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Red Star Macalline Group Corporation Ltd.

紅星美凱龍家居集團股份有限公司

(A sino-foreign joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1528)

CONNECTED TRANSACTION — LEASE CONTRACT

LEASE CONTRACT

The Board announces that on 15 October 2021, the Company entered into the Yangzhou Lease Contract with Yangzhou Xinglong. Pursuant to the Yangzhou Lease Contract, Yangzhou Xinglong leased a commercial property located in Hanjiang District, Yangzhou to the Company for operating home furniture shopping mall with a lease term of ten years commencing from the Lease Inception Date.

LISTING RULES IMPLICATIONS

RSM Holding is the controlling shareholder of the Company, and Yangzhou Xinglong, a 30%-controlled company of RSM Holding, is an associate of RSM Holding. As a result, Yangzhou Xinglong is a connected person of the Company. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the value of the right-of-use assets recognized under the Yangzhou Lease Contract is more than 0.1% but less than 5%, the transactions contemplated under the Yangzhou Lease Contract are subject to the reporting and announcement requirements, but are exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board announces that on 15 October 2021, the Company entered into the Yangzhou Lease Contract with Yangzhou Xinglong. Pursuant to the Yangzhou Lease Contract, Yangzhou Xinglong leased a commercial property located in Hanjiang District, Yangzhou to the Company for operating home furniture shopping mall with a lease term of ten years commencing from the Lease Inception Date (as defined below).

YANGZHOU LEASE CONTRACT

The principal terms of the Yangzhou Lease Contract are as follows:

Date:	15 October 2021
Lessor:	Yangzhou Xinglong
Lessee:	The Company
Leased property:	The commercial property located in Hanjiang District, Yangzhou which extends to Yangzijiang North Road in the East, Shuangtang Road in the South, Hanjiang North Road in the West and Weisan Road in the North (hereinafter referred to as the “ Leased Property ”)
Lease area:	The gross floor area of the Leased Property is 114,222.13 square meters
Usage:	To be used for operating home furniture shopping mall project
Lease term:	<p>The official opening date of the Leased Property is the lease inception date (“Lease Inception Date”). If the opening date of the Leased Property is later than 30 May 2022 due to reasons arising from the Company, the Lease Inception Date shall commence on 31 May 2022 upon which the rent will be calculated.</p> <p>A lease term of ten (10) years (hereinafter referred to as the “Lease Term”) will commence from the Lease Inception Date.</p>

Lease payment: The first rental year (hereinafter referred to as the “**Rental Year**”) shall commence from the Lease Inception Date to the corresponding anniversary of that day and so on for the subsequent rental years.

The initial rental standard of the Leased Property is RMB15 million per annum (tax inclusive). After friendly negotiation between both parties, for the first Rental Year from the opening date of the Leased Property, Yangzhou Xinglong will give a 6-month rental discount. In the second Rental Year from the opening date of the Leased Property, Yangzhou Xinglong will give a 4-month rental discount, and then the rent will increase by 5% every two years. Except for the rent agreed under the Yangzhou Lease Contract, the Company does not need to pay any other fees to Yangzhou Xinglong for using the Leased Property. The specific rental standards are set out as follows:

Lease Term (Commencing from the Lease Inception Date)	Rent (RMB)
First Rental Year	7.5 million/year
Second Rental Year	10 million/year
Third to fourth Rental Year	15.75 million/year
Fifth to sixth Rental Year	16.5375 million/year
Seventh to eighth Rental Year	17.3644 million/year
Ninth to tenth Rental Year	18.2326 million/year

Payment method of the rent: The Company shall pay the rent for the first half year within 10 working days prior to the beginning of each Rental Year and the rent for the next half year within 10 working days prior to the end of the first half year.

Basis for the determination of the rent: The rent is determined by Yangzhou Xinglong and the Group through amicable negotiation with reference to various factors including among others, the prevailing market rent of the comparable properties in the vicinity, the comprehensive assessment of economic benefits and market conditions.

Reasons for and benefits of the transactions under the Yangzhou Lease Contract: The Group entered into the Yangzhou Lease Contract to satisfy the need of continuous implementation of “asset-light and operation-heavy” business model by the Group, thereby reducing the Group’s capital expenditure, which will create positive effect on the future operation of the Group and is in line with the interests of all shareholders and the long-term development strategy needs of the Company.

The Directors (including the independent non-executive Directors) consider that the Yangzhou Lease Contract is on normal commercial terms that are fair and reasonable, and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group and are in the interest of the Company and its shareholders as a whole.

INFORMATION ON THE GROUP

As a leading home improvement and furnishings shopping mall operator in China, 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 home decoration, internet retail, as well as logistics and delivery services.

INFORMATION ON YANGZHOU XINGLONG

Yangzhou Xinglong is a company incorporated in the PRC with limited liability, primarily engaged in real estate development and operation, which is an indirect wholly-owned subsidiary of Chongqing Red Star Macalline Enterprise Development Co.,Ltd.. Chongqing Red Star Macalline Enterprise Development Co., Ltd. is a company incorporated in the PRC with limited liability, principally engaged in commercial project planning and consultancy, shopping mall facilities rental, property management and construction project management. Chongqing Red Star Macalline Enterprise Development Co., Ltd. is directly and indirectly held as to 50.9966% of equity interests in aggregate by Tianjin Yuanpu and is held as to 47.5079% of equity interests by RSM Holding, respectively. The remaining shareholders hold not more than 5% of equity interests in Chongqing Red Star Macalline Enterprise Development Co., Ltd..

Tianjin Yuanpu is a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Active Growth Ventures Limited. Active Growth Ventures Limited is a company incorporated in the British Virgin Islands with limited liability, which is held as to 50% and 50% by SOG China and Fortune Joy Ventures, respectively. SOG China is a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Sino-Ocean Group. Fortune Joy Ventures is a company incorporated in the British Virgin Islands with limited liability, which is directly or indirectly owned as to 49%, 25.5% and 25.5% by Sino-Ocean Group, Huamao Focus Limited and Leading Bright Investment Limited, respectively.

LISTING RULES IMPLICATIONS

RSM Holding is the controlling shareholder of the Company, and Yangzhou Xinglong, a 30%-controlled company of RSM Holding, is an associate of RSM Holding. As a result, Yangzhou Xinglong is a connected person of the Company.

Under HKFRS 16 “Leases”, the Company will recognize the value of the relevant right-of-use assets under the Yangzhou Lease Contract and the transaction contemplated hereunder will be treated as the acquisition of assets by the Company under the Listing Rules and constitute a one-time connected transaction of the Company under Chapter 14A of the Listing Rules. The right-of-use asset represents the right to use the underlying leased asset over the lease term and the lease liability represents the obligation of the lessee to make lease payments (i.e. the rent). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the Yangzhou Lease Contract, using the weighted average incremental borrowing rate as the discount rate.

As at the date of the announcement, the unaudited total value of the right-of-use assets to be recognized by the Company under the Yangzhou Lease Contract is estimated to be approximately RMB114 million, which is the present value of the total rent payable for the Leased Property according to the Yangzhou Lease Contract, and the annual discount rate is 4.75% when calculating the present value of the total rent. Shareholders should note that the aforesaid figure is unaudited and may be subject to adjustment in the future. Under HKFRS 16 “Leases” and in the consolidated income statement of the Group, the Group shall recognise the (i) depreciation charge over the life of the right-of-use assets, and (ii) interest expenses amortised from the lease liability over the lease term.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the value of the right-of-use assets recognized under the Yangzhou Lease Contract is more than 0.1% but less than 5%, the transactions contemplated under the Yangzhou Lease Contract are subject to the reporting and announcement requirements, but are exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Our Directors, namely Mr. CHE Jianxing, Ms. CHEN Shuhong, Ms. CHE Jianfang and Mr. JIANG Xiaozhong, have abstained from voting on the Board resolution to approve the transaction contemplated under the Yangzhou Lease Contract in view of their conflicts of interests or potential interests herein. Save as disclosed above, none of the Directors has any material interests in such transaction and shall abstain from voting.

DEFINITIONS

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	The Board of the Directors of the Company
“Company”	Red Star Macalline Group Corporation Ltd., a sino-foreign joint stock company incorporated in the PRC with limited liability, the H shares of which are listed on the main board of the Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	Director(s) of the Company
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“RSM Holding”	Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司, formerly known as “ Shanghai Red Star Macalline Investments Company Limited ” (上海紅星美凱龍投資有限公司)), a limited liability company established in the PRC, which is 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
“Yangzhou Lease Contract”	the lease contract dated 15 October 2021 entered into between the Company and Yangzhou Xinglong
“Tianjin Yuanpu”	Tianjin Yuanpu Enterprise Management Consulting Co., Ltd., a company established in the PRC with limited liability
“Yangzhou Xinglong”	Yangzhou Xinglong Real Estate Development Co., Ltd., a company established in the PRC with limited liability
“SOG China”	Sino-Ocean Holding Group (China) Limited, a company established in the PRC with limited liability and a wholly-owned subsidiary of Sino-Ocean Group
“Sino-Ocean Group”	Sino-Ocean Group Holding Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 03377)
“Fortune Joy Ventures”	Fortune Joy Ventures Limited, a company incorporated in the BVI with limited liability
“%”	per cent

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

Hong Kong
15 October 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, CHEN Zhaohui and JIANG Xiangyu; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, Eddie, WANG Xiao, ZHAO Chongyi and QIN Hong.