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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 SUB-CONTRACT AGREEMENT

SUB-CONTRACT AGREEMENT

The Company announced that on 28 August 2019, Jiangsu Sunan Construction, a wholly-owned subsidiary of the Company, received a notification of award from Xishuangbanna Yunnan Investment Construction in respect of the Gasa Tourist Town Project, which confirmed that Jiangsu Sunan Construction was the bid winner in respect of the Gasa Tourist Town Project. A Sub-contract Agreement will be entered into between Jiangsu Sunan Construction and Xishuangbanna Yunnan Investment Construction accordingly. Jiangsu Sunan Construction plans to provide building and renovation services for Xishuangbanna Yunnan Investment Construction from 15 September 2019 (subject to the commencement order).

IMPLICATIONS UNDER THE LISTING RULES

RSM Holding, a controlling shareholder of the Company, and its subsidiary, RSED, indirectly holds 50% equity interests in Xishuangbanna Yunnan Investment Construction. Therefore, Xishuangbanna Yunnan Investment Construction is a connected person of the Company. The Sub-contract Agreement 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 the reporting, announcement and annual review requirements, but is exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Company announced that on 28 August 2019, Jiangsu Sunan Construction, a wholly-owned subsidiary of the Company, received a notification of award from Xishuangbanna Yunnan Investment Construction in respect of the Gasa Tourist Town Project, which confirmed that Jiangsu Sunan Construction was the bid winner in respect of the Gasa Tourist Town Project. A Sub-contract Agreement will be entered into between Jiangsu Sunan Construction and Xishuangbanna Yunnan Investment Construction accordingly. Jiangsu Sunan Construction plans to provide building and renovation services for Xishuangbanna Yunnan Investment Construction from 15 September 2019 (subject to the commencement order).

SUB-CONTRACT AGREEMENT

The principal terms of the Sub-contract Agreement proposed to be entered into between Jiangsu Sunan Construction and Xishuangbanna Yunnan Investment Construction in respect of Gasa Tourist Town Project are set out as follows:

Date:	Expected to be 10 September 2019
Parties:	Jiangsu Sunan Construction (the “ Subcontractor ”) Xishuangbanna Yunnan Investment Construction (the “ Principal ”)
Project Location:	Gasa Town, Jinghong City, Prefecture of Xishuangbanna
Scope of Decoration Engineering:	Refined decoration subcontracting construction in connection with International “Dai” Hot Spring Health Resort in Gasa Tourist Town — Phase I-1 of A Zone of Project Phase II with 500 mu (畝), which includes the decoration of floor, wall, ceiling and other parts, indoor cable installation and lighting works, indoor water supply and drainage works, including but not limited to suspended ceilings, wood works and ground paving works.
Completion:	The construction period is 386 calendar days, commenced from 15 September 2019 (subject to the commencement order)
Consideration:	RMB123,595,230.28 (tax inclusive), in which the consideration without tax is RMB113,390,119.52. The final settlement price shall be subject to audit.
Basis of the Consideration:	The consideration was determined based on the market price and with reference to the required gross profit margin at around 10%-20% adopted by the building and renovation market. This tender is also determined based on the abovementioned range, combined with the actual situation of the Gasa Tourist Town Project and the anticipated situation of potential competitors.

Terms of Payment:

- (1) When the Principal pays the amount of the contract price payable at each stage, it shall pay 70% of the contracted amount for completed project, net of the Principal's withholding cost and other liquidated damages, fines, etc., and the Subcontractor shall provide special VAT invoices in full amount as required by the tax authorities where the construction is located;
- (2) Before the acceptance of each payment, the Subcontractor shall provide the special VAT invoice in compliance with the regulatory requirements and in full amount. In the event that the Subcontractor fails to provide the invoice in time or in compliance with the agreement, the Principal may delay the payment and have the right to terminate the contract. If the Principal terminates the contract for such reason, the Subcontractor shall pay 20% of the contract amount to the Principal as liquidated damages and compensate the losses suffered by the Principal. The special invoice provided by the Subcontractor must be replaced in time according to the requirements of the Principal if it cannot be deducted and the Principal's losses arising from such invoice shall be borne by the Subcontractor, including but not limited to, fines, late fees and taxes;
- (3) payment of 80% of the contract amount for completed project shall be made after the project is completed and acceptance form for quality inspection is obtained; payment of 90% of the contract amount for the completion of the Gasa Tourist Town Project shall be made after the delivery of project and the acceptance of internal inspection; and
- (4) 95% of the total settlement price will be paid after the settlement is completed. At the same time, the Subcontractor shall provide invoice for 100% of the total settlement price, and the remaining 5% will be used as the guarantee deposit for the project.

Payment Term:

The payment shall be is made every two months, and the Subcontractor shall submit the interim payment application for the completed project on the 25th day at the end of every two months for approval by the Principal.

Warranty Period for
Quality Assurance of
the Project:

2 years

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Directors believe that after Gasatourist Town Project is officially contracted and successfully implemented, it will be beneficial for Jiangsu Sunan Construction to further expand its scale of operation and improve its business undertaking capacity. The Transaction will have a positive impact on the current and future performance and is conducive to improving the sustainable profitability of the Company.

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.

IMPLICATIONS UNDER THE LISTING RULES

RSM Holding, a controlling shareholder of the Company, and its subsidiary, RSED, indirectly holds 50% equity interests in Xishuangbanna Yunnan Investment Construction. Therefore, Xishuangbanna Yunnan Investment Construction is a connected person of the Company. The Sub-contract Agreement 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 the reporting, announcement and annual review requirements, but is exempt from the circular (including independent financial advice) and 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 Sub-contract Agreement 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 ABOUT 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 ABOUT JIANGSU SUNAN CONSTRUCTION

Jiangsu Sunan Construction is a company incorporated in the PRC, which is a wholly-owned subsidiary of the Company. Jiangsu Sunan Construction is engaged in the businesses of industrial and civil construction works, municipal public construction works, curtain wall construction, earthwork construction, decoration construction, landscaping engineering, water-electricity installation engineering, road construction, metal windows and door construction; mechanical and electrical equipment installation; electrical installation; pipelines and equipment installation; construction project management and consulting services; leasing of housing, equipment and car, etc..

INFORMATION ABOUT XISHUANGBANNA YUNNAN INVESTMENT CONSTRUCTION

Xishuangbanna Yunnan Investment Construction is a company incorporated in the PRC, and a joint venture in which 50% of its equity interest is indirectly held by RSED. Xishuangbanna Yunnan Investment Construction is mainly engaged in the businesses of investment in urban roads and tourism infrastructure, reconstruction of old urban areas and real estate development and real estate information consulting, construction of urban government-subsidized housing, investment in urban public facilities and municipal engineering, general contracting of housing construction projects, landscaping projects, sales of architectural decoration materials and metal materials.

DEFINITIONS

“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
“connected person”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the directors of the 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
“Subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“PRC”	the People’s Republic of China
“Gasa Tourist Town Project”	the construction project in International “Dai” Hot Spring Health Resort in Gasa Tourist Town (嘎灑旅遊小鎮國際“傣”溫泉養生旅遊度假區)

“Jiangsu Sunan Construction”	Jiangsu Sunan Construction and Installation Engineering Co., Ltd.* (江蘇蘇南建築安裝工程有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
“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 established in the PRC and a controlling shareholder of the Company
“RSED”	Chongqing Red Star Macalline Enterprise Development Co., Ltd.* (重慶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, which is held as to 65.05% by RSM Holding
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-contract Agreement”	the sub-contract agreement expected to be entered into between Jiangsu Sunan Construction and Xishuangbanna Yunnan Investment Construction on 10 September 2019
“Transaction”	the connected transaction contemplated as set out in the section headed “Sub-contract Agreement” in this announcement
“Xishuangbanna Yunnan Investment Construction”	Xishuangbanna Yunnan Investment Construction Pan-Asian Real Estate Co., Ltd.* (西雙版納雲投建設泛亞置業有限公司), a company incorporated in the PRC and a joint venture in which 50% of its equity interest is indirectly held by RSED

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

Shanghai, the PRC
28 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, Eddie, WANG Xiao and ZHAO Chongyi.

* For identification only