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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)

DISCLOSEABLE TRANSACTION DISPOSAL AND ACQUISITION PURSUANT TO THE SHARE SWAP AGREEMENT

THE TRANSACTION

The Board is pleased to announce that on 16 May 2017, Yantai Red Star, an indirect wholly-owned subsidiary of the Fund and Red Star Management, a direct wholly-owned subsidiary of the Company, entered into the Share Swap Agreement pursuant to which Yantai Red Star has conditionally agreed to sell and Red Star Management has conditionally agreed to acquire 100% equity interests in Zhengzhou Juankai at a consideration of RMB2,650,000,000. The Consideration shall be payable by Red Star Management by way of selling its 100% equity interests in the Project Companies, together with a Cash Payment.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the Transaction is subject to the reporting and announcement requirements as set out in Chapter 14 of the Listing Rules, but is exempted from the shareholders' approval requirement.

PRINCIPAL TERMS OF THE SHARE SWAP AGREEMENT

Key terms of the Share Swap Agreement are set out as follows:

1. Date

16 May 2017

2. Parties

- (a) Yantai Red Star, an indirect wholly-owned subsidiary of the Fund, (in its capacity as the “**Transferor**”)
- (b) Red Star Management, a direct wholly-owned subsidiary of the Company (in its capacity as the “**Transferee**”, together with the Transferor as the “**Parties**”, and each a “**Party**”)

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, as at the date of this announcement, Yantai Red Star and its respective ultimate beneficial owner(s) are third parties independent of the Company and are not connected persons of the Company.

3. Subject matter and Consideration

- (a) Subject matter: 100% equity interests in Zhengzhou Juankai;
- (b) Consideration: RMB2,650,000,000, which shall be payable by Red Star Management by way of (i) selling its 100% equity interests in the Project Companies; and (ii) paying RMB26,042,000 in cash by Red Star Management to Yantai Red Star, representing the shortfall between the Consideration and the valuation of the equity interests of the Project Companies (which is currently determined at RMB2,623,958,000) as of the equity transfer valuation date of 30 April 2017 (the “**Equity Transfer Valuation Date**”). For the avoidance of doubt, the valuation of the equity interests of the Project Companies as of the Equity Transfer Valuation Date shall be equivalent to the sum of (i) the amount of the net asset value of the Project Companies as at 31 March 2017 (the “**Valuation Date**”) and (ii) the actual gain and loss incurred by the Project Companies from the Valuation Date to the Equity Transfer Valuation Date. The Cash Payment is currently determined at RMB26,042,000.

It is agreed that Red Star Management shall make a one-time payment of the Cash Payment at Completion.

The Transaction involves (i) the acquisition of 100% equity interests in Zhengzhou Juankai by Red Star Management from Yantai Red Star; and (ii) the disposal of 100% equity interests in the Project Companies by Red Star Management to Yantai Red Star, together with the Cash Payment.

4. Basis of the determination of consideration

The Company has conducted a valuation on the equity interests of the Project Companies, which in turn hold the Shopping Malls as their respective sole asset. The valuation has adopted the asset based approach and market comparison approach. With reference to the Project Companies Valuation Reports, the Consideration comprises of the equity interests of the Hongqiao Project Company at RMB1,026,235,000 and the Hexi Project Company at RMB1,588,707,000, together with the Cash Payment of RMB26,042,000. The Parties also took into account the actual gain and loss of the Project Companies recorded between the Valuation

Date and the Equity Transfer Valuation Date of RMB9,016,000. As to Zhengzhou Juankai, according to the Zhengzhou Juankai Valuation Report, the value of the equity interests of Zhengzhou Juankai as at the Valuation Date amounted to RMB2,650,000,000.

The Consideration was arrived at after arm's length negotiations between the Parties and on normal commercial terms with reference to (i) the Project Companies Valuation Reports and (ii) the Zhengzhou Juankai Valuation Report.

5. Completion and Conditions Precedent

Completion of the Transaction shall be subject to and conditional upon the following conditions being fulfilled and/or waived:

- (a) Completion of the industrial and commercial registration of the transfer of equity interests in Zhengzhou Juankai to Red Star Management and completion of the industrial and commercial registration of the transfer of equity interests in the Project Companies to Yantai Red Star;
- (b) Completion of valid internal approval processes by Yantai Red Star to approve the transfer of 100% equity interests in Zhengzhou Juankai and completion of valid internal approval processes by Red Star Management to approve the transfer of 100% equity interests in the Project Companies;
- (c) If applicable, obtaining all required permits and approvals from the relevant counterparty pursuant to the terms and conditions of such agreement in which any of the Parties is a party to, in the case of any change in shareholding structure, to ensure the existing rights under such agreements (if any) and any other rights of the Project Companies and Zhengzhou Juankai are maintained subsequent to the completion of the industrial and commercial registration relating to the equity transfer of the Project Companies and Zhengzhou Juankai;
- (d) Yantai Red Star is the legal owner of Zhengzhou Juankai and Zhengzhou Juankai and Yantai Red Star have provided complete and accurate disclosure in respect of Zhengzhou Juankai to Red Star Management including but not limited to (i) any encumbrance on Zhengzhou Juankai, (ii) operating conditions of Zhengzhou Juankai, (iii) rights and liabilities (if any) of Zhengzhou Juankai, and such disclosure in relation to abovementioned (i) to (iii) do not impact on the realisation of the securitisation of the Shopping Malls through the Quasi-REITS Programme (see below for details);
- (e) Red Star Management is the legal owner of the Project Companies, and Red Star Management and the Project Companies have made accurate and complete disclosure of all information in relation to the Project Companies to Yantai Red Star, including but not limited to: (i) any encumbrance on the Project Companies, (ii) operating conditions of the Project Companies, (iii) rights and liabilities (if any) of the Project Companies, and such disclosure in relation to abovementioned (i) to (iii) do not impact on the realisation of the

securitisation of the Shopping Malls through the Quasi-REITS Programme (see below for details); and

- (f) All representations and warranties made by Red Star Management and Yantai Red Star remain true, complete and valid and that there are no identification of any material issues and circumstances which would (i) prevent the execution and completion of the Share Swap Agreement; and/or (ii) give rise to any potential material matter, issue or situation.

The industrial and commercial registration for the transfer of equity interests in Zhengzhou Juankai and the Project Companies shall be completed before the establishment of the Quasi-REITS Programme, and Completion shall take place upon the date when such registration is completed.

Upon Completion, Zhengzhou Juankai will become an indirect wholly-owned subsidiary of the Company and the Project Companies will cease to be subsidiaries of the Company.

Further, Yantai Red Star through the Fund will, upon Completion, proceed with the securitisation of the Shopping Malls and launch a Quasi-REITS Programme. Further details in relation to the launch of the Quasi-REITS Programme are yet to be determined by the Fund.

The Share Swap Agreement also contains provisions such as undertakings and indemnities which are usual and customary for a transaction of this nature and scale.

6. Termination

The Share Swap Agreement may be terminated, inter alia, in the following circumstances:

By either Party

- (a) Based on mutual agreement of the Parties;

By the non-breaching Party

- (b) When any Party intentionally causes a material breach of contract (as defined under the Share Swap Agreement) and fails to rectify such breach within 20 business days;
- (c) When any Party's continuous act of breach of contract (apart from intentional material breach) renders the continuous compliance with the terms and conditions of the Share Swap Agreement impossible or meaningless;

By Yantai Red Star

- (d) Yantai Red Star fails to achieve the securitisation of the Shopping Malls through the Quasi-REITS Programme due to failure to obtain the relevant government approval or it becomes highly unlikely to achieve the securitisation of the Shopping Malls through the Quasi-REITS Programme as a result of (i) any encumbrance on the Project Companies; (ii) operating conditions of the Project Companies; and/or (iii) rights and liabilities (if any) of the Project Companies; and

By Red Star Management

(e) Failure to launch the Quasi-REITS Programme on or before 30 June 2017.

FINANCIAL AND GENERAL INFORMATION ON THE PROJECT COMPANIES

The operating results of the Project Companies for the two years ended 31 December 2015 and 2016, which were prepared in accordance with accounting principles generally accepted in the PRC, were as follows:

	Year ended 31 December 2015 (RMB: million)	Year ended 31 December 2016 (RMB: million)
Revenue	218.81	234.87
Adjusted earnings before interest, tax, depreciation and amortization ^(note)	153.82	165.17
Net profit before taxation	143.58	164.69
Net profit after taxation	107.69	123.52

The Project Companies are the legal owners of Hongqiao Shopping Mall and Hexi Shopping Mall, respectively. Hongqiao Shopping Mall is located at the junction of Hongqi Road and Xiqing Road, Hongqiao District, Tianjin, principally engaged in the home furnishings and furniture retail business. Hexi Shopping Mall is located at west end of Jiefang Road South and south end of Heiniucheng Road South, Hexi District, Tianjin, principally engaged in the home furnishings and furniture retail business.

Note: Adjusted earnings before interest, tax, depreciation and amortization were defined in the prospectus of the Company dated 16 June 2015. The amounts reflected the actual operating results of the Project Companies and the above figures have reinstated the profit and loss related to the Project Companies and eliminated those irrelevant to the Project Companies, and at the same time removed the effect related to the change of fair value of investment properties.

FINANCIAL AND GENERAL INFORMATION ON ZHENGZHOU JUANKAI

The combined and consolidated net profits in aggregate (as the case may be) (both before and after taxation) attributable to Zhengzhou Juankai for the two years ended 31 December 2015 and 2016, which were prepared in accordance with accounting principles generally accepted in the PRC, were as follows:

	Year ended 31 December 2015 (RMB: million)	Year ended 31 December 2016 (RMB: million)
Net profit before taxation	-26.68	15.04
Net profit after taxation	-26.76	15.10

Zhengzhou Juankai is principally engaged in corporate management consultancy and corporate marketing planning businesses.

FINANCIAL IMPACT AND USE OF PROCEEDS FROM THE TRANSACTION

The Transaction is conducted by way of a share swap whereby Red Star Management will acquire rights and interests in Zhengzhou Juankai and in return, Red Star Management will cease to have rights or interests in the Project Companies immediately upon Completion. Since the Shopping Malls held by the Project Companies have already been reflected in the financial statements of the Group on a fair value basis and that is generally consistent with the value of the total assets of the Shopping Malls as at the Valuation Date (the changes in fair value of which are confirmed in the financial statements of the Group), the Group does not expect to generate any proceeds or recognise in its income statement any substantial gain or loss in relation to this Transaction. The payment of RMB26,042,000 in cash from Red Star Management to Yantai Red Star, represents the shortfall between the Consideration and the valuation of the equity interests of the Project Companies as of the Equity Transfer Valuation Date.

INFORMATION ABOUT RED STAR MANAGEMENT AND THE GROUP

Red Star Management is a limited liability company incorporated and existing under the laws of the People's Republic of China and is a holding company with no actual operating activities.

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 O2O platform business, bulk procurement, sale of pre-paid cards, internet finance, home design and decoration, as well as logistics and delivery services.

INFORMATION ABOUT YANTAI RED STAR

Yantai Red Star is a limited liability company incorporated and existing under the laws of the People's Republic of China and is a holding company with no actual operating activities.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Transaction is to facilitate the Quasi-REITS Programme and will liquidize the Group's assets, increase its cash flow, expand its financing channels and propel the Group's asset-light business development. Pursuant to the Share Swap Agreement, Yantai Red Star through the Fund will proceed with the securitisation of the Shopping Malls and launch a Quasi-REITS Programme. Any capital raised from the Quasi-REITS Programme will be contributed to the Fund (which owns Yantai Red Star) and to be fully utilised to repay the debt owed by Yantai Red Star to Zhengzhou Juankai incurred prior to the date of the Share Swap Agreement. The Company is currently considering possible future collaboration with the Fund, including providing management services to the Shopping Malls and having a pre-emptive right to acquire the Shopping Malls from the Fund according to the relevant terms of the agreements to be entered into, if the Quasi-REITS Programme is able to obtain relevant governmental approval and proceeds in accordance with the agreed timeline. As at the date of this announcement, no definitive agreement has been made between the Company and the Fund and the Company will make further announcements as and when appropriate.

The Directors including the independent non-executive Directors consider that the Transaction is in the interests of the Group and the terms and conditions of the Transaction are on normal commercial terms, which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the Transaction is subject to the reporting and announcement requirements as set out in Chapter 14 of the Listing Rules but is exempted from the shareholders' approval requirement.

DEFINITIONS

- “Acquisition”** means the acquisition of Zhengzhou Juankai by Red Star Management from Yantai Red Star pursuant to the Share Swap Agreement;
- “Board”** means the board of directors of the Company;
- “Cash Payment”** means RMB26,042,000 which represents the shortfall between the Consideration and the valuation of the equity interests of the Project Companies as at the Equity Transfer Valuation Date;

“Company”	means Red Star Macalline Group Corporation Ltd., a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 1528);
“Completion”	means the completion of the sale and purchase of the Project Companies and Zhengzhou Juankai in accordance with the Share Swap Agreement;
“connected person”	has the meaning ascribed thereto under the Listing Rules;
“Consideration”	means RMB2,650,000,000, which shall be payable by Red Star Management by way of (i) selling its 100% equity interests in the Project Companies to Yantai Red Star; and (ii) paying the Cash Payment;
“Director(s)”	means the directors of the Company;
“Disposal”	means the disposal of the Project Companies by Red Star Management to Yantai Red Star pursuant to the Share Swap Agreement;
“Fund”	means GoHigh Red Star Tianjin Home Furnishings Shopping Malls Venture Capital Fund* (高和紅星天津家居商場私募股權基金), a trust fund managed by GoHigh Capital;
“GoHigh Capital”	means Tianjin Changhe Shareholding Investment Fund Management Company Limited* (天津暢和股權投資基金管理有限公司), an independent third party to the Company;
“Group”	means the Company together with its subsidiaries;
“Hexi Project Company”	means Tianjin Red Star Macalline International Home Furnishings Malls Company Limited* (天津紅星美凱龍國際家居廣場有限公司), which owns the Hexi Shopping Mall and the corresponding land use right;
“Hexi Shopping Mall”	means the shopping mall located at the junction of Hei Niu Cheng Road and Jie Fang Nan Road, Hexi District, Tianjin;
“Hongqiao Project Company”	means Tianjin Red Star Macalline International Home Furnishings Construction Materials Company Limited* (天津紅星美凱龍國際傢俱建材廣場有限公司), which owns the Hongqiao Shopping Mall and the corresponding land use right;
“Hongqiao Shopping Mall”	means the shopping mall located at Hong Qi Road, Hongqiao District, Tianjin;

“Independent Valuer”	means Wanlong (Shanghai) Asset Valuation Company Limited* (萬隆(上海)資產評估有限公司), an independent professional valuer engaged by the Company to conduct a valuation on the equity interests of the Project Companies and Zhengzhou Juankai in relation to the Transaction;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	means the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan;
“Project Companies”	means Hongqiao Project Company and Hexi Project Company, the two Project Companies to be disposed to Yantai Red Star pursuant to the Share Swap Agreement, each a “Project Company” ;
“Project Companies Valuation Reports”	means the valuation reports prepared by the Independent Valuer in respect of the valuation of the equity interests of the Hongqiao Project Company and the Hexi Project Company, respectively, as of 31 March 2017;
“Red Star Management”	means Red Star Macalline Home Furnishings Shopping Malls Management Company Limited* (紅星美凱龍家居商場管理有限公司), a direct wholly-owned subsidiary of the Company;
“Quasi-REITS Programme”	means the quasi-real estate investment trusts programme to be launched by Yantai Red Star through the Fund in relation to the Shopping Malls after the Transaction, further details are yet to be determined by the Fund;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	means the shareholders of the Company;
“Share Swap Agreement”	means the equity transfer agreement dated 16 May 2017 entered into by Red Star Management and Yantai Red Star pursuant to which Yantai Red Star has conditionally agreed to sell and Red Star Management has conditionally agreed to acquire 100% equity interests in Zhengzhou Juankai at a consideration of RMB2,650,000,000. The consideration shall be payable by Red Star Management by way of selling its 100% equity interests in the Project Companies, together with the Cash Payment;
“Shopping Malls”	means the two shopping malls, Hongqiao Shopping Mall and Hexi Shopping Mall, which are the only assets held by the Project Companies and in turn are wholly-owned by Red Star Management, a direct wholly-owned subsidiary of the Company;

- “Transaction”** means the Acquisition and Disposal pursuant to the Share Swap Agreement;
- “Yantai Red Star”** means Yantai Red Star International Home Furnishings Management Company Limited* (煙台紅星國際家居管理有限公司), an indirect wholly-owned subsidiary of the Fund;
- “Zhengzhou Juankai”** means Zhengzhou Juankai Enterprise Management Consultation Company Limited* (鄭州雋鎧企業管理諮詢有限公司), a subsidiary of Yantai Red Star, being one of the subjects of the Share Swap Agreement;
- “Zhengzhou Juankai Valuation Report”** means the valuation report prepared by the Independent Valuer in respect of the valuation of the equity interests of Zhengzhou Juankai as of 31 March 2017.

By Order of the Board
Red Star Macalline Group Corporation Ltd.
Guo Binghe
Company Secretary

Shanghai, the PRC
16 May 2017

At the date of this announcement, our executive directors are CHE Jianxing, ZHANG Qi, CHE Jianfang and JIANG Xiaozhong; non-executive directors are CHEN Shuhong, XU Guofeng, Joseph Raymond GAGNON and ZHANG Qiqi; and independent non-executive directors are LI Zhenning, DING Yuan, LEE Kwan Hung and QIAN Shizheng.

* *For identification only*