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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of directors (the “**Board**”) of Red Star Macalline Group Corporation Ltd. (the “**Company**” or “**Red Star Macalline**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**” or “**we**”) for the six months ended 30 June 2016 (the “**Reporting Period**”), together with comparative figures for the same period in 2015.

FINANCIAL HIGHLIGHTS

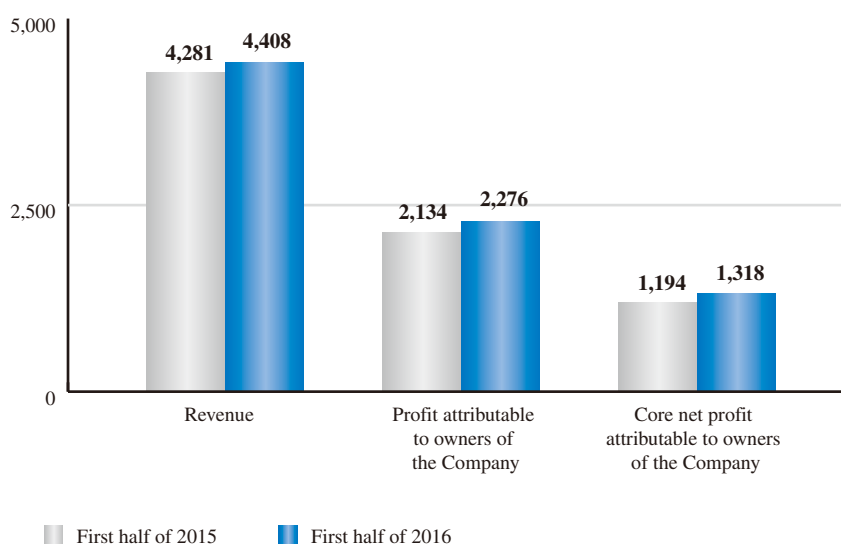
	Six months ended 30 June	
	2016	2015
	<i>(in RMB million, except otherwise stated)</i>	
	(Unaudited)	(Unaudited)
Revenue	4,408	4,281
Gross profit	3,232	3,178
Gross profit margin	73.3%	74.2%
Profit attributable to owners of the Company	2,276	2,134
Profit margin attributable to owners of the Company	51.6%	49.9%
Core net profit attributable to owners of the Company ⁽¹⁾	1,318	1,194
Core net profit margin attributable to owners of the Company ⁽²⁾	29.9%	27.9%
Earnings per share	RMB0.63	RMB0.69

Notes:

- (1) Core net profit attributable to owners of the Company represents the profit attributable to owners of the Company after deducting the after-tax effects of changes in fair values of investment properties, other income, other gains and losses and other expenses etc., which are not related to daily operating activities.
- (2) Core net profit margin attributable to owners of the Company represents the ratio of core net profit attributable to owners of the Company divided by revenue.

Key Financial Performance Indicators

RMB million



OPERATIONAL HIGHLIGHTS

The following table sets forth certain operation data of Portfolio Shopping Malls⁽¹⁾ and Managed Shopping Malls⁽¹⁾ in operation as of the dates indicated:

	As at 30 June 2016	As at 31 December 2015
Number of shopping malls	181	177
Operating area of shopping malls (sq.m.)	11,814,928	11,660,468
Number of Portfolio Shopping Malls	56	55
Operating area of Portfolio Shopping Malls (sq.m.)	4,457,050	4,386,128
Average occupancy rate of Portfolio Shopping Malls	95.4%	94.1%
Number of Managed Shopping Malls	125	122
Operating area of Managed Shopping Malls (sq.m.)	7,357,877	7,274,340
Average occupancy rate of Managed Shopping Malls	92.2%	92.7%

Note:

(1) See definitions in the 2015 annual report of the Company.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Six Months Ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016	2015
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue	4	4,407,798	4,280,682
Cost of sales and services		(1,176,011)	(1,102,887)
Gross profit		3,231,787	3,177,795
Other income		49,955	40,793
Changes in fair value of investment properties		1,483,763	1,395,938
Other gains and losses	5	(108,249)	(31,570)
Selling and distribution expenses		(568,226)	(555,452)
Administrative expenses		(442,016)	(426,087)
Other expenses		(13,251)	(58,963)
Share of profit of associates		24,538	8,474
Share of profit of joint ventures		36,392	26,946
Finance costs	6	(438,808)	(481,217)
Profit before tax	7	3,255,885	3,096,657
Income tax expense	8	(835,607)	(838,303)
Profit and total comprehensive income for the period		<u>2,420,278</u>	<u>2,258,354</u>
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		2,276,471	2,134,108
Non-controlling interests		143,807	124,246
		<u>2,420,278</u>	<u>2,258,354</u>
Earnings per share			
— Basic and diluted (RMB)	10	<u>0.63</u>	<u>0.69</u>

Condensed Consolidated Statement of Financial Position

At 30 June 2016

		As at 30 June 2016	As at 31 December 2015
	NOTES	RMB'000 (Unaudited)	RMB'000 (Audited)
Non-current assets			
Investment properties	11	74,170,052	70,593,000
Property, plant and equipment		315,136	333,293
Goodwill		16,592	16,592
Intangible assets		533,479	539,267
Interests in associates		171,096	159,207
Interests in joint ventures		810,726	749,334
Available-for-sale investments		547,050	402,930
Loan receivables		223,458	112,580
Deferred tax assets		417,811	347,444
Restricted bank deposits		69,802	71,758
Other non-current assets		1,744,499	2,003,413
		<u>79,019,701</u>	<u>75,328,818</u>
Current assets			
Inventories		23,666	16,173
Loan receivables		246,580	160,100
Other financial assets		38,000	61,000
Trade and other receivables	12	1,724,063	1,627,561
Tax recoverable		33,279	41,834
Restricted bank deposits		34,760	—
Bank balances and cash		5,507,939	5,954,087
		<u>7,608,287</u>	<u>7,860,755</u>
Current liabilities			
Trade and other payables	13	7,276,833	5,766,274
Rental and service fee received in advance		1,734,330	1,776,581
Tax liabilities		213,332	285,375
Bank and other borrowings	14	2,043,920	2,297,382
Bonds		498,597	497,195
		<u>11,767,012</u>	<u>10,622,807</u>
Net current liabilities		<u>(4,158,725)</u>	<u>(2,762,052)</u>
Total assets less current liabilities		<u><u>74,860,976</u></u>	<u><u>72,566,766</u></u>

		As at 30 June 2016	As at 31 December 2015
	<i>NOTES</i>	<u>RMB'000</u> (Unaudited)	<u>RMB'000</u> (Audited)
Non-current liabilities			
Deferred tax liabilities		11,175,963	10,667,539
Bank and other borrowings	14	8,289,484	7,027,170
Bonds		7,347,536	7,335,011
Obligations under finance leases		419,315	349,065
Deferred income		192,282	194,354
Other non-current liabilities		1,525,429	1,725,423
		<u>28,950,009</u>	<u>27,298,562</u>
Net assets		<u>45,910,967</u>	<u>45,268,204</u>
Capital and reserves			
Share capital	15	3,623,917	3,623,917
Share premium		5,617,001	5,617,001
Reserves		32,476,861	31,903,641
		<u>41,717,779</u>	<u>41,144,559</u>
Equity attributable to owners of the Company		41,717,779	41,144,559
Non-controlling interests		4,193,188	4,123,645
		<u>45,910,967</u>	<u>45,268,204</u>
Total equity		<u>45,910,967</u>	<u>45,268,204</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. GENERAL

The Company was incorporated in the People's Republic of China (the “**PRC**”) on 6 January 2011 as a sino-foreign joint stock limited company under the PRC laws upon the conversion of 上海紅星美凱龍企業管理有限公司 Shanghai Red Star Macalline Enterprise Management Company Limited (formerly known as 上海紅星美凱龍家居家飾品有限公司 Shanghai Red Star Macalline Home Furnishing Company Limited), a company incorporated in the PRC with limited liability. The parent and ultimate holding company of the Company is 上海紅星美凱龍投資有限公司 Shanghai Red Star Macalline Investment Company Limited (“**RSM Investment**”), a company incorporated in the PRC with limited liability. The ultimate controlling shareholder is Mr. Che Jianxing.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 26 June 2015.

The Group is principally engaged in operating and managing home furnishings shopping malls.

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Group.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“**IAS 34**”) “Interim Financial Reporting” issued by the International Accounting Standards Board (the “**IASB**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The Group's current liabilities exceed its current assets at the end of the Reporting Period. Taking into account the available facilities from bank and non-bank financial institutions and cash flows from operations, the directors of the Company believe that the Group will continue to operate as a going concern and consequently, the condensed consolidated financial statements had been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

During the Reporting Period, the Group has applied certain amendments to International Financial Reporting Standards (“**IFRSs**”) issued by the IASB that are mandatorily effective for the Reporting Period.

The application of these amendments to IFRSs during the Reporting Period had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

	Owne d/leas e d portfo lio shopp ing mall s	Manag e d shopp ing mall s	Sale s of mercha ndise and relat e d servic e s	Other	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2016					
Segment revenue					
— from external customers	<u>2,848,265</u>	<u>1,303,242</u>	<u>90,024</u>	<u>166,267</u>	<u>4,407,798</u>
Segment result	<u>1,513,077</u>	<u>688,143</u>	<u>(27,589)</u>	<u>59,782</u>	<u>2,233,413</u>
Six months ended 30 June 2015					
Segment revenue					
— from external customers	<u>2,576,513</u>	<u>1,577,864</u>	<u>39,740</u>	<u>86,565</u>	<u>4,280,682</u>
Segment result	<u>1,325,016</u>	<u>884,788</u>	<u>(49,999)</u>	<u>39,945</u>	<u>2,199,750</u>

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Allowance on doubtful receivables, net	(109,583)	(29,782)
Net foreign exchange gains (losses)	2	(959)
(Loss) gain on disposal of property, plant and equipment	(2,817)	3,705
Gain on disposal of subsidiaries	177	—
Others	<u>3,972</u>	<u>(4,534)</u>
	<u>(108,249)</u>	<u>(31,570)</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	335,438	495,797
Interest on finance leases	13,526	11,662
Interest on bonds	<u>177,556</u>	<u>129,368</u>
Total borrowing costs	526,520	636,827
Less: amount capitalised in the cost of qualifying assets	<u>(87,712)</u>	<u>(155,610)</u>
	<u>438,808</u>	<u>481,217</u>

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	52,997	59,199
Amortisation of intangible assets	10,456	12,029
Allowance for doubtful receivables, net	109,583	29,782
Cost of inventories sold recognized as expense	60,228	21,532

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax: — PRC enterprise income tax	401,294	418,284
(Over) under provision in prior year: — PRC enterprise income tax	(651)	1,614
Deferred Tax	434,964	418,405
	835,607	838,303

The Company and all of its subsidiaries are in the PRC. Under the Law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company and its PRC subsidiaries is 25% except for certain subsidiaries which are under the Western China Development Plan and were approved to enjoy the preferential tax rate of 15% in accordance with the EIT Law and relevant regulations during the Reporting Period and the comparative period.

9. DIVIDENDS

During the Reporting Period, the Company has declared a final dividend of RMB0.47 per share in respect of the year ended 31 December 2015 to the owners of the Company. The aggregate amount of the final dividend declared amounted to approximately RMB1,703,241,000. The board of directors of the Company does not recommend payment of any dividend in respect of the Reporting Period.

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six months ended 30 June 2016 and 30 June 2015 is based on the following data:

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earning for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	2,276,471	2,134,108
Number of ordinary shares (2015: weighted average number of ordinary shares) for the purpose of basic and diluted earnings per share	3,623,917,000	3,076,705,000

11. INVESTMENT PROPERTIES

	Completed investment properties	Investment properties under development	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fair Value			
At 1 January 2015 (Audited)	56,239,000	6,727,000	62,966,000
Additions	206,865	3,004,257	3,211,122
Acquisition of subsidiaries	922,302	1,111,882	2,034,184
Transfer	2,943,000	(2,943,000)	—
Change in fair value recognised in profit or loss	1,517,833	863,861	2,381,694
At 1 January 2016 (Audited)	61,829,000	8,764,000	70,593,000
Additions	591,088	1,259,749	1,850,837
Acquisition of a subsidiary	242,452	—	242,452
Transfer	1,003,000	(1,003,000)	—
Change in fair value recognised in profit or loss	1,080,912	402,851	1,483,763
At 30 June 2016 (Unaudited)	64,746,452	9,423,600	74,170,052

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2016	At 31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Trade receivables		
— due from third parties	1,355,183	1,214,667
— due from related parties	2,579	9,711
Less: allowance for doubtful debts	(360,877)	(257,813)
	996,885	966,565
Bills receivable	2,400	2,200
	999,285	968,765
Prepayments to third parties	147,251	92,877
Other taxes recoverable	17,037	29,978
Amounts due from third parties (<i>note a</i>)	277,157	258,472
Amounts due from non-controlling shareholders of subsidiaries (<i>note a</i>)	35,721	27,324
Amounts due from related parties	154,632	143,842
Deposits	96,108	81,890
Proceeds to be collected on behalf of the tenants (<i>note b</i>)	54,415	72,636
Other	34,812	23,956
Less: allowance for doubtful debts	(92,355)	(72,179)
	724,778	658,796
	1,724,063	1,627,561

Notes:

- (a) The amounts are unsecured, interest free and repayable on demand.
- (b) The Group collects the proceeds from the sale of merchandise by the tenants and remit the proceeds within settlement periods (normally seven days) as pre-agreed with the tenants. The amounts represent the proceeds to be collected on behalf of the tenants from certain banks in the PRC as the customers pay through credit card.

The following is an ageing analysis of bills receivables and trade receivables net of allowance for doubtful debts presented based on the date of recognition of revenue at the end of each Reporting Period:

	At 30 June 2016	At 31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Less than 1 year	668,212	715,619
1–2 years	264,902	207,786
2–3 years	62,032	37,996
Above 3 years	4,139	7,364
	<u>999,285</u>	<u>968,765</u>

The Group has not granted any credit period to its customers. Before accepting any new customers, the Group uses past experience to assess the potential customers' credit quality and defines credit limits for the customers. We regularly review credit limits attributed to customers. The Group recognises allowance for doubtful debts based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

13. TRADE AND OTHER PAYABLES

	At 30 June 2016	At 31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Trade payables (<i>note a</i>)	312,525	279,541
Other payables:		
Staff cost payables	213,376	389,088
Dividends payable	1,703,241	—
Dividends payable to non-controlling shareholders of subsidiaries	73,000	28,850
Other tax payables	168,262	213,035
Interests payables	305,092	83,467
Amounts due to third parties	239,925	201,136
Amounts due to non-controlling shareholders of subsidiaries	162,955	153,761
Amounts due to related parties	23,409	228,842
Consideration payable to a related party for acquisition of subsidiaries	32,040	175,572
Consideration payable to a third party for acquisition of a subsidiary	—	53,308
Consideration payable for acquisition of additional interests in subsidiaries	—	13,450
Construction costs payables	522,910	732,925
Proceeds collected on behalf of the tenants	959,757	809,945
Deposit received from the tenants	1,698,674	1,489,485
Received in advance arising from pre-paid cards	81,113	139,693
Intention deposit received	300,400	390,890
Accrued rental and other expenses	325,381	269,178
Other	154,773	114,108
	6,964,308	5,486,733
	7,276,833	5,766,274

Notes:

- (a) The following is an analysis of trade payables by ageing presented based on the invoice date at the end of the Reporting Period:

	At 30 June 2016	At 31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Less than 1 year	308,513	268,677
1–2 years	3,272	5,731
2–3 years	735	5,034
Above 3 years	5	99
	312,525	279,541

14. BANK AND OTHER BORROWINGS

	At 30 June 2016	At 31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Bank loans, secured	9,759,339	8,349,819
Bank loans, unsecured	154,400	535,000
Other loans, secured	419,665	439,733
	<u>10,333,404</u>	<u>9,324,552</u>
	At 30 June 2016	At 31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Fixed-rate borrowings	419,664	839,733
Variable-rate borrowings	9,913,740	8,484,819
	<u>10,333,404</u>	<u>9,324,552</u>
The borrowings are repayable:		
Within one year or on demand	2,043,920	2,297,382
More than one year, but not exceeding two years	2,577,650	2,192,768
More than two years, but not exceeding five years	3,830,276	3,339,116
More than five years	1,881,558	1,495,286
	<u>10,333,404</u>	<u>9,324,552</u>
Less: Amount due within one year shown under current liabilities	2,043,920	2,297,382
Amount due after one year	<u>8,289,484</u>	<u>7,027,170</u>

15. SHARE CAPITAL

	Domestic shares		Foreign shares		Listed H shares		Total	
	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000
Registered, issued and fully paid at RMB1.0 per share:								
At 1 January 2015 (audited)	2,561,104	2,561,104	438,896	438,896	—	—	3,000,000	3,000,000
Share issued (note a)	—	—	80,329	80,329	—	—	80,329	80,329
Issuance of H shares (note b)	—	—	—	—	543,588	543,588	543,588	543,588
Conversion into H shares (note b)	—	—	(519,225)	(519,225)	519,225	519,225	—	—
At 31 December 2015 (audited) and 30 June 2016 (unaudited) (note c)	<u>2,561,104</u>	<u>2,561,104</u>	<u>—</u>	<u>—</u>	<u>1,062,813</u>	<u>1,062,813</u>	<u>3,623,917</u>	<u>3,623,917</u>

Notes:

- (a) On 4 January 2015, Candlewood Investment SRL (“**Candlewood**”) and Springwood Investment SRL (“**Springwood**”) entered into a capital increase and subscription agreement with the Company, RSM Investment and other shareholders of the Company, pursuant to which Candlewood and Springwood further subscribed for 60,917,952 shares and 19,411,086 shares of the Company for RMB5.39 each. The total consideration amounted to approximately RMB432,973,000, out of which approximately RMB80,329,000 was paid up as registered share capital and approximately RMB352,644,000 was recorded as the share premium of the Company. The capital contribution was fully completed on 12 February 2015. After the capital contribution, the registered capital of the Company increased from RMB3,000,000,000 to RMB3,080,329,038.
- (b) On 26 June 2015, upon the approval of the Stock Exchange, the Company has completed its initial public offering of 543,588,000 H shares, which were listed on the Main Board of the Stock Exchange. Moreover, the 519,225,069 foreign shares held by Candlewood and Springwood were converted into H shares upon completion of the initial public offering.
- (c) Except for the currency in which dividends are paid, H shares and domestic shares rank pari passu in all respects with each other.

16. CAPITAL COMMITMENTS

	At 30 June 2016	At 31 December 2015
	<u><i>RMB'000</i></u>	<u><i>RMB'000</i></u>
	(Unaudited)	(Audited)
Contracted but not provided for:		
— Capital expenditure in respect of acquisition and construction of investment properties	<u>2,526,479</u>	<u>2,483,600</u>

Management Discussion and Analysis

1. Overview

During the Reporting Period, the Group focused on the strategic positioning of growing into an “omni-channel platform service provider for the pan home improvement and furnishings industry”, actively sought opportunities for market expansion and business development, took the initiative to improve the operation and management standards, and obtained satisfactory results.

During the Reporting Period, the Group recorded a revenue of RMB4,407.8 million, representing an increase of 3.0% from RMB4,280.7 million for the same period in 2015. Gross profit margin decreased by 0.9 percentage points to 73.3% from 74.2% for the same period last year. During the Reporting Period, core net profit attributable to owners of the Company amounted to RMB1,317.8 million, representing an increase of 10.4% from RMB1,194.0 million for the same period in 2015. As at the end of the Reporting Period, the Group’s bank balances and cash amounted to RMB5,507.9 million, representing a decrease of 7.5% from RMB5,954.1 million as at the end of 2015. As at the end of the Reporting Period, the net gearing ratio⁽¹⁾ of the Group increased to 28.5% from 25.5% as at 31 December 2015.

Note:

- (1) Net gearing ratio is our total interest-bearing bank and other borrowings, bonds and obligations under finance leases net of bank balances and cash as a percentage of total equity at the end of each period.

To achieve the strategic goal of growing into an “omni-channel platform service provider for the pan home improvement and furnishings industry” of the Group, we aim to increase our market share and enhance our leading position in China’s home improvement and furnishings industry by pursuing a series of strategic measures. The Group developed and optimized the strategic layout of shopping malls by applying the two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls. As at the end of the Reporting Period, we operated a total of 181 shopping malls with a nationwide coverage across 129 cities, with a total shopping mall operating area of 11,814,928 sq.m.. We continuously improved the operation and management of shopping malls through tenant sourcing and management, operation management, marketing management and property management and proactively made efforts to develop explorative business such as extensive furnishings business platform, home furnishings financial services and full-range logistics service, etc.. We also explored commercial application of information technology through the “Star Cloud” information system and the “Smart Shopping Mall” project and optimized human resources management in order to support the rapid growth of our business. In the future, we will continue to pursue our development goal of becoming the most advanced and professional “omni-channel platform service provider for the pan home improvement and furnishings industry” in China.

2. Revenue

During the Reporting Period, the Group's revenue amounted to RMB4,407.8 million, representing an increase of 3.0% from RMB4,280.7 million for the same period in 2015. The stable growth in our revenue was primarily due to an increase in revenue from our Owned/Leased Portfolio Shopping Malls and Managed Shopping Malls. During the Reporting Period, the increase in revenue from our Owned/Leased Portfolio Shopping Malls was due to the increase in operating area, the average rent and management fee. The decrease in revenue from our Managed Shopping Malls was due to the reduction in construction consultation and management fee revenue as a result of reduction in provision of such services in development projects during the Reporting Period.

The following table sets forth our revenue by business segments:

	Six months ended 30 June			
	2016	2016	2015	2015
	(RMB'000)	%	(RMB'000)	%
Owned/Leased Portfolio Shopping Malls	2,848,265	64.6	2,576,513	60.2
Managed Shopping Malls	1,303,242	29.6	1,577,864	36.9
Sales of merchandise and related services	90,024	2.0	39,740	0.9
Others	166,267	3.8	86,565	2.0
Total	<u>4,407,798</u>	<u>100.0</u>	<u>4,280,682</u>	<u>100.0</u>

3. Gross profit and gross profit margin

During the Reporting Period, the Group's gross profit was RMB3,231.8 million, representing an increase of 1.7% from RMB3,177.8 million for the same period in 2015; the Group's integrated gross profit margin was 73.3%, representing a decrease of 0.9 percentage points from 74.2% for the same period in 2015, primarily due to the decrease in the revenue from construction consulting and management fee which have relatively high gross profit margin.

The following table sets forth our gross profit margin by business segments:

	Six months ended 30 June	
	2016	2015
Owned/Leased Portfolio Shopping Malls	77.3%	76.4%
Managed Shopping Malls	69.3%	72.5%
Sales of merchandise and related services	33.1%	16.7%
Others	58.0%	68.5%
Integrated gross profit margin	73.3%	74.2%

4. Selling and distribution expenses and administrative expenses

During the Reporting Period, the Group's selling and distribution expenses amounted to RMB568.2 million (accounting for 12.9% of the revenue), representing an increase of 2.3% from RMB555.5 million (accounting for 13.0% of the revenue) for the same period in 2015, primarily due to growing advertising and promotional expenses as a result of the increase in the number of shopping malls during the Reporting Period. Administrative expenses amounted to RMB442.0 million (accounting for 10.0% of the revenue), representing an increase of 3.7% from RMB426.1 million (accounting for 10.0% of the revenue) for the same period in 2015, primarily due to the increase in the remuneration cost of administrative staff as the scale of operation of the Group expanded.

5. Finance costs

During the Reporting Period, the Group's finance costs amounted to RMB438.8 million, representing a decrease of 8.8% from RMB481.2 million for the same period in 2015; the total interests expense amounted to RMB526.5 million, representing a decrease of 17.3% from RMB636.8 million for the same period in 2015, primarily due to the decrease of average loan costs from 7.6% in the first half of 2015 to 5.8% in the current period as a result of the optimization of the loan structure, expansion of the financing channels and issuance of the domestic corporate bonds with lower interest rates as well as improvement of efficiency in funds utilization.

6. Income tax expense

During the Reporting Period, the income tax expenses of the Group amounted to RMB835.6 million, representing a decrease of 0.3% from RMB838.3 million for the same period in 2015. Through effective tax planning, the rate of the effective income tax decreased from 27.1% in the first half of 2015 to 25.7% in the Reporting Period.

7. Profit, core net profit attributable to owners of the Company and earnings per share

During the Reporting Period, profit attributable to owners of the Company amounted to RMB2,276.5 million, representing an increase of 6.7% from RMB2,134.1 million for the same period in 2015; core net profit attributable to owners of the Company amounted to RMB1,317.8 million, representing an increase of 10.4% from RMB1,194.0 million for the same period in 2015. The above was a result of the consolidated contributions from the increase in our revenue and the simultaneous strengthening of cost controls, increase in operational efficiency together with reasonable costs planning.

	Six months ended 30 June		
	2016	2015	Growth
	(RMB'000)	(RMB'000)	
Profit attributable to owners of the Company	2,276,471	2,134,108	6.7%
Profit margin attributable to owners of the Company	51.6%	49.9%	1.7 ppts
Core net profit attributable to owners of the Company	1,317,824	1,194,028	10.4%
Core net profit margin attributable to owners of the Company	29.9%	27.9%	2.0 ppts

During the Reporting Period, the Group's earnings per share was RMB0.63, as compared to RMB0.69 for the same period in 2015.

8. Trade receivables and other receivables

As at the end of the Reporting Period, trade receivables and other receivables of the Group amounted to RMB1,724.1 million, of which trade and bills receivables amounted to RMB999.3 million, representing an increase of RMB30.5 million from RMB968.8 million as at the end of 2015, primarily due to the increase in the number of Managed Shopping Malls of the Group over the Reporting Period, both under development and in operation, leading to an increase in the trade receivables related to corresponding revenue.

9. Investment properties

As at the end of the Reporting Period, the book value of the Group's investment properties amounted to RMB74,170.1 million, representing an increase of 5.1% from RMB70,593.0 million as at the end of 2015, primarily due to an increase in the rent of our Portfolio Shopping Malls and advancement in the construction progress of investment properties under development.

10. Capital expenditures

During the Reporting Period, the Group's capital expenditures amounted to RMB1,897.4 million (the capital expenditures of the same period in 2015 was RMB1,309.2 million), primarily due to advancement in the construction progress of investment properties under development.

11. Bank balances, cash and cash flow

As at the end of the Reporting Period, the Group's bank balances and cash amounted to RMB5,507.9 million (of which, cash and cash equivalents amounted to RMB5,418.4 million), representing a decrease of RMB446.2 million from RMB5,954.1 million as at the end of 2015.

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB1,452.4 million, net cash outflow from investment activities amounted to RMB2,357.7 million and net cash inflow from financing activities amounted to RMB475.2 million.

	Six months ended 30 June	
	2016	2015
	(RMB'000)	(RMB'000)
Net cash from operating activities	1,452,359	1,585,596
Net cash used for investment activities	(2,357,675)	(1,542,696)
Net cash from financing activities	475,231	5,430,771
Net (decrease)/increase in cash and cash equivalents	<u>(430,085)</u>	<u>5,473,671</u>

12. Major debt ratios

The following table sets out our major debt ratios:

	As at 30 June 2016	As at 31 December 2015
Asset-liability ratio ⁽¹⁾	47.0%	45.6%
Net gearing ratio	28.5%	25.5%

Notes:

(1) Asset-liability ratio is calculated as the total liabilities divided by total assets as at the end of each period.

13. Pledge of assets of the Company

As at the end of the Reporting Period, the Group had pledged investment properties with book value of RMB52,572.0 million and restricted bank deposits of RMB69.8 million for obtaining loans and providing guarantees.

14. Contingent liabilities

As at the end of the Reporting Period, the Group issued financial guarantees jointly with our cooperative partners to a bank in respect of a loan in the amount up to RMB400.0 million, which was granted to one of our joint ventures; as at the end of the Reporting Period, the joint venture had utilized RMB100.0 million (as at 31 December 2015: RMB178.0 million) of such loan.

As at the end of the Reporting Period, the Group issued financial guarantees to the financial institutions in respect of a loan up to RMB1,500.0 million granted to an associate together with our cooperative partner, of which the Group provided corresponding guarantees for the above financial commitments based on its 25% shareholding proportion (RMB375.0 million); as at the end of the Reporting Period, RMB1,400.0 million (as at 31 December 2015: RMB1,000.0 million) of which was utilized by the associate.

The directors of the Company considered that the amount of the above financial guarantees is not significant and the financial positions of the guaranteed joint venture and the guaranteed associate are in good condition.

15. Capital commitments

As at the end of the Reporting Period, the Group had entered into agreements involving capital commitments in the amount of RMB2,526.5 million but has not made provision for it in the financial statements.

16. Financial resources and capital structure

As at the end of the Reporting Period, the net gearing ratio of the Group is 28.5%. The aggregate of bank and other borrowings and bonds is RMB18,179.5 million, of which 86.0% are payable with a period above one year. All borrowings and bonds are denominated in RMB. In the future, the main sources of capital of the Group will be from cash generated from our operating activities, bank borrowings, issuance of bonds and share capital contributions from our Shareholders. To ensure the capital of the Group is effectively utilized, the Group will continue to regularly monitor our cash flow needs, comply with financing agreements and maintain the sufficiency of our cash reserves and credit limits so as to meet our cash flow needs.

17. Material acquisitions and disposals

During the Reporting Period, the Group had no material acquisitions or disposals in relation to our subsidiaries or joint ventures/associates.

18. Significant investments

During the Reporting Period, the Group did not make any material investments.

19. Foreign exchange risk

The Group operates in China. All income and almost all expenditure of the Group are in RMB. The Group retains a small amount of bank deposit in Hong Kong dollars, and the dividend in respect of H shares will be paid in Hong Kong dollars. Currently, we do not hedge foreign currency as our Directors believe that our exposure to foreign exchange risk is minimal. The Group manages foreign exchange risks by regularly checking foreign currency exchange rates. The Group will consider hedging policies to manage material foreign exchange risks where necessary.

20. Human resources

As at the end of the Reporting Period, the Group has employed 17,793 employees (first half of 2015: 15,512 employees). The Group enters into labor contract with employees according to the Labor Law of the PRC and the relevant provisions of the employee's locality. The Group will determine the employee's basic wage and bonus level according to the employee's performance, work experience and the market wage standard, and shall pay social insurance and housing provident fund for the employees. During the Reporting Period, the Group paid a total of RMB881.8 million for salary expenditures (first half of 2015: RMB775.7 million). Meanwhile, the Group also continued to invest resources in providing various education and training opportunities for the staff, aiming to standardize the management work and improving the operation performance, and continuously improved the knowledge and technology level as well as professional competence of the employees.

21. Business development and deployment: steady development of shopping malls and Strategic deployment with a nationwide coverage

As at the end of the Reporting Period, we operated a total of 181 shopping malls with a nationwide coverage across 129 cities in 27 provinces, autonomous regions and municipalities, with a total operating area of 11,814,928 sq.m.. Through applying the two-pronged development model of Portfolio Shopping Malls and Managed Shopping Malls, we have occupied the properties in prime locations in Tier I Cities and Tier II Cities, and set a relatively high entry barrier for other companies.

During the Reporting Period, we continued to implement the policy of strategic distribution of our Portfolio Shopping Malls to make sure that most of our Portfolio Shopping Malls are located in prime locations in Tier I and Tier II Cities. As at the end of the Reporting Period, we operated 56 Portfolio Shopping Malls covering a total operating area of 4,457,050 sq.m. with an average occupancy rate of 95.4%. The same mall growth⁽¹⁾ during the Reporting Period was 3.6%.

Note:

- (1) "Same mall growth" is the growth in income from operation for a particular accounting period compared with the same period last year for all Portfolio Shopping Malls that are in operation for at least 24 months as at the end of the second year and remain in operation.

In addition, by virtue of a reputable brand name in the pan home improvement and furnishings industry and extensive experience in shopping mall development, tenant sourcing and operation management, we continued to rapidly develop Managed Shopping Malls. As at the end of the Reporting Period, we operated 125 Managed Shopping Malls covering a total operating area of 7,357,877 sq.m., with an average occupancy rate of 92.2%. As at the end of the Reporting Period, we entered into agreements for 488 contracted pipeline Managed Shopping Malls, of which 279 had secured land parcels.

22. Operation and management of shopping malls

We continued to improve the operation and management of our shopping malls in four respects, including tenant sourcing management, operational management, marketing management and property management.

22.1 Tenant Sourcing Management

We are devoted to leading the home furnishings consumption trend by our efforts in promoting brands and product categories upgrading and optimizing our shopping malls layout. Meanwhile, we provided customized operating analysis and recommendations for the brand factories to achieve brand resources management and value-added services for key clients. We also continued to develop our team of distributors for imported furnishings brands to propel the resource integration of international brands.

22.2 Operational Management

We comprehensively launched a “word of mouth advertising” project, with specific requirements on price, quality, service etc, aiming to improve customer satisfaction by setting high standards for and strict requirements on shopping mall operation; meanwhile we continually launched “leading green” campaigns to promote consumers’ green home life and improve operational and management efficiency by means of digital space management.

22.3 Marketing Management

We positioned the Company as the “Home Furnishings Expert”, through strengthening our brand and focusing on unifying our brand image. We connected online and offline systems of membership management, thereby further improved the shopping experience. We expanded our cross-industry channel and carried out precision marketing. We improved the Group’s brand awareness, customer satisfaction and sales of the Group by upgrading digital marketing platforms etc..

22.4 Property Management

We improved the environment of shopping malls via installation of various infrastructures, conducting regular repair and maintenance of elevators, firefighting and electrical equipment. We value the expertise and capability of our property management staff so that they can better safeguard the shopping malls and provide better protection for our customers. We actively promoted the lean management and technical transform of our energy management in shopping malls and we recorded a total of approximately 10.1% reduction in power consumption as at the end of the Reporting Period in 47 major shopping malls as compared to the same period in 2015.

23. Extensibility business: robust development

During the Reporting Period, the development of our extensive businesses flourished. We constructed a home furnishings consumption business platform, forged online and offline integrative business model, home design and decoration businesses with the concept of “home”, and delivered better shopping experience to customers. Based on cooperation with large-scale commercial banks, we promoted financial services in order to reserve and expand our consumer and tenant base. We continued to provide comprehensive logistics service so as to meet multiple needs on both ends of the platform and to achieve resources sharing.

24. Commercial application of information technology

During the Reporting Period, in respect of our information technology infrastructure, we continued to promote the Star Cloud, which is the first comprehensive Enterprise Resource Planning system used in the pan home improvement and furnishings industry. At the same time, we have been actively constructing an information technology project of “Smart Shopping Malls” and made further progress on the infrastructure construction in relation to the wifi network and positioning systems in shopping malls.

25. Efficient human resources management policies

During the Reporting Period, our human resources policies were strictly in line with our strategies and achieved success in a number of aspects, such as optimization in overall performance, employee incentives and talent development and support, etc..

26. Outlook and prospects

In the second half of 2016 and going forward, we will transform and pursue our enterprise development goal of growing into China’s most advanced and professional “omni-channel platform service provider for the pan home improvement and furnishings industry”.

26.1 We will continue the implementation of the two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls; consolidate the market leadership through strategic expansion of our shopping mall network and brand portfolio;

- 26.2 As an “omni-channel platform service provider for the pan home improvement and furnishings industry”, we will provide our customers with a better home furnishings consumption experience as well as retain and expand the consumer and tenant base of the Group by enhancing our home furnishings financial services; offer the relevant parties comprehensive logistic service for the purpose of meeting multiple needs on both ends of the platform and achieve resources sharing; and
- 26.3 We will actively seek suitable investment and acquisition targets and enhance the integration of upstream and downstream resources of the pan home improvement and furnishings industry to realize our strategic layout; explore opportunities to cooperate with commercial real estate fund and opportunities of asset securitization in order to enlarge our scale of operation and enhance our corporate capability.

Corporate Governance and Other Information

The Company is a sino-foreign joint venture incorporated in the PRC under the Company Law of the PRC on 6 January 2011.

The Company’s H shares were listed on the Main Board of the Stock Exchange on 26 June 2015.

Compliance with Corporate Governance Code

During the six months ended 30 June 2016, other than deviation from code provision A.2.1 of the Corporate Governance Code, the Company has complied with the provisions of the Corporate Governance Code (“**Corporate Governance Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**Listing Rules**”), which sets out principles of good corporate governance in relation to, among other matters, the Directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration, and communications with shareholders. Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between the Group and the Controlling Shareholders (as defined under the Listing Rules) and/or Directors to protect the interest of the minority shareholders.

Deviation from Code Provision A.2.1 of the Corporate Governance Code

Mr. CHE Jianxing (“**Mr. CHE**”) is the Chairman and chief executive officer of the Company. In view of Mr. CHE’s experience, personal profile and his roles in the Group as mentioned above and that Mr. CHE has assumed the role of chief executive officer and the general manager of the Group since June 2007, the Board considers it beneficial to the business prospect and operational efficiency of the Group that Mr. CHE, in addition to acting as the Chairman of the Board, continues to act as the chief executive officer of the Company. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises 4 independent non-executive Directors out of the 12 Directors, which is in compliance with the Listing Rules requirement of one-third of the board,

and we believe that there is sufficient checks and balances in the Board; (ii) Mr. CHE and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of the Company and will make decisions for the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of the Group are made collectively after thorough discussion at both Board and senior management levels.

The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of Chairman of the Board and general manager is necessary.

Compliance with Model Code

The Company has adopted a code of conduct regarding securities transactions by Directors and supervisors of the Company (“**Supervisors**”) on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules. The Company has conducted specific enquiries to the Directors and Supervisors, and all Directors and Supervisors have confirmed that they had complied with all the provisions and standards set out in the Model Code during the six months ended 30 June 2016.

Purchase, Sale or Redemption of Listed Securities

The Group did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2016.

Interim Dividends

The Board does not recommend payment of dividend for the six months ended 30 June 2016.

Use of Proceeds from Global Offering

The net proceeds from the Company’s global offering (“**Global Offering**”) amounted to approximately RMB5,573.3 million. As at the end of the Reporting Period, the Company has utilized 73.3% of the net proceeds in total for fundraising investment projects as required, of which RMB1,589.3 million for the development of Portfolio Shopping Malls, RMB1,133.7 million for refinancing of our existing indebtedness, RMB1,362.0 million for investment or acquisition of other market participants in the home furnishings industry, development of our O2O business and information technology systems, working capital and other general corporate purposes. The Board resolved on 31 July 2015 to change the intended use of part of the net proceeds from the Global Offering. For further details, please refer to the announcement of the Company dated 31 July 2015.

Events After the Reporting Period

On 14 July 2016, the Group completed the issue of the corporate bonds in the PRC with an aggregate principal amount of RMB3,000 million. The corporate bonds consisted of two categories: with a term of 5 years and 7 years and coupon rates at 3.50% and 4.29%, respectively. For further details of the corporate bonds issuance, please refer to the Company's announcements dated 8 July, 12 July and 15 July 2016, respectively.

Reviewing Interim Results

The Company's audit committee and external auditors have reviewed the interim results announcement and the unaudited condensed consolidated financial statements for the six months ended 30 June 2016.

Publication of the Interim Results Announcement and Interim Report

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.chinaredstar.com. The Company's 2016 interim report containing all the data as required by the Listing Rules will be sent to shareholders and published on the website of the Stock Exchange and on the website of the Company in due course.

By Order of the Board
Red Star Macalline Group Corporation Ltd.
Che Jianxing
Chairman

Shanghai, the PRC
22 August 2016

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.