms:

- (1) Payment schedule of the equity transfer: after the Equity and Creditor's Rights Acquisition Agreement is signed and comes into effect, and on the date that the documents of the industrial and commercial transfer for the target equity is submitted to the local authorities for industry and commerce and is granted the acceptance certificate, the Purchaser shall pay for equity transfer of RMB1 to the Company. Pursuant to this, all the payment of the equity transfer relating to the transfer of the target equity have been made by the Purchaser to the Company.
- (2) Payment schedule for the creditor's rights transfer:
  - (a) First Payment: within 7 days upon the Equity and Creditor's Rights Acquisition Agreement is signed and comes into effect, the Purchaser shall make a payment of RMB30,000,000 to the Company in respect of the principal amount for the first installment of the creditor's rights transfer;

- (b) Second Payment: within 30 days upon the Company completed the handover of the Project Company's relevant financial information, such as certificates, chop, seal, permits, accounting books, as well as other corporate information and documents of the Project Company to the Purchaser (hereinafter referred to as the "**Chop and Information Handover**"), the Purchaser shall make a payment of RMB195,226,021.00 to the Company in respect of the principal amount for the second installment of the creditor's rights transfer; within 30 days after the Purchaser has made the payment, the Company and the Project Company shall complete the industrial and commercial registration of changes for the target equity transfer and obtain a new business license. The abovementioned Chop and Information Handover shall be completed before 6 September 2019;
- (c) Final Payment: the Purchaser shall make payments of RMB337,839,031.30 in respect of the principal amount for the third installment of the creditor's rights transfer and interest of RMB8,894,831.41 to the Company before 15 December 2019. Pursuant to this, all the payment between the Purchaser and the Company for the transfer of the creditor's rights have been settled.

Liability for Breaches:

- (1) If the Company fails to fulfill the obligations of the equity transfer changes in accordance with the Equity and Creditor's Rights Acquisition Agreement, or violates other obligations as stipulated in the Equity and Creditor's Rights Acquisition Agreement or the warranties and undertakings made by the Company, the Purchaser has the right to require the Company to return in full all the payment that have been made by the Purchaser and to compensate the Purchaser for all the losses caused thereby. The Purchaser also has the right to choose to continue to perform or terminate the Equity and Creditor's Rights Acquisition Agreement.
- (2) If the Purchaser fails to pay the equity and creditor's rights transfer price in accordance with the Equity and Creditor's Rights Acquisition Agreement without justifiable reasons, the Company has the right to require the Purchaser to pay the default interest at 0.06% of the overdue amounts on a daily basis to the Company; if the overdue payment from the Purchaser has not been justified for more than 60 days without justifiable reasons and has not been remedied by the Company's written notice, the Company may choose to continue to perform or terminate the Equity and Creditor's Rights Acquisition Agreement.

## **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 Company 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 valuations of the Project Company as of 30 June 2019 were as follows:

(1) Total shareholders' interests at RMB-17,466,350.48;

(2) Total assets at RMB585,405,146.86; and

(3) Total debt at RMB602,851,497.34.

## **FINANCIAL INFORMATION OF THE PROJECT COMPANY**

Set out below are certain financial information of the Project Company for the years ended 31 December 2017 and 2018 and for the six months ended 30 June 2019:

	<b>For the six months ended 30 June 2019 (RMB)</b>	<b>For the year ended 31 December 2018 (RMB)</b>	<b>For the year ended 31 December 2017 (RMB)</b>
Gain/(loss) before Taxation	64,693,211.83	(150,919,571.59)	(112,838,608.54)
Net gain/(loss) after Taxation	44,655,952.48	(126,669,090.30)	(95,113,392.58)
Operating Profit	64,693,211.83	(150,919,571.90)	(112,814,972.33)

## **REASONS FOR THE TRANSACTION AND USE OF THE PROCEEDS**

After the completion of the disposal under the Transaction, it could effectively improve the overall operation and the financial condition of the Company. The Company makes efforts to strengthen the business integration, optimize the asset structure, focus on quality assets and constantly improve its profitability, which are in line with the long-term development plan.

The Directors have expected that the net proceeds of the Transaction, after deducting relevant expenses, would be approximately RMB571,889,884.71, and the Company intends to apply the net proceeds as general working capital.

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 conducted 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**

Subject to the carrying value of the Project Company on the date of the completion of the Transaction, it is expected that the Company would record a gain of approximately RMB1 upon the completion of the Transaction, being the difference between the Consideration for the Transaction and the costs of investment in the shares available-for-sale. The actual gain or loss in connection with the Transaction will be assessed after the completion of the Transaction and is subject to audit.

Upon the completion of the Transaction, the Project Company will no longer be a subsidiary of the Company and its financial results will not be consolidated into the financial statements of the Company.

## **IMPLICATIONS UNDER THE LISTING RULES**

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

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Our Directors, namely Mr. CHE Jianxing, Ms. CHEN Shuhong, Ms. CHE Jianfang, Mr. XU Guofeng and Mr. JIANG Xiaozhong have abstained from voting on the Board resolution to approve the Transaction in view of their conflict of interests or potential interests in the Transaction contemplated thereunder. Save as disclosed above, none of Directors has any material interests in the Transaction.

## **INFORMATION ON THE PURCHASER**

The Purchaser is a company incorporated in the PRC and primarily provides ancillary business management services for various urban outlets businesses, such as business consultancy, business attraction and operation, property operation and maintenance. The project currently under operation is the business in Changzhou Aegean Outlets, and the projects under development involve various cities including Hefei, Qingdao and Neijiang.

## **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.

## INFORMATION ON THE PROJECT COMPANY

The Project Company is a company incorporated in the PRC and a wholly-owned subsidiary of the Company. The Project Company is primarily engaged in project investment, market operation management, leasing and information consulting services.

## DEFINITIONS

“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 and A shares are listed on the Shanghai Stock Exchange, also known as the “Seller”
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	RMB571,959,884.71
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the directors of the Company
“Equity and Creditor’s Rights Acquisition Agreement”	the equity and creditor’s rights acquisition agreement dated 8 August 2019 entered into between the Purchaser and the Company in relation to the sale and purchase of 100% equity interests in the Project Company and the transfer of the creditor’s rights of the Company in the Project Company
“Group”	the Company together with its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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”	Anhui Tenghui Investment Group Hefei Company Limited* (安徽騰輝投資集團合肥有限公司), a company incorporated in the PRC and a direct wholly-owned subsidiary of the Company

“Project Company Valuation Report”	the valuation report dated 1 August 2019 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), in relation to a valuation of the shareholders’ equity value of the Project Company as of 30 June 2019
“Purchaser”	Shanghai Aegean Outlets Business Management Co., Ltd. (上海愛琴海奧萊商業管理有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of RSM Holding
“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 a controlling shareholder of the Company, which is held as to 92% by Mr. CHE Jianxing and 8% by Ms. CHE Jianfang, respectively
“Shareholder(s)”	the shareholders of the Company
“Transaction”	the connected transaction contemplated under the Equity and Creditor’s Rights Acquisition Agreement as set out in the section headed “The Equity and Creditor’s Rights Acquisition Agreement” in this announcement

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

Shanghai, the PRC  
8 August 2019

*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 and XU Guofeng; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, WANG Xiao and ZHAO Chongyi.*

\* *For identification only*