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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)

CONTINUING CONNECTED TRANSACTION ENTERING INTO ENTRUSTED OPERATION AND MANAGEMENT AGREEMENT

CONTINUING CONNECTED TRANSACTION

On 26 November 2024, Chengdu Macalline entered into the Entrusted Operation and Management Agreement with C&D Commercial Management, pursuant to which, Chengdu Macalline entrusted C&D Commercial Management to provide grand-opening preparation services, tenant sourcing service and operational services, and post-opening operation and management services for MKL Life Aesthetics Center, a commercial shopping centre project.

LISTING RULES IMPLICATIONS

Xiamen C&D is a substantial shareholder of the Company and C&D Commercial Management is a subsidiary of Xiamen C&D. Therefore, C&D Commercial Management is a connected person of the Company, and the transactions contemplated under the Entrusted Operation and Management Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the highest amount of the annual caps under the Entrusted Operation and Management Agreement is higher than 0.1% but less than 5%, the transactions thereunder are subject to reporting, annual review and announcement requirements but exempt from circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, as the term of the Entrusted Operation and Management Agreement exceeds three years, the Company has appointed Maxa Capital as the Independent Financial Adviser to explain why the Entrusted Operation and Management Agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

INTRODUCTION

On 26 November 2024, Chengdu Macalline entered into the Entrusted Operation and Management Agreement with C&D Commercial Management, pursuant to which, Chengdu Macalline entrusted C&D Commercial Management to provide grand-opening preparation services, tenant sourcing service and operational services, and post-opening operation and management services for MKL Life Aesthetics Center, a commercial shopping centre project.

ENTRUSTED OPERATION AND MANAGEMENT AGREEMENT

The principal terms of the Entrusted Operation and Management Agreement are set out below:

- Date: 26 November 2024
- Parties: Chengdu Macalline; and
C&D Commercial Management
- Entrusted matter: Chengdu Macalline entrusted C&D Commercial Management to provide certain services for operations and management of the Project: (i) grand-opening preparation service, consultancy service, tenant sourcing service and operational services during the period from the effective date of the Entrusted Operation and Management Agreement to the date before the official opening of the Project (the “**Preparation Period**”); and (ii) post-opening services for the management and operations of the Project during the period from the actual opening date of the Project to the expiration or termination date of the Entrusted Operation and Management Agreement (the “**Operation Period**”).
- Term: Ten years and eleven months commencing from the effective date of the Entrusted Operation and Management Agreement. The Company currently expects that the Preparation Period shall last for eleven months and the Operation Period shall be ten years.
- Fee rate: (i) During the Preparation Period, Chengdu Macalline shall pay C&D Commercial Management the following fees for the grand-opening preparation, tenant sourcing and operations (the “**Grand-opening Preparation Fees**”): (a) a fixed consultation fee of RMB1 million; and (b) tenant sourcing commission equivalent to 1.5 times or 2 times (depending on the overall occupancy rate of the Project) of the average monthly rent of each tenant of the Project for the first rental year, provided that Chengdu Macalline shall not be required to pay such commission if the Project cannot commence operations by a mutually agreed date or the overall occupancy rate on the official opening date of the Project does not reach a prescribed level mutually agreed by the parties.

- (ii) During the Operation Period, Chengdu Macalline shall pay C&D Commercial Management an annual management fee for the operation and management of the Project equivalent to a portion of the operating profit of the Project. The relevant fees will be charged in tranches of 0% to 60% of the actual operating profit based on the achievement rate of the targeted operating profit mutually agreed and Chengdu Macalline shall not be required to pay any management fee if the actual operational profits are lower than the targeted operating profit by a certain prescribed level.

Settlement method:

- (i) **Consultation fee:** Chengdu Macalline shall pay 50% of the consultation fees to C&D Commercial Management within two months upon confirmation of relevant consultation plan, and Chengdu Macalline shall pay the rest 50% of the consultation fees to C&D Commercial Management within 30 days upon the delivery of the Project;
- (ii) **Tenant sourcing commission:** The tenant sourcing commission shall be determined and prepaid on a quarterly basis. The tenant sourcing commission will be settled uniformly within two months after the official opening of the Project, based on the level of the occupancy rate on the opening day and the settlement rate mutually agreed by both parties. It will be adjusted accordingly if there is any discrepancy between the prepaid commission and the final settlement rate; and
- (iii) **Annual management fee:** Chengdu Macalline shall pay the annual management fee on a yearly basis and shall pay such fee for the prior year before 31 January of each year.

Other terms:

Subject to the expense incurred based on the budget approved by Chengdu Macalline, C&D Commercial Management shall be reimbursed by Chengdu Macalline of the cost incurred for the operation and management of the Project (i) on a quarterly basis during the Preparation Period and (ii) on a semi-annual basis during the Operation Period.

If (i) the actual operating profits of the Project for two consecutive years are lower than the targeted operating profit mutually agreed by the parties, or (ii) the average occupancy rate and annual rental collection rate of the Project for two consecutive years fail to meet the levels mutually agreed by the parties, Chengdu Macalline has the right to terminate the Entrusted Operation and Management Agreement.

PRICING POLICY

The fees to be paid by Chengdu Macalline to C&D Commercial Management under the Entrusted Operation and Management Agreement (the “**Entrusted Management Service Fees**”) were arrived at after arm’s length negotiation between the parties and were determined with reference to (i) terms in relation to the provision of services of similar nature (i.e. consultancy service, tenant sourcing service and annual management service) in the market or to the Company; (ii) certain quotations obtained by Chengdu Macalline from independent third parties for similar consultancy service, tenant sourcing service and annual management service; (iii) the terms and conditions of the similar entrusted operation and management agreement entered into between C&D Commercial Management and other independent third parties; and (iv) the extensive management experience of C&D Commercial Management in general commercial shopping mall, and in particular its management experience of shopping mall in Chengdu for over seven years.

HISTORICAL AMOUNT

There was no historical amount incurred prior to the date of this announcement in respect of transactions under the Entrusted Operation and Management Agreement.

PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION

The proposed annual caps on the Entrusted Management Service Fees paying by Chengdu Macalline for each year during the term of the Entrusted Operation and Management Agreement are set out below:

<i>RMB in million</i>											
For the years ending 31 December											
2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
1.00	35.00	50.00	56.00	62.00	67.00	70.00	73.00	76.00	79.00	82.00	85.00

The proposed annual caps on the Entrusted Management Service Fees are determined based on: (i) the targeted operating profit of the Project; (ii) the tenant sourcing commission rate and the expected tenant sourcing commission; (iii) the estimated cost incurred for the operation and management of the Project during the Preparation Period and Operation Period; and (iv) a reasonable buffer amount required after taking into account the potential operating profit of the Project achievable under different market conditions and potential inflation in costs and expenses.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS UNDER THE ENTRUSTED OPERATION AND MANAGEMENT AGREEMENT

With a number of home furnishing shopping malls in Chengdu, the Company has already established its market position to a certain degree in the region. In order to better meet the diversified shopping needs of the neighbouring consumers and to enhance the Company’s operating results, the Company intends to use the Project as a pilot project transforming a home improvement and furnishings shopping mall to a general commercial shopping centre, so as to enable the malls in the Company’s portfolio to maintain relatively stable operations under different economic environment and market trends.

As of the date of this announcement, C&D Commercial Management has owned and served various types of commercial projects nationwide. It has been engaged in mall management in Chengdu for more than seven years and has accumulated rich local market experience and stable customer base. Meanwhile, C&D Real Estate Corporation Limited (which is the parent company of C&D Commercial Management) (“**C&D Real Estate**”) has been operating its business in Chengdu for over 10 years. In particular, there are several residential communities developed and constructed by C&D Real Estate in the area where the Project is located. The residents of these residential communities will provide a steady stream of customers for the Project in the future.

The revamp of the Project into a general commercial shopping centre aims to enhance the Company’s market influence in Chengdu and enrich the Company’s competitiveness through diversified mall portfolio. It is in line with the Company’s long-term development strategic needs and is conducive to revitalizing the Company’s assets and improving the efficiency of asset use and the performance of the Company. The Company currently expects that the revamp will have a positive impact on the Company’s future operations and is in the interests of the Company and the Shareholders as a whole.

OPINION OF THE BOARD

The Directors (including independent non-executive Directors) are of the view that, the Entrusted Operation and Management Agreement is entered into in the usual and ordinary course of business of the Company on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Directors, namely Mr. ZHENG Yongda, Mr. ZOU Shaorong and Mr. WANG Wenhui, have abstained from voting on the relevant resolution approving the above transactions in view of their conflict of interests or potential interests in the transactions contemplated under the Entrusted Operation and Management Agreement. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under the Entrusted Operation and Management Agreement.

OPINION OF THE INDEPENDENT FINANCIAL ADVISER

The Company has engaged Maxa Capital as the Independent Financial Adviser to provide independent advice pursuant to the requirement under Rule 14A.52 of the Listing Rules as to explaining why the Entrusted Operation and Management Agreement requires a period longer than three years and to confirming that it is normal business practice for agreements of this type to be of such duration.

Maxa Capital has discussed with the management of the Company and has considered the following factors:

1. C&D Commercial Management, as a leading commercial management company in China, has owned and served various types of commercial projects nationwide according to its official website. According to the review by Maxa Capital on the annual report for the year ended 31 December 2023 and the interim report for the six months ended 30 June 2024 of C&D Property, in May 2024, C&D Property was ranked 16th “Top 100 Property Service Capability Companies in China (中國物業服務力百強企業)” by CRIC Property Management and China Property Management Research Institution and was awarded “Top 20 Listed Property Management Companies in China (中國物業管理上市公司20強)” by CRIC Property Management. In terms of commercial property operation management services, by capitalizing on its professional service capabilities, C&D Property has received several honours for the year ended 31 December 2023, including the “Annual Outstanding Commercial Real Estate Operator” by the Commercial Real Estate Golden Coordinate, “Top 10 Most Influential Membership Operation Benchmark Enterprises”, “Top 100 Shopping Center Enterprises” by the China Chain Store & Franchise Association (CCFA), and “Headquarters Management Award” by the 6th Golden Light Awards, and therefore gained market recognitions. C&D Commercial Management and the Company could establish a stable cooperative relationship, which is conducive to enhancing market competitiveness of the Project. As of 30 September 2024, the Company also operated 84 Portfolio Shopping Malls and 260 Managed Shopping Malls, which are mainly home improvement and furnishings shopping malls, while C&D Commercial Management has more extensive experience in the field of commercial property operation management services for general shopping centres as in this Project;
2. Maxa Capital noted certain comparable transactions involving the entering into of long-term entrusted operation and management agreements among the following companies listed on the Stock Exchange, all of which constituted continuing connected transactions disclosed within 5 years from the date of this announcement:

Company	Term	Parties	Date of announcement	Location
Beijing North Star Company Limited (Stock code: 588)	10 years	Entrusted Manager	23 August 2024	Beijing, PRC
Beijing Capital Grand Limited (Stock code: 1329)	10 years (renewable every 10 years unless otherwise terminated)	Entrusted Manager	29 December 2023	Jinan, PRC, Wuhan, PRC
China Resources Mixc Lifestyle Services Limited (Stock code: 1209)	15 years	Entrusted Manager	7 December 2022	Not specified
Country Garden Holdings Company Limited (Stock code: 2007) and Country Garden Services Holdings Company Limited (Stock code: 6098)	No more than 10 years	Owner	12 July 2022	Not specified
Sunac Services Holdings Limited (Stock code: 1516)	20 years	Entrusted Manager	8 November 2021	Not specified

As a result, the term of the Entrusted Operation and Management Agreement is reasonable and it is normal business practice for such agreements to be entered into for a period longer than three years.

3. Maxa Capital has carried out a sample checking on and reviewed the entrusted operation and management agreements entered into between C&D Commercial Management and independent third parties for a term of 10 years or longer, and noted that the terms of the agreement between C&D Commercial Management and the Company (including the consultation fees, the tenant sourcing commissions, the profit sharing methodology and ratios of annual management fee) are similar to those with independent third parties, and a period of 10 years is in line with the general industry practice for similar agreements;
4. The Company has also inquired with other commercial management companies, being independent third parties, and the terms between C&D Commercial Management and the Company are no less favourable than those offered by independent third parties to the Company for the provision of similar entrusted operation and management services;
5. Maxa Capital has reviewed the Company's announcements on the operating statistics for the first quarter of 2024, the first half of 2024 and the third quarter of 2024 and noted that in the first three quarters of 2024, one Managed Shopping Mall was newly opened with a contract period of 10 years since the opening, and that the contract periods of the Managed Shopping Malls that were closed in the first three quarters of 2024 were broadly more than three years and some were also around 10 years; and
6. Maxa Capital understands from the management that commercial property is an industry that requires long-term stable operation and management. For commercial management companies, long-term contracts are conducive to the establishment of a stable operation team by C&D Commercial Management to facilitate the long-term implementation of project management strategies. For merchants, a long-term operation and management contract is also conducive to building their confidence in the Project, and preventing a situation where the merchants do not enter into contracts given any change of manager will affect their operations.

In view of the foregoing, the Independent Financial Adviser is of the view that the Entrusted Operation and Management Agreement requires a period longer than three years and it is normal business practice for agreements of this type to be of such duration.

INTERNAL CONTROL PROCEDURES

To ensure that the terms of the above-mentioned agreement are fair and reasonable and on normal commercial terms, and the Company complies with the pricing terms of the relevant agreements, the Company has adopted the following internal control procedures:

- (1) The Company has arranged the financial department to monitor the continuing connected transactions;
- (2) The financial department and the secretariat of the Board will examine and review relevant information and materials, to ensure compliance with the requirements of the Listing Rules;
- (3) The independent non-executive Directors have reviewed and will continue to review the above-mentioned transactions, to ensure that the terms of the above-mentioned transactions are fair and reasonable, and above-mentioned transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interest of the Company and the shareholders as a whole; and
- (4) The auditors of the Company will conduct an annual review on the pricing policy and caps of above-mentioned transactions.

LISTING RULES IMPLICATIONS

Xiamen C&D is a substantial shareholder of the Company and C&D Commercial Management is a subsidiary of Xiamen C&D. Therefore, C&D Commercial Management is a connected person of the Company, and the transactions contemplated under the Entrusted Operation and Management Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the highest amount of the annual caps under the Entrusted Operation and Management Agreement is higher than 0.1% but less than 5%, the transactions thereunder are subject to reporting, annual review and announcement requirements but exempt from circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, as the term of the Entrusted Operation and Management Agreement exceeds three years, the Company has appointed Maxa Capital as the Independent Financial Adviser to explain why the Entrusted Operation and Management Agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

INFORMATION ABOUT THE PARTIES INVOLVED IN TRANSACTIONS

As 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. Meanwhile, the Group is also involved in pan home furnishings consumption services, including internet retail, home decoration and design.

Chengdu Macalline is a limited company established in the PRC, it principally engaged in site leasing management. Chengdu Macalline a wholly-owned subsidiary of the Company.

Xiamen C&D is a limited liability company incorporated in the PRC and listed on the Shanghai Stock Exchange under the stock code: 600153, which is principally engaged in import and export of goods, trade agency, sales agency, product sales, international freight forwarding and technology promotion and application. As at the date of this announcement, Xiamen C&D and parties acting in concert with it held in aggregate approximately 29.95% of the issued share capital of the Company, and is therefore a substantial shareholder of the Company.

C&D Commercial Management is a limited company established in the PRC, it principally engaged in management of commercial conglomerate and enterprises management consultancy. C&D Commercial Management is a wholly-owned subsidiary of C&D Property.

DEFINITIONS

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

“Board”	the board of Directors of the Company
“C&D Commercial Management”	Xiamen C&D Commercial Management Company Limited* (廈門建發商業管理有限公司), a limited company established in the PRC and a wholly-owned subsidiary of C&D Property
“C&D Property”	C&D Property Management Group Co., Ltd (建發物業管理集團有限公司), a company incorporated in the British Virgin Islands with limited liability whose shares are listed on the Stock Exchange under the stock code: 02156. As at the date of this announcement, Xiamen C&D is a non-direct controlling shareholder of the C&D Property
“Company”	Red Star Macalline Group Corporation Ltd. (紅星美凱龍家居集團股份有限公司), a sino-foreign joint stock company incorporated in the PRC with limited liability, whose H shares are listed on the main board of the Stock Exchange and A shares are listed on the Shanghai Stock Exchange
“Chengdu Macalline”	Chengdu Red Star Macalline Tianfu Expo Home Furnishing Plaza Company Limited* (成都紅星美凱龍天府世博家居廣場有限公司), a limited company established in the PRC and a wholly-owned subsidiary of the Company
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Entrusted Operation and Management Agreement”	an entrusted operation and management agreement entered into between Chengdu Macalline and C&D Commercial Management on 26 November 2024
“Group”	the Company and its subsidiaries from time to time

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited (邁時資本有限公司), a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Managed Shopping Mall(s)”	shopping mall(s) managed under contract management agreements
“Portfolio Shopping Mall(s)”	all of the following shopping malls: (1) shopping malls which are owned by the Company’s holding subsidiaries; (2) the repurchased shopping malls; (3) shopping malls leased by the Company; (4) shopping malls for which the Company operate and consolidate their results of operation and pay the relevant property owners a fixed amount of annual fees; (5) shopping malls held by the Company and associates or joint venture partners and operated by the Company
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Project”	the commercial part of MKL Life Aesthetics Center* (MKL生活美學中心), located in No. 2608, Tianfu Avenue South, Chengdu, Sichuan Province, the PRC with a total gross floor area of 114,028 square meters (including 88,657 square meters of project property (excluding parking lot) and 25,371 square meters of parking lot)
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the A Share Shareholder(s) and the H Share Shareholder(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules

“substantial shareholder” has the meaning ascribed thereto under the Listing Rules

“Xiamen C&D” Xiamen C&D Inc.* (廈門建發股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600153), a substantial shareholder of the Company

“%” per cent

By order of the Board
Red Star Macalline Group Corporation Ltd.
QIU Zhe
Secretary of the Board and Joint Company Secretary

Shanghai, the PRC
26 November 2024

As at the date of this announcement, the executive Directors of the Company are CHE Jianxing, SHI Yaofeng, LI Jianhong and YANG Yingwu; the non-executive Directors are ZHENG Yongda, WANG Wenhui, ZOU Shaorong, SONG Guangbin and XU Di; and the independent non-executive Directors are XUE Wei, HUANG Jianzhong, CHEN Shanang, WONG Chi Wai and CAI Qinghui.

* For identification only