
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Red Star Macalline Group Corporation Ltd., you should at once hand this circular together with the proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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 DISPOSAL OF A CONTROLLING SUBSIDIARY
AND
NOTICE OF THE 2021 THIRD EXTRAORDINARY
GENERAL MEETING**

A letter from the Board is set out on pages 4 to 18 of this circular. A notice of the extraordinary general meeting (the "EGM") of the Company to be held at 10:00 a.m. on Friday, 12 November 2021 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the People's Republic of China (the "PRC"), is being despatched to the Shareholders together with this circular.

Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the proxy form in accordance with the instructions printed thereon. The proxy form must be signed by you or your attorney duly authorised in writing or, in case of a legal person, must either be executed under its seal or under the hand of its director or other attorney duly authorised to sign the same. If the proxy form is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other document of authorisation, must be notarized.

In the case of joint holders of Shares of the Company, only the holder whose name stands first in the register of members of the Company shall alone be entitled to vote at the EGM, either in person or by proxy in respect of such Shares.

For H Share Shareholders, please return the proxy form together with any documents of authority to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. For A Share Shareholders, please return the proxy form together with any documents of authority to the headquarters of the Company in the PRC at B1 Corporate Post Office, Block A, Red Star Macalline Headquarters, No. 5, Lane 1466, Shenchang Road, Minhang District, Shanghai, the PRC as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

25 October 2021

DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“A Share(s)”	the ordinary share(s) issued by the Company, with a nominal value of RMB1.0 each, listed on the Shanghai Stock Exchange and traded in RMB
“A Share Shareholder(s)”	the holder(s) of the A Share(s)
“Articles of Association”	the articles of association of the Company
“Board”	the board of directors of the Company
“CIFI Ever Sunshine”	CIFI Ever Sunshine Services Group Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1995)
“Company” or “Party A 8”	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, whose H Shares are listed on the Main Board of the Stock Exchange (Stock Code: 1528)
“Director(s)”	the director(s) of the Company
“EGM”	the 2021 third extraordinary general meeting to be convened and held on 12 November 2021
“Equity Transfer Agreement”	the equity transfer agreement entered into by Party A 1 to Party A 10, Party B and the Target Company on 15 October 2021
“H Share(s)”	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 and traded in Hong Kong dollars
“H Share Shareholder(s)”	the holder(s) of the H Share(s)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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“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 circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Party A”	Party A 1, Party A 2, Party A 3, Party A 4, Party A 5, Party A 6, Party A 7 and Party A 8
“Party A 1”	Harbin Red Star Macalline Shibo Furniture Plaza Company Limited* (哈爾濱紅星美凱龍世博家居廣場有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Party A 2”	Shanghai Red Star Macalline Yuejia Network Technology Company Limited* (上海紅星美凱龍悅家互聯網科技有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Party A 3”	Red Star Macalline Shibo (Tianjin) Home Furnishing Plaza Company Limited* (紅星美凱龍世博(天津)家居生活廣場有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Party A 4”	Shanghai Red Star Macalline Home Furnishing Design Expo Company Limited* (上海紅星美凱龍家居藝術設計博覽有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Party A 5”	Panjin Red Star Macalline Global Home Furnishing Plaza Company Limited* (盤錦紅星美凱龍全球家居生活廣場有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Party A 6”	Shanghai Hongmei E-Commerce Company Limited* (上海紅美電子商務有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company

DEFINITIONS

“Party A 7”	Shanghai Xingkai Chengpeng Business Management Company Limited* (上海星凱程鵬企業管理有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Party A 9”	Mr. CHE Jianxing, chairman, chief executive officer and an executive director of the Company who holds 92% of equity interest in RSM Holding
“Party A 10”	Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited* (武漢紅星美凱龍世博家居廣場發展有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Party B” or “Transferee”	Xuhui Yongsheng (Hainan) Investment Company Limited* (旭輝永升(海南)投資有限公司), a company established in the PRC with limited liability
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	the A Share Shareholder(s) and the H Share Shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Shanghai Macalline Property Management Service Company Limited* (上海美凱龍物業管理服務有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Transferors”	Party A 1, Party A 2, Party A 3, Party A 4, Party A 5, Party A 6 and Party A 7
“Xingyue Property”	Shanghai Xingyue Property Service Company Limited* (上海星悅物業服務有限公司), a company established in the PRC with limited liability, which is directly held as to 90.1% by Party B and indirectly held as to 9.9% by the Company, and is mainly engaged in property management services
“%”	percent

* For identification purpose only.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. CHE Jianxing
Mr. GUO Binghe
Ms. CHE Jianfang
Mr. JIANG Xiaozhong

Registered office in the PRC:

Suite F801, 6/F
No. 518, Linyu Road
Pudong New District
Shanghai
PRC

Non-executive Directors:

Ms. CHEN Shuhong
Mr. JING Jie
Mr. XU Hong
Mr. CHEN Zhaohui
Mr. JIANG Xiangyu

*Principal place of business
in Hong Kong:*

31/F, Tower 2
Times Square
1 Matheson Street
Causeway Bay, Hong Kong

Independent non-executive Directors:

Mr. QIAN Shizheng
Mr. LEE Kwan Hung, Eddie
Mr. WANG Xiao
Ms. ZHAO Chongyi
Ms. QIN Hong

25 October 2021

To the Shareholders

Dear Sir or Madam,

**PROPOSED DISPOSAL OF A CONTROLLING SUBSIDIARY
AND
NOTICE OF THE 2021 THIRD EXTRAORDINARY
GENERAL MEETING**

I. INTRODUCTION

The purpose of this circular is to provide you with, among other things, the information on the proposed disposal of a controlling subsidiary, in order to enable you to make an informed decision on voting in respect of the resolution to be proposed at the EGM.

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II. PROPOSED DISPOSAL OF A CONTROLLING SUBSIDIARY

A. Overview of the Transaction

According to the business development needs of the Company, the Transferors, Party A 8, Party A 9 and Party A 10 entered into the Equity Transfer Agreement with Party B on 15 October 2021 in relation to the Target Company. Subject to the terms and conditions of the Equity Transfer Agreement, Party A agrees that the Transferors shall transfer to Party B, a total of 80% equity interest held by it in the Target Company (the “**Target Equity Interest**”), and Party B agrees to purchase the Target Equity Interest (the “**Transaction**”). Party B shall pay the Transferors the equity transfer price specified in the Equity Transfer Agreement, namely the pre-tax amount of RMB696 million.

B. Basic Information on the Counterparty

Party B is an indirect wholly-owned subsidiary of CIFI Ever Sunshine (旭輝永升). Party B has been established for less than one year and is mainly engaged in investment activities, with normal business development. Party B and its controlling shareholders are in good financial condition and good standing. They are not dishonest persons subject to enforcement, and have the corresponding ability to pay.

C. Profile of the Target Company

The Target Company is a company established in the PRC for less than one year. Its registered capital has not been paid up. The Target Company is principally engaged in property management services and is an indirect wholly-owned subsidiary of the Company. As at 31 August 2021, the Target Company did not generate any revenue, incur any cost and had no asset and liability on its books, with nil financial information which had not been audited.

As at the date of this circular, the shareholding structure of the Target Company is as follows:

No.	Name of Shareholders	Percentage of equity interest	Subscribed capital contribution (RMB'0,000)	Paid-up capital (RMB'0,000)
1	Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited* (武漢紅星美凱龍世博家居廣場發展有限公司)	20%	2,000	0

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No.	Name of Shareholders	Percentage of equity interest	Subscribed capital contribution (RMB'0,000)	Paid-up capital (RMB'0,000)
2	Harbin Red Star Macalline Shibo Furniture Plaza Company Limited* (哈爾濱紅星美凱龍世博家 居廣場有限公司)	18%	1,800	0
3	Shanghai Red Star Macalline Yuejia Network Technology Company Limited* (上海紅星美凱 龍悅家互聯網科技有限公 司)	14%	1,400	0
4	Red Star Macalline Shibo (Tianjin) Home Furnishing Plaza Company Limited* (紅星 美凱龍世博(天津)家居生 活廣場有限公司)	14%	1,400	0
5	Shanghai Red Star Macalline Home Furnishing Design Expo Company Limited* (上海 紅星美凱龍家居藝術設計 博覽有限公司)	10%	1,000	0
6	Panjin Red Star Macalline Global Home Furnishing Plaza Company Limited* (盤錦紅星美凱龍全球家居 生活廣場有限公司)	8%	800	0
7	Shanghai Hongmei E-Commerce Company Limited* (上海紅美電子 商務有限公司)	8%	800	0
8	Shanghai Xingkai Chengpeng Business Management Company Limited* (上海星凱程鵬 企業管理有限公司)	8%	800	0
	Total	100%	10,000	0

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Upon the completion of the Transaction, the shareholding structure of the Target Company is as follows:

No.	Name of Shareholders	Percentage of equity interest	Subscribed capital contribution (RMB'0,000)	Paid-up capital (RMB'0,000)
1	Xuhui Yongsheng (Hainan) Investment Company Limited* (旭輝 永升(海南)投資有限公司)	80%	8,000	0
2	Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited* (武漢紅星美凱 龍世博家居廣場發展有限 公司)	20%	2,000	0
	Total	100%	10,000	0

As at the date of this circular, the Target Company has entered into a number of long-term property management service contracts with the Portfolio Shopping Malls of the Company.

According to the valuation report issued by Beijing Zhuoxindahua Appraisal Co., Ltd. (北京卓信大華資產評估有限公司) which is qualified for engaging in securities and futures businesses, with 30 June 2021 being the valuation reference date and the valuation conclusion being the results of valuation under the income approach, the appraised value of the entire equity interest held by the shareholders of the Target Company on the valuation reference date is RMB860 million, representing an increase of RMB860 million as compared with the nil book value before the valuation, subject to the applicable valuation assumption and restrictions.

D. Principal Terms of the Equity Transfer Agreement

The principal terms of the Equity Transfer Agreement are as follows:

1. Parties to the Equity Transfer Agreement

- (1) The Transferors (Party A 1, Party A 2, Party A 3, Party A 4, Party A 5, Party A 6 and Party A 7);
- (2) The Company (Party A 8);
- (3) Mr. CHE Jianxing (Party A 9);

LETTER FROM THE BOARD

- (4) Party A 10, an existing shareholder of the Target Company, who did not transfer its equity interest in the Target Company in the Transaction;
- (5) The Transferee; and
- (6) The Target Company.

(Each a “**Party**”, together the “**Parties**”)

2. Subject matter

Subject to the terms and conditions of the Equity Transfer Agreement, Party A agrees that the Transferors may transfer to Party B, a total of 80% equity interest held by it in the Target Company.

3. Equity transfer price

The equity transfer price for the Transaction is RMB696 million before tax.

4. Payment of the price for the Transaction

The equity transfer price for the Transaction will be paid in five instalments. The first to fifth instalments are RMB200 million, RMB100 million, RMB256 million, RMB100 million and RMB40 million, respectively, before tax.

5. Closing

Closing procedures include:

- (1) Party A completes the handover of licenses, official seals and keys in accordance with the Equity Transfer Agreement, which is confirmed in writing by responsible persons of Party A and Party B on the site.
- (2) Party A and the Target Company do not violate any of its undertakings and warranties under the Equity Transfer Agreement or relevant breach is rectified within the period specified by Party B.

As at the end of the month immediately before the equity transfer closing date, the closing net assets value of the Target Company shall not be less than RMB10 million (net assets transferred = total assets – total liabilities – undistributed profit), and the cash assets of the Target Company shall not be less than RMB10 million, and in case of any shortage, Party A shall assist the Target Company in securing corresponding cash prior to the completion of the Transaction. Repayment of notes payable and short-term bank borrowings by the Target Company shall be deemed as assistance provided by Party A to the Target Company in obtaining the same amount of cash assets.

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6. *Performance guarantee*

The Parties agree that during the performance guarantee period, Party A undertakes that the annual net profit of the Target Company (including its subsidiaries and branches, similarly hereinafter) shall reach the following business objectives:

Performance guarantee period	Number of months covered during the performance guarantee period	The audited net profit of the Target Company (including Xingyue Property) for the current year after deducting non-recurring gains and losses during the performance guarantee period (RMB'0,000)
From the first day of the performance guarantee period to 31 December 2021	A	$1,411.6667 + 5,800 \times (1 + 10\%)^1 \div 12 \times A$
From 1 January 2022 to 31 December 2022	12	$2,561.1667 + 5,800 \times (1 + 10\%)^1 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^2 \div 12 \times A$
From 1 January 2023 to 31 December 2023	12	$2,817.2833 + 5,800 \times (1 + 10\%)^2 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^3 \div 12 \times A$
From 1 January 2024 to 31 December 2024	12	$3,099.0117 + 5,800 \times (1 + 10\%)^3 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^4 \div 12 \times A$
From 1 January 2025 to 31 December 2025	12	$3,408.9128 + 5,800 \times (1 + 10\%)^4 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^5 \div 12 \times A$
From 1 January 2026 to 31 December 2026	12	$3,749.8041 + 5,800 \times (1 + 10\%)^5 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \div 12 \times A$
From 1 January 2027 to the expiry date of the performance guarantee period	12-A	$1,623.9309 + 5,800 \times (1 + 10\%)^6 \div 12 \times (12 - A)$

In the above table, A = the months from the first day of the performance guarantee period to 31 December 2021

A. If the Target Company fails to achieve its operating performance target in an accounting year within the performance guarantee period, Party A 8 shall pay cash compensation to Party B in accordance with the following requirements. However, if the operating performance targets for the second and subsequent years are exceeded, the excess can be used to make up for the target being missed in the last and previous years; with regard to the net profit for the last and previous years after making up for the target being missed, the cash compensation will be recalculated in accordance with the following requirements, and the difference between the recalculated cash compensation, which may be nil, and the cash compensation paid by Party A 8, shall be returned to Party A 8 by Party B without interest. Party A and Party B acknowledge that if the operating performance indicator for a particular year is exceeded, the excess cannot be used to offset subsequent operating performance indicators.

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B. Settlement method for cash compensation during the performance guarantee period:

During the performance guarantee period, if the Target Company fails to achieve the above performance guarantee indicator in any accounting year, Party A 8 shall make cash compensation to Party B within fifteen working days after the audit results are confirmed, or:

- (1) if the actual net profit generated in the current year is greater than or equal to nil, the cash compensation is calculated as follows:

Cash compensation = (the lowest guaranteed net profit in the current year – the actual net profit generated in the current year) $\times 15 \div 72 \times$ the number of months in relation to the performance guarantee in the current year.

- (2) if the actual net profit generated in the current year is less than nil or the Target Company incurs losses, the cash compensation is calculated as follows:

Cash compensation = (the lowest guaranteed net profit in the current year + the absolute value of losses) $\times 15 \div 72 \times$ the number of months in relation to the performance guarantee in the current year.

During the performance guarantee extension period, Party A undertakes that the annual net profit of the Target Company will reach the following business objectives:

Performance guarantee extension period	Number of months covered during the performance guarantee extension period	The audited net profit of the Target Company (including Xingyue Property) for the current year after deducting non-recurring gains and losses during the performance guarantee extension period (RMB'0,000)
From the day after the expiry date of the performance guarantee period to 31 December 2027	A	$2,318.9733 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^1 \div 12 \times A$
From 1 January 2028 to 31 December 2028	12	$4,021.7624 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^1 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^2 \div 12 \times A$
From 1 January 2029 to 31 December 2029	12	$4,102.1976 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^2 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^3 \div 12 \times A$
From 1 January 2030 to 31 December 2030	12	$4,184.2415 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^3 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^4 \div 12 \times A$

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Performance guarantee extension period	Number of months covered during the performance guarantee extension period	The audited net profit of the Target Company (including Xingyue Property) for the current year after deducting non-recurring gains and losses during the performance guarantee extension period (RMB'0,000)
From 1 January 2031 to 31 December 2031	12	$4,267.9264 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^4 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^5 \div 12 \times A$
From 1 January 2032 to 31 December 2032	12	$4,353.2849 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^5 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^6 \div 12 \times A$
From 1 January 2033 to 31 December 2033	12	$4,440.3506 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^6 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^7 \div 12 \times A$
From 1 January 2034 to 31 December 2034	12	$4,529.1576 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^7 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^8 \div 12 \times A$
From 1 January 2035 to 31 December 2035	12	$4,619.7408 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^8 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^9 \div 12 \times A$
From 1 January 2036 to 31 December 2036	12	$4,712.1356 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^9 \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{10} \div 12 \times A$
From 1 January 2037 to 31 December 2037	12	$4,806.3783 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{10} \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{11} \div 12 \times A$
From 1 January 2038 to 31 December 2038	12	$4,902.5059 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{11} \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{12} \div 12 \times A$
From 1 January 2039 to 31 December 2039	12	$5,000.5560 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{12} \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{13} \div 12 \times A$
From 1 January 2040 to 31 December 2040	12	$5,100.5671 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{13} \div 12 \times (12 - A) + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{14} \div 12 \times A$
From 1 January 2041 to the expiry date of the performance guarantee extension period	12-A	$2,142.7424 + 5,800 \times (1 + 10\%)^6 \times (1 + 2\%)^{14} \div 12 \times (12 - A)$

Settlement method for cash compensation during the performance guarantee extension period:

During the performance guarantee extension period, according to the audit report for each calendar year recognized by the Parties, if the Target Company fails to achieve the total performance guarantee indicator, Party A shall make cash compensation to Party B within fifteen working days after the audit results for each calendar year are confirmed, or:

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- (1) if the cumulative actual net profit generated during the performance guarantee extension period is greater than or equal to nil, the cash compensation is calculated as follows:

Cumulative cash compensation = (the total lowest guaranteed net profit – the cumulative actual net profit generated).

- (2) if the cumulative actual net profit generated during the performance guarantee extension period is less than nil or the Target Company incurs losses on a cumulative basis, the cash compensation is calculated as follows:

Cumulative cash compensation = (the total lowest guaranteed net profit + the absolute value of cumulative losses).

Party B shall refund or collect the difference between the cumulative cash compensation calculated above and the compensation actually paid during the performance guarantee extension period.

If the performance guarantee is not fulfilled, Party B may, at its discretion, request Party A 8 and/or Party A 9 to assume the above agreed cash compensation liabilities.

7. Guarantee

In order to achieve the performance indicator specified in the Equity Transfer Agreement, if Party B conducts due diligence on the pledger, the pledged underlying equity interest and the company corresponding to the pledged underlying equity interest and otherwise, and the results of due diligence meet the following requirements, Party A shall cause the owners of the pledged underlying equity interest to provide guarantee for Party B:

- (1) The start date of the pledge shall be as specified in the equity pledge agreement, and the term of the pledge is 10 years, during which the pledged property shall not be transferred without the written consent of Party B. The net assets of the company corresponding to the above pledged equity interest audited by Party B shall not be less than RMB816 million. The above net assets shall include the value of the property assessed using the market approach, net of off-balance sheet liabilities (if any) and, if the project company holding a property provides a guarantee for a third party, the amount corresponding to the guarantee shall be deducted from the net assets.
- (2) The company corresponding to the above pledged underlying equity interest and its assets shall be located in municipalities directly under the central government and provincial capitals, or other cities agreed by Party B.

LETTER FROM THE BOARD

After the above conditions are satisfied, Party A 8 agrees that the shareholder (Party A 8) of the specified pledged underlying equity interest (which is tentatively agreed to be the equity interest of Red Star Macalline Shibo (Tianjin) Home Furnishing Plaza Company Limited* (紅星美凱龍世博(天津)家居生活廣場有限公司), may pledge the entire equity interest held by it in the company to Party B. Subject to the performance of the Equity Transfer Agreement, Party B agrees to release 10% of the pledged equity interest each year. If necessary, Party A 8 may replace the pledged property with the equity interest of a project company legally holding a property with an equivalent value, for pledge. The project company holding the property for the replacement shall be subject to prior due diligence conducted by a third-party intermediary agreed by the Parties to confirm that it is able to provide a guarantee, and the third-party intermediary fees incurred shall be borne by Party A 8.

8. *Non-competition*

After the Equity Transfer Agreement is signed, except for the investment in or employment with the Target Company and Xingyue Property (星悦物業), Party A, its related parties and actual controllers, and the management of Party A and its related parties and the management of the Target Company (excluding the personnel appointed by Party B as management members of the Target Company) shall not be engaged in any business that is similar to or in competition with the principal businesses of the two companies and their subsidiaries (the “**Competitive Business**”), and the Competitive Business excludes car parking services.

Specifically, they shall not, among others:

- (1) be directly or indirectly employed by, or persuade or induce employees or the management members of the two companies to join, other companies or organizations which are in competition with the two companies;
- (2) be engaged in an industry in competition with the two companies, by way of investment, shareholding, cooperation, contracting, entrusted operation or otherwise, unless with the prior written consent of Party B;
- (3) provide any service which is similar to the Competitive Business to individuals or enterprises which were or are customers or clients of the Target Company or Xingyue Property;
- (4) provide customer information to other companies or organizations for their Competitive Business;
- (5) undertake any business identical or similar to that of the two companies, through Party A and organizations or persons with related-party relationships with Party A; provided that, Chengdu Life Aesthetics Center (成都美學中心), owners of Owned Portfolio Shopping Malls which are not wholly owned by Party A 8, lessees of non-wholly owned Leased

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Portfolio Shopping Malls, and the managers of Managed Shopping Malls are not subject to the provision, if they may need to continue to be engaged in mall management business including property services under the original model;

- (6) as actual controllers, incorporate enterprises engaged in property management or relevant businesses, or otherwise acquire equity interest in a new enterprise engaged in property management or an enterprise engaged in any business identical or similar to the principal business of the two companies;
- (7) disclose to other persons or use, at any time (whether within the period specified in this article or not), information in relation to the business, accounting, finance, transactions or intellectual property rights of the Target Company, or any trade secret or confidential information in relation to the two companies, for purposes unrelated to the two companies;
- (8) take other actions which are in competition with the two companies or unfavorable to their operation and management.

The above non-competition provision does not apply to the business of residential property management service and a small volume of business for supporting commercial property management service conducted by property management companies in which real estate or other companies (excluding Party A 8) controlled by Party A 9 as an actual controller directly or indirectly invest in.

In case of any loss incurred by the Target Company and Xingyue Property due to the breach of the non-competition obligation under this provision, Party A shall be liable for compensation to the Target Company, with the compensation amount being all of the proceeds obtained by it or its related parties from the above competitive activities.

9. Other matters

Party A undertakes that from the date of transaction consolidation, the Target Company shall be engaged to carry out the property service business for the projects of the wholly-owned Portfolio Shopping Malls newly opened by Party A.

10. Arrangements after the Transaction

Party A and Party B agree that upon the execution of the Equity Transfer Agreement, Party A and Party B shall cause the Target Company to acquire a 100% equity interest in Xingyue Property, making Xingyue Property a wholly-owned subsidiary of the Target Company.

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11. Governance of the Target Company

The board of directors of the Target Company comprises a total of 3 directors, including 2 directors appointed by Party B and 1 director by the holder of the remaining equity interest. The chairman of the Target Company is elected by the holder of the remaining equity interest from the directors appointed by Party A. Party A and Party B shall vote in favor of the resolutions of the meeting of shareholders to elect the persons appointed by the other Party as directors of the Target Company, in accordance with the Equity Transfer Agreement. The Target Company does not have a supervisory committee, but Party A and Party B shall each appoint a supervisor respectively. Party B may appoint the general manager of the Target Company, who is responsible for the operation and management of the Target Company. The general manager is the legal representative of the Target Company, who shall be changed no later than 30 June 2022.

12. Liability for breach

- (1) If Party A or Party B fails to perform the payment obligations under the Equity Transfer Agreement as scheduled, 0.05% of the overdue amount shall be paid as damages for breach for each day of delay. If any Party is unable to make payment within the period specified in the Equity Transfer Agreement due to force majeure, actions by government departments and banks and other reasons not attributable to the Party, the payment period for the Party shall be extended accordingly, and the Party is liable for such breach.
- (2) If the Target Company incurs losses (including a decrease in assets or/and an increase in liabilities of the Target Company) as a result of the breach by Party A of the Equity Transfer Agreement, Party A shall be liable for full compensation to the Target Company.
- (3) If Party A or Party B fails to perform its obligations under the Equity Transfer Agreement and fails to make corrections within 30 days from the date of service of notice from the other Party, the other Party has the right to unilaterally terminate the Equity Transfer Agreement, except for force majeure events specified in the Equity Transfer Agreement and except as otherwise agreed in the Equity Transfer Agreement. If the other Party elects to unilaterally terminate the Equity Transfer Agreement, the breaching Party shall pay as damages for breach, 5% of the total equity transfer price. If the above damages for breach are less than the losses incurred by the non-breaching Party, the breaching Party shall make up the difference for the non-breaching Party.

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- (4) Before the date of completion of the Transaction, any breach of the Equity Transfer Agreement by the Target Company shall be deemed as a breach by Party A, and Party A is liable for the breach in accordance with the Equity Transfer Agreement. If the Target Company fails to meet the requirements of the Equity Transfer Agreement from the date of completion of the Transaction, the provisions of the Equity Transfer Agreement or laws and regulations shall apply.
- (5) For the purpose of entering into the Equity Transfer Agreement, any breach of the Equity Transfer Agreement by any Party among Party A shall be deemed as a breach by Party A of the Equity Transfer Agreement, and Party B may require any one or more parties among Party A (including Party A 8) to assume the liabilities for breach.

13. Termination and rescission of the Equity Transfer Agreement

- (1) The Equity Transfer Agreement may be terminated by consensus and written consent of the Parties;
- (2) Any Party may exercise the right under the Equity Transfer Agreement to unilaterally terminate the Equity Transfer Agreement at any time by giving written notice to the other Parties, in case of any circumstance specified in the Equity Transfer Agreement.

After the termination of the Equity Transfer Agreement, the Parties shall reach a consensus through negotiation and agree in writing on a treatment plan, which may specify that the Transferors shall return the equity transfer price paid by Party B, and Party B shall return to Party A the underlying equity interest for which the industrial and commercial change registration is completed, other closing procedures, supporting matters and other treatment plans agreed by the Parties, and the rights and obligations of any Party shall be subject to the written agreement signed by the Parties for the time being.

E. Other Arrangements Involving the Disposal of Assets

The Transaction does not involve land lease, connected transactions, etc., and there will not be any new connected transactions after the completion of the Transaction; the proceeds from the disposal of the equity interest in the controlling subsidiary will be used to replenish the working capital of the Company.

F. Impact of the Transaction on the Company

The Transaction is in line with the Company's development strategy of "Asset-Light, Operating-Heavy, Lowering Leverage", and is beneficial to the efforts of the Company to focus on high-quality resources on businesses, so as to further improve the

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profitability of assets of the Company, further reduce its debt ratio, decrease its financial expenses, optimize its cash flow level, and meet its development plan in the medium and long term, which is in the interests of all Shareholders.

G. Warning of Material Risks

The Transaction is subject to joint implementation by the Parties in accordance with the Equity Transfer Agreement, and subject to potential change during the implementation. After the completion of the Transaction, it is expected to have a positive impact on the profit for the current period. According to the preliminary estimation by the Company, the expected pre-tax income from the Transaction is RMB696 million. The final accounting treatment and the impact on the Company's profit for 2021 will be as indicated in the results confirmed by the annual audit by the accountants.

III. LISTING RULES IMPLICATION

The Transaction does not constitute any notifiable transaction under Chapter 14 and connected transaction under Chapter 14A of the Listing Rules.

In accordance with the relevant provisions of the Rules Governing Listing of Stocks on the Shanghai Stock Exchange and the Articles of Association, each transaction in relation to the subject matters under the same transaction category shall be calculated for twelve consecutive months on a cumulative basis. In March 2021, Tianjin Red Star Macalline World Trade Home Furnishing Company Limited* (天津紅星美凱龍世貿家居有限公司), the Company, Mr. Che Jianxing and Xingyue Property signed an equity transfer agreement in respect of the transfer by Tianjin Red Star Macalline World Trade Home Furnishing Company Limited to Xuhui Yongsheng (Hainan) Investment Company Limited* (旭輝永升(海南)投資有限公司) of the 90.1% equity interest held by it in Xingyue Property, which has been completed. If the Transaction is carried out, the total absolute value of the profit of the Company and its majority-owned subsidiary generated from the disposal of assets for twelve consecutive months is expected to reach 50% of the latest audited net profit of the Company, and the Transaction is subject to approval at the general meeting of the Company.

IV. THE EGM

The notice of the EGM to be held at 10:00 a.m. on Friday, 12 November 2021 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the PRC, is set out on pages 19 to 20 of this circular.

The proxy forms for the EGM is also enclosed herein and published on the website of the Stock Exchange (www.hkexnews.com.hk). The Shareholders who intend to appoint (a) proxy/proxies to attend the EGM shall complete, sign and return the proxy forms in accordance with the instructions printed thereon.

LETTER FROM THE BOARD

For H Share Shareholders, the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM in order for such documents to be valid. For A Share Shareholders, the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the headquarters of the Company in the PRC at B1 Corporate Post Office, Block A, Red Star Macalline Headquarters, No. 5, Lane 1466, Shenchang Road, Minhang District, Shanghai, the PRC, not less than 24 hours before the time for holding the EGM in order for such documents to be valid.

Pursuant to the Articles of Association, for the purpose of holding the EGM, the register of members of H Shares will be closed from Tuesday, 9 November 2021 to Friday, 12 November 2021 (both days inclusive), during this period no transfer of H Shares will be registered. H Share Shareholders whose names appear on the register of members of the Company on Tuesday, 9 November 2021 are entitled to attend and vote at the EGM. For information about A Share Shareholders' attendance at the EGM, please see the A Share announcement published by the Company on the website of the Shanghai Stock Exchange.

V. RECOMMENDATION

The Directors consider that the proposed disposal of a controlling subsidiary is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the ordinary resolution in relation to the proposed disposal of a controlling subsidiary set out in the notice of the EGM.

Yours faithfully,

By order of the Board

Red Star Macalline Group Corporation Ltd.

GUO Binghe

Vice Chairman



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)

NOTICE OF THE 2021 THIRD EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2021 third extraordinary general meeting (the “**EGM**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**”) will be held at 10:00 a.m. on Friday, 12 November 2021 at Conference Center, 3/F, South Building, Block B, Red Star Macalline Headquarters, Lane 1466, Shenchang Road, Minhang District, Shanghai, the PRC for the purpose of considering, and if thought fit, passing the following resolution:

ORDINARY RESOLUTION

1. To consider and approve the resolution in relation to the disposal of the equity interest of a controlling subsidiary and the execution of the Equity Transfer Agreement.

By order of the Board

Red Star Macalline Group Corporation Ltd.

GUO Binghe

Vice Chairman

Hong Kong
25 October 2021

NOTICE OF THE 2021 THIRD EXTRAORDINARY GENERAL MEETING

Notes:

1. Unless the context otherwise stated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 25 October 2021.
2. For the purpose of holding the EGM, the register of members of the Company will be closed from Tuesday, 9 November 2021 to Friday, 12 November 2021 (both days inclusive), during which period no transfer of shares can be registered. In order for H Share Shareholders to be qualified to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 8 November 2021 for registration.

The Shareholders whose names appear on the register of members of the Company on Tuesday, 9 November 2021 are entitled to attend and vote at the EGM.

3. The Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalves. A proxy need not to be a Shareholder of the Company.
4. The instrument appointing a proxy must be in writing under the hand of a Shareholder or his attorney duly authorized in writing. If the Shareholder is a legal person, that instrument must be executed either under its seal or under the hand of its director or other attorney duly authorized to sign the same on its behalf.
5. In order to be valid, the proxy form must be deposited, for H Share Shareholders of the Company, to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM. If the proxy form is signed by a person under the power of attorney or other authority, a notarized copy of that power of attorney or other authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude Shareholders of the Company from attending the voting in person at the EGM or any adjourned meetings should they so wish.
6. Shareholders shall produce their identification documents and supporting documents in respect of the shares of the Company held when attending the EGM. If corporate Shareholders appoint authorized representative to attend the EGM, the authorized representative shall produce his/her identification documents and a notarized copy of the relevant authorization instrument signed by the board of directors or other authorized parties of the corporate Shareholders or other notarized documents allowed by the Company. Proxies shall produce their identification documents and the proxy form signed by the Shareholders or their attorney when attending the EGM.
7. The EGM is expected to take for less than half a day. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.
8. All voting at the EGM will be conducted by poll.