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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)

**(1) CONNECTED TRANSACTIONS –
DISPOSAL OF TWO SUBSIDIARIES;
AND
(2) CONTINUING CONNECTED TRANSACTION IN
RELATION TO FACTORING CONTRACT
UNDER RULE 14A.60 OF THE LISTING RULES**

CONNECTED TRANSACTIONS – DISPOSAL OF TWO SUBSIDIARIES

The Company announced that, on 14 May 2021, the Company and RSM Holding entered into an equity transfer agreement in relation to Red Star Financial Leasing, pursuant to which the Company agreed to dispose of, and RSM Holding agreed to acquire a 100% equity interest in Red Star Financial Leasing; on the same date, the Company and RSM Holding entered into an equity transfer agreement in relation to Red Star Commercial Factoring, pursuant to which the Company agreed to dispose of, and RSM Holding agreed to acquire a 100% equity interest in Red Star Commercial Factoring.

Upon the completion of the Disposals, the Target Companies will no longer be wholly-owned subsidiaries of the Company and their consolidated financial results will not be consolidated into the financial results of the Group.

LISTING RULES IMPLICATIONS

As the Purchaser is a controlling shareholder of the Company, the Purchaser is a connected person of the Company. Therefore in accordance with Chapter 14A of the Listing Rules, the Disposals between the Purchaser and the Company constitute connected transactions of the Company. As the highest applicable percentage ratio calculated on an aggregated basis in respect of the Disposals on an aggregated basis is more than 0.1% but less than 5% in accordance with Rule 14.07 of the Listing Rules, the above transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, but are exempt from the independent shareholders' approval requirement.

CONTINUING CONNECTED TRANSACTIONS UNDER RULE 14A.60 OF THE LISTING RULES

Before the date of this announcement, Red Star Commercial Factoring entered into a commercial factoring contract with Sunan Construction. Accordingly, Red Star Commercial Factoring has provided and will continue to provide Sunan Construction with accounts receivable financing services after the completion of Disposal II.

Immediately following the completion of Disposal II, Red Star Commercial Factoring will become a wholly-owned subsidiary of the controlling shareholder of the Company (RSM Holding). Therefore, Red Star Commercial Factoring will become a connected person of the Company, and the Factoring Contract and the transactions thereunder will become the continuing connected transactions of the Company in accordance with Chapter 14A of the Listing Rules.

In accordance with Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable annual review and disclosure requirements under Chapter 14A of the Listing Rules regarding such continuing connected transaction, including issuance of announcements and annual reporting. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Factoring Contract.

I. DISPOSAL OF TWO SUBSIDIARIES

Reference is made to the overseas regulatory announcements issued by the Company on 5 February 2021 and 24 February 2021 in relation to the undertakings of the Company as to its quasi-financial business and the undertakings of RSM Holding as to support for the arrangement to dispose of the quasi-financial business of the Company.

The Company announced that, on 14 May 2021, the Company and RSM Holding entered into an equity transfer agreement in relation to Red Star Financial Leasing ("**Transaction Agreement I**"), pursuant to which the Company agreed to dispose of, and RSM Holding agreed to acquire a 100% equity interest in Red Star Financial Leasing ("**Disposal I**"); on the same date, the Company and RSM Holding entered into an equity transfer agreement in relation to Red Star Commercial Factoring ("**Transaction Agreement II**"), pursuant to which the Company agreed to dispose of, and RSM Holding agreed to acquire a 100% equity interest in Red Star Commercial Factoring ("**Disposal II**", and together with Disposal I, "**Disposals**").

PRINCIPAL TERMS OF THE EQUITY TRANSFER AGREEMENT IN RELATION TO SHANGHAI RED STAR MACALLINE FINANCIAL LEASING COMPANY LIMITED

Date: 14 May 2021

Parties: (1) The Company (as the Seller)
(2) RSM Holding (as the Purchaser)
(3) Red Star Financial Leasing (as the Target Company)

Subject: 100% equity interest in Red Star Financial Leasing

Consideration: The consideration for Disposal I is RMB1,005,574,100 (“**Consideration I**”), which is arrived at after arm’s length negotiations between the parties with reference to the appraised value of all interests of shareholders of Red Star Financial Leasing as of Valuation Reference date being RMB1,005,574,100. The evaluation results above have been evaluated and determined by an independent valuer based on the asset-based method.

Conditions precedent to closing: The obligation of the Purchaser to pay the transaction price is conditional upon the satisfaction of each of the following conditions or obtaining of a written waiver from the Purchaser at or prior to the closing:

- (1) Disposal I is considered and approved by competent internal decision-making bodies of the Purchaser and the Seller;
- (2) A possible third-party license, approval, consent, authorization, filing or waiver is obtained for Disposal I, if necessary;
- (3) Shareholder decisions and/or board resolutions of Red Star Financial Leasing are made in relation to the consent to Disposal I, the amendments to the articles of association of Red Star Financial Leasing according to Disposal I, the election or appointment of persons designated by the Purchaser as directors, supervisors and senior management members;
- (4) The Seller and Red Star Financial Leasing shall go through handover procedures with the Purchaser, including but not limited to the confirmation of the final amount of debts owed by the Seller to Red Star Financial Leasing, and the delivery of certificates, licenses, financial books, company seals and financial seals of Red Star Financial Leasing to the Purchaser;

- (5) During the period from the date of signing the Transaction Agreement I to the closing date, all representations and warranties made by the parties under the Transaction Agreement I are true, complete and accurate in all aspects, and there is no breach of the Transaction Agreement I by the parties;
- (6) The Seller provides the Purchaser with a certificate proving that the above closing conditions are satisfied, and issues a letter of confirmation that all relevant conditions are satisfied.

Closing method:

- (1) The Purchaser has the right to specify as the closing date for Disposal I ("**Closing Date I**"), any date within ten (10) working days following the satisfaction of all of the conditions precedent to closing or the grant by the Purchaser of a written waiver of the conditions precedent to closing, which are not satisfied, and notify the Seller of the same;
- (2) The consideration shall be paid as follows:
 - A. The Purchaser shall pay the Seller, the first tranche of the equity transfer price of RMB854,737,985 ("**First-Tranche Equity Transfer Price I**"), on the closing date, which is 85% of the Consideration I;
 - B. The Purchaser shall pay the Seller, the remaining equity transfer price ("**Remaining Equity Transfer Price I**") of RMB150,836,115, within 10 working days following the completion by Red Star Financial Leasing of the industrial and commercial registration and filing of change.
- (3) The Purchaser will, on the Closing Date I, acquire the claim against the Seller transferred by Red Star Financial Leasing, and the parties further acknowledge and agree that, on each payment date specified in items (1) and (2) above, the corresponding equity transfer price payable by the Purchaser to the Seller shall be offset by an equivalent amount of the then claim of the Purchaser against the Seller ("**Offset Amount I**"), in priority; after the offset, the Purchaser shall be deemed to have paid the Seller, the equity transfer price equal to the Offset Amount I; if the then claim of the Purchaser against the Seller fails to cover the total equity transfer price, the Purchaser shall pay the Seller in cash, the corresponding equity transfer price which is not offset, on the payment dates specified in items (1) and (2) above.

Liabilities for breach: If any party breaches the Transaction Agreement I, leading to the failure to perform the Transaction Agreement I or inability to sufficiently perform the Transaction Agreement I, the breaching party shall assume the liability arising out of the breach and shall compensate the actual loss of the non-breaching party in full. The liabilities arising out of the breach of the Transaction Agreement I by all the parties shall be assumed by the parties respectively.

If the default of any party leads to the failure to go through the reporting, approval, transfer and closing procedures for the proposed equity interest transfer as specified in the Transaction Agreement I, the defaulting party shall compensate the actual loss of the non-defaulting party in full.

If the failure to transfer the equity interests is due to force majeure and reasons not attributable to any party, the parties are not legally liable to the other parties.

PRINCIPAL TERMS OF THE EQUITY TRANSFER AGREEMENT IN RELATION TO SHANGHAI RED STAR MACALLINE COMMERCIAL FACTORING COMPANY LIMITED

Date: 14 May 2021

Parties:

- (1) The Company (as the Seller)
- (2) RSM Holding (as the Purchaser)
- (3) Red Star Commercial Factoring (as the Target Company)

Subject: 100% equity interest in Red Star Commercial Factoring

Consideration: The consideration for Disposal II is RMB203,534,800 (“**Consideration II**”), which is arrived at after arm’s length negotiations between the parties with reference to the appraised value of all interests of shareholders of Red Star Commercial Factoring as of Valuation Reference Date being RMB203,534,800. The evaluation results above have been evaluated and determined by an independent valuer based on the asset-based method.

Conditions precedent to closing: The obligation of the Purchaser to pay the transaction price is conditional upon the satisfaction of each of the following conditions or obtaining of a written waiver from the Purchaser at or prior to the closing:

- (1) Disposal II is considered and approved by competent internal decision-making bodies of the Purchaser and the Seller;
- (2) A possible third-party license, approval, consent, authorization, filing or waiver is obtained for Disposal II, if necessary;

- (3) Shareholder decisions and/or board resolutions of Red Star Commercial Factoring are made in relation to the consent to Disposal II, the amendments to the articles of association of Red Star Commercial Factoring according to Disposal II, the election or appointment of persons designated by the Purchaser as directors, supervisors and senior management members;
- (4) The Seller and Red Star Commercial Factoring shall go through handover procedures with the Purchaser, including but not limited to the confirmation of the final amount of debts owed by the Seller to Red Star Commercial Factoring, and the delivery of certificates, licenses, financial books, company seals and financial seals of Red Star Commercial Factoring to the Purchaser;
- (5) During the period from the date of signing the Transaction Agreement II to the closing date, all representations and warranties made by the parties under the Transaction Agreement II are true, complete and accurate in all aspects, and there is no breach of the Transaction Agreement II by the parties;
- (6) The Seller provides the Purchaser with a certificate proving that the above closing conditions are satisfied, and issues a letter of confirmation that all relevant conditions are satisfied.

Closing method:

- (1) The Purchaser has the right to specify as the closing date for Disposal II ("**Closing Date II**"), any date within ten (10) working days following the satisfaction of all of the conditions precedent to closing or the grant by the Purchaser of a written waiver of the conditions precedent to closing, which are not satisfied, and notify the Seller of the same;
- (2) The consideration shall be paid as follows:
 - A. The Purchaser shall pay the Seller, the first tranche of the equity transfer price of RMB173,004,580 ("**First-Tranche Equity Transfer Price II**"), on the closing date, which is 85% of the Consideration II;
 - B. The Purchaser shall pay the Seller, the remaining equity transfer price ("**Remaining Equity Transfer Price II**") of RMB30,530,220, within 10 working days following the completion by Red Star Commercial Factoring of the industrial and commercial registration and filing of change;

- (3) The Purchaser will, on the closing date, acquire the claim against the Seller transferred by Red Star Commercial Factoring, and the parties further acknowledge and agree that, on each payment date specified in items (1) and (2) above, the corresponding equity transfer price payable by the Purchaser to the Seller shall be offset by an equivalent amount of the then claim of the Purchaser against the Seller (“**Offset Amount II**”), in priority; after the offset, the Purchaser shall be deemed to have paid the Seller, the equity transfer price equal to the Offset Amount II; if the then claim of the Purchaser against the Seller fails to cover the total equity transfer price, the Purchaser shall pay the Seller in cash, the corresponding equity transfer price which is not offset, on the payment dates specified in items (1) and (2) above.

Liabilities for breach: If any party breaches the Transaction Agreement II, leading to the failure to perform the Transaction Agreement II or inability to sufficiently perform the Transaction Agreement II, the breaching party shall assume the liability arising out of the breach and shall compensate the actual loss of the non-breaching party in full. The liabilities arising out of the breach of the Transaction Agreement II by all the parties shall be assumed by the parties respectively.

If the default of any party leads to the failure to go through the reporting, approval, transfer and closing procedures for the proposed equity interest transfer as specified in the Transaction Agreement II, the defaulting party shall compensate the actual loss of the non-defaulting party in full.

If the failure to transfer the equity interests is due to force majeure and reasons not attributable to any party, the parties are not legally liable to the other parties.

INFORMATION ON THE TARGET COMPANY

Red Star Financial Leasing, a limited liability company established in China, is a directly wholly-owned subsidiary of the Company as at the date of this announcement, mainly engaged in financial leasing business, the purchase of leased assets in relation to financial lease and leasing business, treatment of residual value and maintenance of leased assets, consultation and guarantee for leasing transactions, transfer of accounts receivable to third-party organizations, acceptance of lease security deposits and other businesses approved by approval authorities, and commercial factoring business in relation to principal businesses.

Red Star Commercial Factoring, a limited liability company established in China, is a directly wholly-owned subsidiary of the Company as at the date of this announcement, mainly engaged in accounts receivable financing in relation to accounts receivable, sales sub-account management, collection of accounts receivable and bad debt guarantee.

The table below sets out the unaudited financial information for the three months ended 31 March 2021 and for the financial year ended 31 December 2020, and the audited financial information for the financial year ended 31 December 2019 of the Target Companies:

Agreement	Target Company	For the three months ended 31 March 2021		For the year ended 31 December 2020		For the year ended 31 December 2019	
		Profit/ (loss) before Taxation <i>RMB</i>	Profit/ (loss) after Taxation <i>RMB</i>	Profit/ (loss) before Taxation <i>RMB</i>	Profit/ (loss) after Taxation <i>RMB</i>	Profit/ (loss) before Taxation <i>RMB</i>	Profit/ (loss) after Taxation <i>RMB</i>
Transaction Agreement I	Red Star Financial Leasing	11,929,847.15	8,947,385.36	28,193,367.39	21,476,503.98	32,160,499.78	23,921,767.78
Transaction Agreement II	Red Star Commercial Factoring	3,599,642.55	2,699,731.91	24,611,101.86	19,576,986.83	6,236,024.18	4,577,384.96

The table below sets out the unaudited total assets and net assets of the Target Companies as at 31 March 2021:

Agreement	Target Company	As at 31 March 2021	
		Total Assets <i>RMB</i>	Net Assets <i>RMB</i>
Transaction Agreement I	Red Star Financial Leasing	1,083,290,791.27	1,005,594,150.28
Transaction Agreement II	Red Star Commercial Factoring	234,514,838.21	203,534,848.85

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 RSM HOLDING

RSM Holding is a company incorporated in the PRC and the controlling shareholder of the Company, principally engaged in investment in corporations, film and television industry, art and cultural industry, investment management, business management, investment consulting and property management businesses. RSM Holding is directly held as to 92% and 8% by Mr. CHE Jianxing and Ms. CHE Jianfang (both of them are Directors), respectively. As at the date of this announcement, RSM Holding has held approximately 69.87% of the total issued shares of the Company.

REASONS FOR THE DISPOSALS AND USE OF THE PROCEEDS

In accordance with the letters of undertakings issued by the Company and RSM Holding as to the quasi-financial business in February 2021, the Company will, prior to 7 July 2021, complete the cancellation of Red Star Financial Leasing and Red Star Commercial Factoring or transfer all of its equity interests to RSM Holding or other third parties; RSM Holding undertakes to support the arrangement of the Company for the disposal of the quasi-financial business.

As of the date of this announcement, the debt owed by the Seller to Red Star Financial Leasing was RMB933,125,055.56, and the debt owed by the Seller to Red Star Commercial Factoring was RMB22,084,745.83. As mentioned above, the Purchaser will acquire the claim against the Seller transferred by the Target Companies, while the consideration payable by the Purchaser to the Seller for the Disposals shall be offset against its claim against the Seller, in priority. After the offset, the actual equity transfer price to be received by the Company (if any) will be used as general working capital of the Company.

The Directors (including the independent non-executive Directors) take the view that although the entering into the Disposals is not in the ordinary and usual course of business of the Group, the terms of the Transaction Agreement I and the Transaction Agreement II and the Disposals are on normal commercial terms, fair and reasonable, and in the interests of the Group and the shareholders of the Company as a whole.

EFFECT OF THE DISPOSALS

It is expected that the Company would record a loss of approximately RMB20,099.13 upon the completion of the Disposals, being the difference between the consideration for the Disposals and the carrying value of the net assets of the Target Companies on the date of the completion of the Disposals. The actual gain or loss in connection with the Disposals will be assessed after the completion of the Disposals and is subject to audit.

Upon the completion of the Disposals, the Target Companies will no longer be subsidiaries of the Company and their financial results will not be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As the Purchaser is a controlling shareholder of the Company, the Purchaser is a connected person of the Company. Therefore in accordance with Chapter 14A of the Listing Rules, the Disposals between the Purchaser and the Company constitute connected transactions of the Company. As the highest applicable percentage ratio calculated on an aggregated basis in respect of the Disposals on an aggregated basis is more than 0.1% but less than 5% in accordance with Rule 14.07 of the Listing Rules, the above transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, but are exempt from the independent shareholders' approval requirement.

Considering that Mr. CHE Jianxing, Ms. CHE Jianfang, Ms. CHEN Shuhong and Mr. JIANG Xiaozhong had conflicts of interest and potential interests in the Disposals, they have abstained from voting on the Board resolution to approve the Disposals. Save as disclosed above, none of the Directors has any material interest in the Disposals.

II. CONTINUING CONNECTED TRANSACTIONS IN RELATION TO FACTORING CONTRACT UNDER RULE 14A.60 OF THE LISTING RULES

Before the date of this announcement, Red Star Commercial Factoring entered into a commercial factoring contract (“**Factoring Contract**”) with Sunan Construction. Accordingly, Red Star Commercial Factoring has provided and will continue to provide Sunan Construction with accounts receivable financing services (“**Factoring**”) after the completion of Disposal II.

Immediately following the completion of Disposal II, Red Star Commercial Factoring will become a wholly-owned subsidiary of the controlling shareholder of the Company (RSM Holding). Therefore, Red Star Commercial Factoring will become a connected person of the Company, and the Factoring Contract and the transactions thereunder will become the continuing connected transactions of the Company in accordance with Chapter 14A of the Listing Rules.

Principal terms of the Factoring Contract are set out as follows:

Date:	25 September 2020
Parties:	(1) Red Star Commercial Factoring (as the Factor) (2) Sunan Construction (as the Creditor)
Financing limit:	The upper limit for accounts receivable financing is RMB173,000,000, which will be provided by the Factor in instalments. The limit for accounts receivable financing shall not be used on a revolving basis.
Contract term:	From 25 September 2020 to 25 September 2023
Fee for the use of factoring payments:	Sunan Construction shall pay Red Star Commercial Factoring the fee for the use of factoring payments in accordance with the Factoring Contract or the specific agreements made at the time of provision by the Factor of each financing payment.
Pricing basis:	Determined with reference to the market price and on normal commercial terms

INFORMATION ON SUNAN CONSTRUCTION

Sunan Construction, a limited liability company established in China, is an indirect wholly-owned subsidiary of the Company, mainly 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..

REASONS FOR AND BENEFITS OF THE FACTORING

The Directors believe that, Sunan Construction will reduce the risk of accounts receivable and improve the debt structure through the Factoring, which is conducive to further development of business of the Company.

The Directors (including the independent non-executive Directors) take the view that the terms of the Factoring Contract are fair and reasonable, and the Factoring under it is conducted on normal commercial terms, in the ordinary and usual course of business of the Company, and is in the interests of the Company and the shareholders of the Company as a whole.

LISTING RULES IMPLICATIONS

In accordance with Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable annual review and disclosure requirements under Chapter 14A of the Listing Rules regarding such continuing connected transaction, including issuance of announcements and annual reporting. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Factoring Contract.

III. DEFINITIONS

“Board”	The Board of the Directors of the Company
“Company” or “Seller”	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)”	Director(s) of the Company
“Group”	the Company and 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

“Red Star Commercial Factoring” or “Factor”	Shanghai Red Star Macalline Commercial Factoring Company Limited* (上海紅星美凱龍商業保理有限公司), a limited liability company established in the PRC and a direct wholly-owned subsidiary of the Company as at the date of this announcement
“Red Star Financial Leasing”	Shanghai Red Star Macalline Financial Leasing Company Limited* (上海紅星美凱龍融資租賃有限公司), a limited liability company established in the PRC and a direct wholly-owned subsidiary of the Company as at the date of this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“RSM Holding” or “Purchaser”	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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Sunan Construction” or “Creditor”	Jiangsu Sunan Construction and Installation Engineering Co., Ltd.* (江蘇蘇南建築安裝工程有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“Target Companies”	Red Star Financial Leasing and Red Star Commercial Factoring, and each the “Target Company”
“Valuation Reference Date”	31 March 2021

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

Shanghai, the PRC
14 May 2021

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, JING Jie, XU Hong, LIU Jin and CHEN Zhaohui; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, Eddie, WANG Xiao, ZHAO Chongyi and QIN Hong.

* For identification only