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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)

CHANGE OF USE OF CERTAIN PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF A SHARES AND USE OF CERTAIN PROCEEDS FROM THE NON-PUBLIC ISSUANCE OF A SHARES

Reference is made to the announcements of Red Star Macalline Group Corporation Ltd. (the “**Company**”) dated 12 February 2016, 9 May 2016, 28 February 2017, 10 November 2017, 5 December 2017, 22 December 2017, 26 December 2017, 2 January 2018, 3 January 2018, 4 January 2018, 8 January 2018, 15 January 2018, 16 January 2018, 7 February 2018, 8 June 2018, 3 May 2020, 3 June 2020, 18 June 2020, 23 June 2020, 27 September 2020, 19 April 2021, 18 May 2021 and 21 October 2021 (the “**Announcements**”) and the circulars dated 12 February 2016, 2 March 2017, 11 October 2018 and 3 June 2020 (the “**Circulars**”) in relation to, among other things, the initial public offering of A Shares and the non-public issuance of A Shares. Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Announcements and the Circulars.

CHANGES OF USE OF PROCEEDS

Take into account its own operating conditions, the Company's strategic planning and the efficiency of the use of proceeds, and other factors, the Company is proposed to conclude, extend, suspend and terminate certain fund-raising projects involving the initial public offering of A Shares and non-public issuance of A Shares based on their actual situation, and to apply the unutilised proceeds from the concluded and terminated projects to permanently replenish the Company's working capital.

The details of the fund-raising investment projects before and after such changes are as follows:

1. Changes of Use of Proceeds from the Initial Public Offering of A Shares

		<i>RMB0'000</i>		
		Total planned investment	This change in amounts	Total planned investment after this change
Proposed investment projects				
Home furnishing shopping mall construction project	Tianjin Beichen Shopping Mall Project	24,513.7	–	24,513.7
	Hohhot Yuquan Shopping Mall Project	7,682.5	–	7,682.5
	Dongguan Wanjiang Shopping Mall Project	16,414.5	–	16,414.5
	Harbin Songbei Shopping Mall Project	29,480.9	–	29,480.9
	Urumqi Convention and Exhibition Mall Project	66,908.4	-235.1	66,673.30 ⁽¹⁾
	Changsha Jinxia Shopping Mall Project	19,000.0	-2,681.91	16,318.09
	Xining Expo Shopping Mall Project	11,000.0	–	11,000.0
	Sub-total	175,000.0	-2,917.01	172,082.99
New intelligent home furnishing shopping mall		40,000.0	-27,997.36	12,002.64
Repayment of bank loans		40,000.0	–	40,000.0
Supplement of liquidity		15,000.8	–	15,000.8
Repayment of interest-bearing debts		35,000.0	–	35,000.0
Total		305,000.8	–	274,086.43

Note:

- (1) The construction of the Urumqi Convention and Exhibition Mall Project has been completed and the Urumqi Convention and Exhibition Mall has opened for business. The remaining proceeds from the Urumqi Convention and Exhibition Mall Project will be used to permanently replenish the Company's working capital pursuant to the "Shanghai Stock Exchange Stock Listing Rules (revised in August 2023)" and "Shanghai Stock Exchange Self-Discipline Supervision Guidelines for Listed Companies No. 1 – Standardized Operation (Revised in December 2023)" and other laws, regulations and normative documents

2. Changes of Use of Proceeds from the Non-public Issuance of A Shares

		<i>RMB0'000</i>		
		Total		Total
Proposed investment projects		investment	This change	investment
		planned	in amounts	planned
				after this
				change
Tmall “Home Decoration Tongcheng Station” Project		22,000.0	-22,000.00	0
3D Shejiyun Platform Construction Project		28,394.47	-27,694.86	699.61
Construction Project for New Generation Home Improvement Platform System		35,000.0	-34,841.84	158.16
Home furnishing shopping mall construction project	Foshan Lecong Shopping Mall Project ⁽¹⁾	100,000.0	-	100,000.0
	Nanning Dingqiu Shopping Mall Project ⁽²⁾	56,000.0	-	56,000.0
	Nanchang Chaoyang Xincheng Shopping Mall Project	16,091.0	-	16,091.0
	Sub-total	172,091.0	-	172,091.0
Repayment of interest-bearing debts		110,350.91	-	110,350.91
Total		367,836.38	-	283,299.68

Notes:

- (1) After comprehensively taking into account the progress of the construction of the fund-raising investment projects, the Company’s short – and medium-term arrangements for the construction and opening of the shopping malls and the Company’s capital position and other factors, and given that the “Nanning Dingqiu Shopping Mall Project” has been constructed up to the portions above ground, the Company is proposed to appropriately extend the construction period of the project, extending the construction completion date for the project to reach its intended ready-for-use state to December 2026.
- (2) Due to the relatively early stage of the construction of the “Foshan Lecong Shopping Mall Project”, the Company is proposed to discontinue (suspend) the construction of the “Foshan Lecong Shopping Mall Project”, taking into account the fact that the Company completed the change of control and management in 2023, and coupled with that adjustments to the Company’s strategic plan for its existing operations are still subject to uncertainty.

REASONS FOR CHANGE OF USE OF PROCEEDS

1. Conclusion of Changsha Jinxia Shopping Mall Project

The Company's "Changsha Jinxia Shopping Mall Project" had been completed the construction of the home shopping mall and obtained the certificate of acceptance of completion of the construction site and planning in July 2020, and was originally planned to reach the intended ready-for-use condition and conclude such project after the shopping mall was opened. However, as a result of the slow progress of the development of the surrounding area of Jinxia commercial district in the early stage, it is reported that Changsha Kaifu District is actively promoting the development and construction of Jinxia New Town and preparing the relevant development strategic plan. Considering the investment promotion and operation effect of the shopping mall, the Company does not intend to commence the investment promotion of Changsha Jinxia Shopping Mall until the surrounding ancillary plans are implemented and will promote the opening of the shopping mall after the investment promotion is completed. As the construction of Changsha Jinxia Shopping Mall has been completed, the demand for construction and investment with the proceeds raised has been basically satisfied, and it is needed to commence the investment promotion and promote the opening of the shopping mall after the neighbouring ancillary plans are implemented in the future. In order to improve the efficiency of the Company's capital utilisation, the Company is proposed to conclude the fund-raising project; if there is any further demand for capital utilisation for the project in the future, the Company will invest in it with its internal funds.

2. Discontinuing (suspension) of Foshan Lecong Shopping Mall Project and Extension of Nanning Dingqiu Shopping Mall Project

The Company's "Foshan Lecong Shopping Mall Project" and "Nanning Dingqiu Shopping Mall Project" were originally planned to reach the intended ready-for-use state by the end of December 2024, but due to the impact of public health events, macroeconomic fluctuations and other factors during the construction period, its construction progress has been slowed down, and the Company expects that the construction of such shopping malls and their opening and investment promotion may not be able to achieve the expected profitability results in the short term, therefore, based on the consideration of the overall efficiency of the use of proceeds, the Company had slowed down the pace of the construction of and capital investment in such projects, which resulted in the postponement of the progress of the investment in such projects. After comprehensively taking into account the progress of the construction of the fund-raising investment projects, the Company's short – and medium-term arrangements for the construction and opening of the shopping malls and the Company's capital position and other factors, the Company is proposed to adjust the construction period of certain fund-raising projects. Specifically, given that the "Nanning Dingqiu Shopping Mall Project" has been constructed up to the portions above ground, the Company is proposed to appropriately extend the construction period of the project, extending the construction completion date for the project to reach its intended ready-for-use state to December 2026; Due to the relatively early stage of the construction of the "Foshan Lecong Shopping Mall Project", the Company is proposed to discontinue (suspend) the construction of the "Foshan Lecong Shopping Mall Project", taking into account the fact that the Company completed the change of control and management in 2023, and the adjustments to the Company's strategic plan made by the Company's management considering the existing operations of the Company. And the Company will continue to further discuss the adjustment of the project after construction to optimize the implementation efficiency of the project, and will fulfil the necessary approval and decision-making procedures and make timely information disclosure upon completion of the feasibility study.

3. Termination of “New Intelligent Home Furnishing Shopping Mall Project”, “Tmall “Home Decoration Tongcheng Station” Project”, “3D Shejiyun Platform Construction Project” and “Construction Project for New Generation Home Improvement Platform System”

Due to the continuous iteration of new retail and online development trends in the home improvement and furniture industry, combined with the impact of public health events on residents’ consumption experience and consumption habits, fluctuations in the macroeconomic environment and adjustments to related industrial policies, as well as unsatisfactory performance of related new retail businesses in early operations and pilots, the Company has continued to discuss and research the direction and progress of its new retail strategy since 2022. Based on the perspective of improving the efficiency of the use of raised proceeds, the Company has internally slowed down the use of raised proceeds in fund-raising investment projects including the “New Intelligent Home Furnishing Shopping Mall Project”, “Tmall “Home Decoration Tongcheng Station” Project”, “3D Shejiyun Platform Construction Project” and “Construction Project for New Generation Home Improvement Platform System”, and continued to discuss the implementation of related projects.

Based on the Company’s capital condition and the consideration of enhancing its ability to resist risks in the current macroeconomic fluctuation environment, the Company has re-planned and discussed the Company’s future development strategy and capital investment plan after the change of controlling shareholder and actual controller, focused on analysing matters that require the Company’s capital investment and planned to control and reduce relevant capital investment.

In May 2019, the Company entered into a strategic cooperation agreement with Alibaba and officially launched online and offline integrated operations on Double Eleven that year. In order to further deepen the cooperation, the Company’s business boundaries have been expanded through the digital upgrading and online branding of shopping malls, so that the Company’s business expansion is no longer limited by the space of traditional offline business premises, further promoting online and offline business through online customer attraction. The Company has established the “Tmall “Home Decoration Tongcheng Station” Project” and originally planned to use the proceeds raised from non-public issuance in 2020 to purchase the store digital equipment and Tongcheng Station live broadcast equipment required for the project. During the actual implementation of the project, the Company continued to invest its internal resources in the “Tmall “Home Decoration Tongcheng Station” Project”, including personnel expenses and daily operating expenses. In order to improve the efficiency of capital use, the Company has rented relevant equipment at a lower cost to carry out project construction. Since the equipment leasing costs were different from the original plan for the use of raised proceeds, the Company used its own working capital to carry out relevant project construction. As of 31 December 2023, Tmall Tongcheng Station have been launched in a total of 73 shopping malls in 32 cities, with the online traffic scale exceeding 100 million throughout the year. In the future, the Company will continue to invest its internal resources in the construction of Tmall Tongcheng Station and continue to deepen the online and offline integrated operation strategy. However, based on the current capital situation of the Company and with a view to improving the efficiency of capital use, the Company intends to continue to invest such capital in the form of non-capital expenditures in a short term.

In view of the foregoing, taking into account the industry development and iterations, the Company's development strategy discussion, the Company's financial condition and other factors, the Company intended to terminate the "New Intelligent Home Furnishing Shopping Mall Project", "Tmall "Home Decoration Tongcheng Station" Project", "3D Shejiyun Platform Construction Project" and "Construction Project for New Generation Home Improvement Platform System", and use the remaining raised proceeds to permanently replenish working capital.

FUTURE PLANS FOR UTILIZATION OF THE REMAINING PROCEEDS

In order to improve the usage efficiency and enhance the Company's operating efficiency, in line with the principle of maximizing shareholders' interests, in accordance with the "Shanghai Stock Exchange Stock Listing Rules (revised in August 2023)" and "Shanghai Stock Exchange Self-Discipline Supervision Guidelines for Listed Companies No. 1 – —Standardized Operation (Revised in December 2023)" and other laws, regulations and normative documents, together with the Company's own development plan and actual business operation needs, the Company plans to terminate the New Intelligent Home Furnishing Shopping Mall Project, Tmall "Home Decoration Tongcheng Station" Project, "3D Shejiyun Platform Construction Project" and the Construction Project for New Generation Home Improvement Platform System, and the remaining proceeds will be permanently replenish work capital to satisfied the funds required for the Company's main business operation and alleviate development pressure, reduce the Company's financial risks, promote the long-term stability of the Company's business, and protect the interests of the Company and small and medium shareholders (the actual amount shall be subject to the balance of the account for the proceeds on the day when such funds are transferred out).

Subject to the approval of the Company at the shareholders' general meeting, the Company will retain special accounts for the proceeds until all the outstanding payment have been made. The difference between the savings from interest income and the difference in fees resulting from the subsequent reintroduction of this part of the funds will also be used to replenish the working capital on a permanent basis. Upon the transfer of the balance of the proceeds in special account to the permanently replenish work capital, the Company will cancel the special account of the proceeds accordingly and the custodian agreement entered into with the sponsor and the depositary bank for the special account of the proceeds shall be terminated accordingly.

IMPACT OF CHANGE OF USE OF PROCEEDS

The change of use of proceeds is a decision made by the Company based on the current objective condition and will not have a significant adverse impact on the Company's normal operations. After the termination of the fund-raising investment projects, the remaining proceeds will be applied to permanently replenish its working capital, which can effectively reduce business risks and financial expenses, increase the Company's profit, provide sufficient proceeds for the development of the Company's daily business, and is more beneficial to the development of the Company's future business. In the future, the Company will use working capital based on its development plan and actual operating needs and in line with the principle of maximizing shareholders' interests to reward investors with better performance.

CIRCULAR OF GENERAL MEETING

Such changes of use of proceeds mentioned above are subject to the approval of the shareholders of the Company (the "**Shareholders**") at a general meeting of the Company and a circular containing, among other things, details of such changes, together with a notice of the extraordinary general meeting, will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.chinaredstar.com) in due course.

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

Shanghai, the PRC
1 April 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.