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)

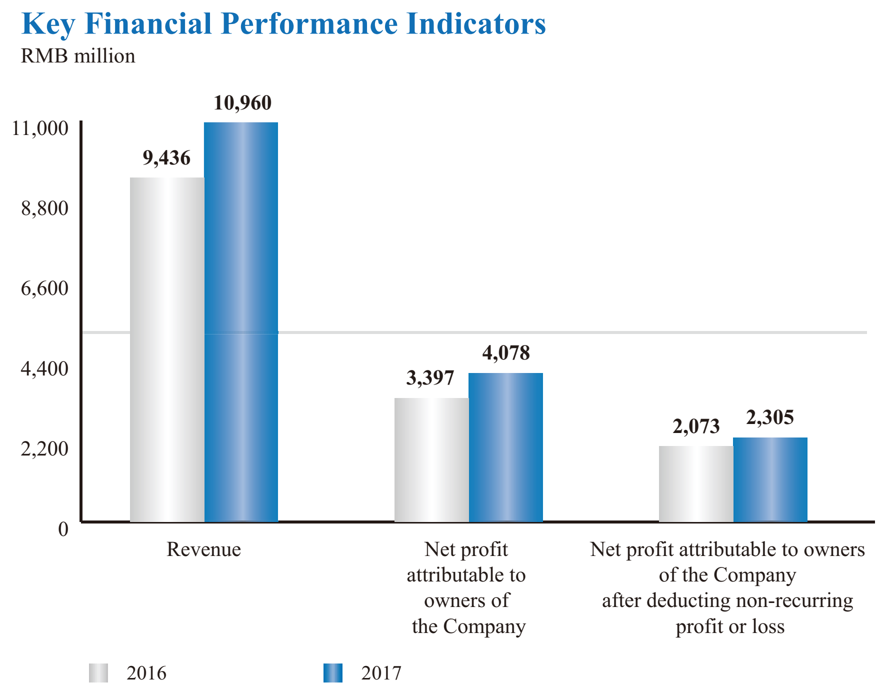
ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of Red Star Macalline Group Corporation Ltd. (the "**Company**" or "**Red Star Macalline**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2017 (the "**Reporting Period**"), together with comparative figures for the same period of 2016. Such financial results in this announcement had been agreed by Deloitte Touche Tohmatsu Certified Public Accountants LLP, the external auditor of the Company.

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2017	2016
	(RMB'000, except otherwise stated)	
	(Audited)	(Audited, restated)
Revenue	**10,959,513**	9,436,082
Gross profit	**7,796,319**	6,823,314
Gross profit margin	**71.1%**	72.3%
Net profit	**4,278,014**	3,673,442
Net profit attributable to owners of the Company	**4,077,898**	3,397,183
Net profit margin attributable to owners of the Company	**37.2%**	36.0%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	**2,305,431**	2,072,652
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	**21.0%**	22.0%
Earnings per share	**RMB1.13**	RMB0.94
Dividend per share (tax inclusive)	**RMB0.32**	RMB0.42

Key Financial Performance Indicators



According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") in December 2010, PRC incorporated issuers listed in Hong Kong are allowed to prepare their financial statements in accordance with the China Accounting Standards for Business Enterprise (the "**CASBE**") and PRC audit firms approved by the Ministry of Finance and the China Securities Regulatory Commission are allowed to audit these financial statements in accordance with the CASBE. In order to improve the efficiency and reduce the cost of disclosure and audit expenses, the Board passed a resolution on 23 August 2017 to disclose overseas financial reports for the Company under the CASBE instead of the International Financial Reporting Standards. For details, please refer to the announcement of the Company dated 23 August 2017. From 2017 onwards, the Company will disclose its financial reports in accordance with the CASBE and related regulations.

OPERATIONAL HIGHLIGHTS

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

	As at 31 December 2017	As at 31 December 2016
Number of shopping malls	**256**	200
Operating area of shopping malls (sq.m.)	**15,137,728**	12,692,393
Number of cities covered	**177**	142
Number of Portfolio Shopping Malls	**71**	66
Operating area of Portfolio Shopping Malls (sq.m.)	**5,705,954**	5,083,326
Average occupancy rate of Portfolio Shopping Malls	**97.6%**	96.7%
Number of Managed Shopping Malls	**185**	134
Operating area of Managed Shopping Malls (sq.m.)	**9,431,775**	7,609,067
Average occupancy rate of Managed Shopping Malls	**97.6%**	96.2%

Note:

(1) For the definition, please refer to the prospectus of the Company dated 16 June 2015 (the "**Prospectus**").

CONSOLIDATED INCOME STATEMENT
For the Year Ended 31 December 2017
(All amounts are expressed in RMB Yuan, except otherwise stated)

		For the year ended 31 December	
	Notes	**2017** **(Audited)**	2016 (Audited, restated)
I. Revenue	*5*	**10,959,512,669.77**	9,436,081,755.29
Less: Costs of sales		**3,163,193,516.38**	2,612,767,511.67
Taxes and surcharges		**317,329,519.05**	413,922,513.42
Distribution and selling expenses	*6*	**1,513,829,389.14**	1,205,697,587.59
General and administrative expenses	*7*	**1,361,788,199.04**	935,078,887.46
Financial expenses	*8*	**1,131,840,043.65**	877,707,890.38
Impairment loss of assets		**283,436,250.82**	572,890,325.59
Add: Gain on fair value changes		**1,996,188,694.30**	1,754,032,308.00
Investment income		**633,897,111.33**	130,896,456.03
Including: Investment income from associates and joint ventures		**129,258,920.85**	136,217,986.32
Gains/(loss) from disposal of assets		**35,964,572.41**	(4,615,478.68)
Other income		**62,288,005.83**	–
II. Operating profit		**5,916,434,135.56**	4,698,330,324.53
Add: Non-operating income	*9*	**112,250,229.35**	119,076,037.54
Less: Non-operating expenses		**42,647,769.39**	15,888,661.20
III. Total profit		**5,986,036,595.52**	4,801,517,700.87
Less: income tax expenses	*10*	**1,708,022,775.23**	1,128,075,879.79
IV. Net profit		**4,278,013,820.29**	3,673,441,821.08
(1) According to the classification of continuity of operation			
1. Net profit from continuing operations		**4,278,013,820.29**	3,673,441,821.08
2. Net profit from discontinued operations		**–**	–
(2) According to the classification of ownership			
1. Non-controlling interests		**200,116,070.83**	276,258,586.76
2. Net profit attributable to owners of the Company		**4,077,897,749.46**	3,397,183,234.32

	Notes	For the year ended 31 December 2017 (Audited)	2016 (Audited, restated)
V. Other comprehensive income (after tax)		**1,736,628,481.22**	–
Other comprehensive income (after tax) attributable to owners of the Company		**1,562,965,633.10**	–
(1) Other comprehensive income that will not be reclassified to profit or loss		**–**	–
(2) Other comprehensive income that will be reclassified to profit or loss		**1,562,965,633.10**	–
1. Gain or loss on changes in fair value of available-for-sale financial assets		**1,562,965,633.10**	–
Other comprehensive income (after tax) attributable to non-controlling interests		**173,662,848.12**	–
VI. Total comprehensive income		**6,014,642,301.51**	3,673,441,821.08
Total comprehensive income attributable to owners of the Company		**5,640,863,382.56**	3,397,183,234.32
Total comprehensive income attributable to non-controlling interests		**373,778,918.95**	276,258,586.76
VII. Earnings per share	*11*		
(1) Basic earnings per share		**1.13**	0.94
(2) Diluted earnings per share		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Notes	As at 31 December 2017 (Audited)	As at 31 December 2016 (Audited, restated)
Current assets			
Cash and bank		**10,626,917,788.54**	6,137,865,114.87
Notes receivable		**3,000,000.00**	900,000.00
Accounts receivable	*13*	**1,167,430,013.77**	799,810,037.69
Prepayments		**267,777,107.29**	164,841,803.45
Other receivables	*14*	**1,734,498,124.83**	978,680,238.37
Inventories		**120,291,360.44**	45,423,343.28
Non-current assets due within one year		**120,000,000.00**	45,000,000.00
Other current assets		**527,577,887.53**	623,564,454.04
Total current assets		**14,567,492,282.40**	8,796,084,991.70
Non-current assets			
Available-for-sale financial assets		**3,062,451,062.40**	544,401,221.29
Long-term receivables		**1,301,785,294.30**	827,660,977.03
Long-term equity investments		**1,613,818,294.75**	1,012,646,573.83
Investment properties	*15*	**70,831,000,000.00**	66,948,000,000.00
Fixed assets		**158,862,688.00**	141,662,812.14
Construction in progress		**66,100,052.88**	65,975,322.44
Intangible assets		**458,617,045.42**	428,854,402.41
Development expenditure		**29,418,402.19**	38,967,363.83
Goodwill		**16,592,357.41**	16,592,357.41
Long-term prepaid expenses		**229,333,419.48**	171,207,612.77
Deferred tax assets		**718,579,066.08**	594,604,457.35
Other non-current assets		**3,960,574,126.00**	1,948,746,010.92
Total non-current assets		**82,447,131,808.91**	72,739,319,111.42
Total assets		**97,014,624,091.31**	81,535,404,103.12

	Notes	**As at 31 December 2017** **(Audited)**	As at 31 December 2016 (Audited, restated)
Current liabilities			
Short-term loans	*16*	**300,010,000.00**	500,010,000.00
Account payables	*17*	**491,215,018.66**	353,219,391.21
Advance from customers		**3,068,282,301.16**	2,067,113,177.08
Payroll payable		**800,537,116.04**	540,096,177.35
Taxes payables		**927,266,639.50**	453,974,032.68
Interest payables		**178,691,354.69**	120,291,237.11
Dividends payable		**61,960,000.00**	138,500,000.00
Other payables	*18*	**7,338,709,537.17**	5,158,966,317.83
Non-current liabilities due within one year		**9,550,075,473.97**	4,210,031,348.15
Total current liabilities		**22,716,747,441.19**	13,542,201,681.41
Non-current liabilities			
Long-term loans	*19*	**11,372,664,484.81**	8,447,537,245.75
Bonds payable		**4,896,478,160.15**	8,434,100,693.31
Long-term payables		**1,415,698,075.42**	1,475,711,651.18
Deferred income		**192,141,221.74**	195,413,309.31
Deferred tax liabilities		**9,714,400,823.89**	9,104,345,882.92
Other non-current liabilities		**2,774,520,500.00**	415,320,500.00
Total non-current liabilities		**30,365,903,266.01**	28,072,429,282.47
Total liabilities		**53,082,650,707.20**	41,614,630,963.88

	Notes	As at 31 December 2017 (Audited)	As at 31 December 2016 (Audited, restated)
Equity			
Share capital	*20*	**3,623,917,038.00**	3,623,917,038.00
Capital reserve		**5,362,115,385.55**	5,620,013,738.96
Other comprehensive income		**1,562,965,633.10**	–
Surplus reserve		**1,623,080,808.19**	1,226,111,855.65
Retained earnings		**28,254,693,080.77**	26,095,809,439.81
Total equity attributable to shareholders of the Company		**40,426,771,945.61**	36,565,852,072.42
Non-controlling interests		**3,505,201,438.50**	3,354,921,066.82
Total equity		**43,931,973,384.11**	39,920,773,139.24
Total liabilities and equity		**97,014,624,091.31**	81,535,404,103.12

1. GENERAL INFORMATION

Red Star Macalline Group Corporation Ltd. (formerly known as Shanghai Red Star Macalline Home Furnishing Company Limited* (上海紅星美凱龍家居家飾品有限公司) and Shanghai Red Star Macalline Enterprise Management Company Limited* (上海紅星美凱龍企業管理有限公司) is a limited liability company jointly established by Red Star Macalline Holding Group Company Limited* (紅星美凱龍控股集團有限公司) (hereinafter referred to as "**RSM Holding**") and Red Star Furniture Group Co., Ltd.* (紅星家具集團有限公司) (hereinafter referred to as "**Red Star Furniture Group**") on 18 June 2007 in Shanghai, the People's Republic of China (the "**PRC**"). On 6 January 2011, the Company was converted into a foreign-invested joint stock limited company in accordance with laws and changed its name to Red Star Macalline Group Corporation Ltd. (紅星美凱龍家居集團股份有限公司).

The Company completed the initial public offering of overseas listed foreign shares, namely H shares, and became listed on the Main Board of the Hong Kong Stock Exchange on 26 June 2015.

On 22 December 2017, the Company was granted the permission in Reply on Approval of Initial Public Offering of Shares by Red Star Macalline Group Corporation Ltd. Zheng Jian Xu Ke [2017] No. 2373 Document issued by the China Securities Regulatory Commission to carry out public offering of no more than 315,000,000 RMB-denominated ordinary shares (A shares) and was granted listing and trading at the Shanghai Stock Exchange. As at 17 January 2018, the Company completed the public offering of RMB-denominated ordinary shares (A shares) totalling 315,000,000 shares with a nominal value of RMB1.00 per share, and the issue price per share amounted to RMB10.23. Upon completion of the offering, the paid-in capital (share capital) of the Company amounted to RMB3,938,917,038.00, among which the amount of RMB-denominated shares (A shares) subject to trading moratorium was 2,561,103,969 shares, the amount of RMB-denominated shares (A shares) not subject to trading moratorium was 315,000,000 shares and the amount of overseas listed foreign shares (H shares) not subject to trading moratorium was 1,062,813,069 shares. As at the date of the approval for issue of these financial statements, the Company has completed the change of registration of Administration of Industry and Commerce.

The business scope of the Company includes providing the invested enterprises with management service, enterprise management and product information consulting; providing the business stores with design planning and management services, wholesale of furniture, building materials (steel exclusive) and decoration materials, and relevant supporting services. (Products involving quota license or special management provisions shall be subject to relevant state regulations) (business subject to approvals as required by the law shall only be carried out upon approvals by the relevant authorities). The Group is principally engaged in the operation and management of and the professional consultancy for home improvement and furnishings shopping malls. The controlling shareholder of the Company is RSM Holding, a limited liability company incorporated in the PRC, and the actual controller is Mr. Che Jianxing.

* *For identification purpose only*

2. BASIS OF PREPARATION

The Group applies the Accounting Standards for Business Enterprises and relevant requirements (hereinafter referred to as the "**Accounting Standards for Business Enterprises**") as well as Public Issuance of Securities Company Information Disclosure Rules 15 – General Financial Report (revised in 2014) to disclose relevant financial information. In addition, these financial statements contain relevant disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Listing Hong Kong Limited.

As at 31 December 2017, the Group's current liabilities in aggregate exceeded its current assets in aggregate with an amount of RMB8.15 billion. The management of the Group had assessed its ongoing operation for the 12 months starting from 1 January 2018, and after taking into account unutilized bank facilities, proceeds from subsequent public offering of RMB-denominated ordinary shares (A Shares) and expected net cash inflows from operating activities as at 31 December 2017, and believes that the liquidity risk arising from the fact that its current assets is less than its current liabilities as at the end of Reporting Period that the Group is exposed to falls within the range of control, and thus has no material effect on the ongoing operation of the Group. Therefore, these financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The Group has applied the following new and revised Accounting Standards for Business Enterprises issued by the Ministry of Finance for the first time in the current year:

1. On 28 April 2017, the Ministry of Finance promulgated the "Notice of Issuance of the Accounting Standards for Business Enterprises No. 42 – Non-current Assets and Disposal Groups Held for Sale and Discontinued Operation" (Cai Kuai [2017] No.13), and required to be implemented from 28 May 2017.

2. On 10 May 2017, the Ministry of Finance promulgated the "Notice of Issuance of Amendments on the Accounting Standards for Business Enterprises No. 16 – Government Grant" (Cai Kuai [2017] No.15), and required to be implemented from 12 June 2017.

3. On 25 December 2017, the Ministry of Finance promulgated the "Notice on Revision of the Illustrative Financial Statements" (Cai Kuai [2017] No.30), which required non-financial enterprises that implement Accounting Standards for Business Enterprises should prepare financial statements for the 2017 and subsequent periods in accordance with requirements of Accounting Standards for Business Enterprises and notices.

The application of the new and revised Accounting Standards for Business Enterprises in the current year has had no material impact on the Group's financial position, operating results for the current and prior year and the disclosures set out in the consolidated financial statements.

The Group has not applied in advance the following new and revised Accounting Standards for Business Enterprises that have been issued but are not yet effective.

1. On 5 July 2017, the Ministry of Finance promulgated the revised "Accounting Standards for Business Enterprises No. 14 – Revenue" (Cai Kuai [2017] No. 22) (the "**New Revenue Standard**"). The New Revenue Standard shall become effective on enterprises that are concurrently listed on domestic and overseas markets and adopting IFRS or Accounting Standards for Business Enterprises to prepare financial statements from 1 January 2018, become effective on other domestic listed enterprises from 1 January 2020, and become effective on non-listed enterprises implementing Accounting Standards for Business Enterprises on 1 January 2021, and allow enterprises to implement in advance.

2. On 31 March 2017, the Ministry of Finance revised and promulgated three accounting standards for financial instrument including the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting; on 2 May 2017, the Ministry of Finance revised and promulgated the "Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments" (the above four items are collectively referred to as "New Financial Instrument Standards"). The New Financial Instrument Standards shall become effective on the enterprises concurrently listed on domestic and overseas markets and enterprises listed overseas and adopting International Financial Reporting Standards or Accounting Standards for Business Enterprises to prepare financial statements from 1 January 2018, become effective on other domestic listed enterprises from 1 January 2019, and become effective on non-listed enterprises implementing Accounting Standards for Business Enterprises on 1 January 2021, and allow enterprises to implement in advance.

New Revenue Standard

The revised contents of the New Revenue Standard mainly include: the current revenue and construction contract standards shall be incorporated into a unified revenue recognition model; the time of revenue recognition shall be based on the assessment of transfer of control instead of transfer of risk return; provide clearer guidance on the accounting treatment of contracts concerning multiple transaction arrangements; provide clear regulation for revenue recognition and measurement of certain specific transactions (or matters).

The Group implement the New Revenue Standard from 1 January 2018. The Company will adjust the opening balance of retained earnings and the amounts of other relevant items in the financial statements for year 2018 based on the cumulative effect of the application of the New Revenue Standard and shall not adjust the figures in the comparable period. The Company will disclose in the relevant notes to the financial statements of 2018 the possible impact amount of the implementation of the New Revenue Standard on the relevant items of the 2018 financial statements and the reasons therefor.

New Financial Instrument Standards

The revised contents of the New Financial Instrument Standards mainly include: by using the "business model" and "contractual cash flow characteristics" for holding the financial assets as the basis of determination, financial assets shall be classified into three categories: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit and loss; accounting policy for provision for impairment losses on financial assets shall be revised from the "incurred loss" approach to the "expected loss" approach; the determination principle and accounting treatment of transfer of financial assets are further clarified; in respect of hedge accounting, the scope of qualified hedged items and hedging instruments are extended, in which the quantitative criteria for assessing the effectiveness and the retrospective testing requirements are cancelled; the disclosure requirements for financial assets are adjusted accordingly.

The Group implement the New Financial Instrument Standards from 1 January 2018. The Company will disclose in the relevant notes to the financial statements of 2018 the possible impact amount of the implementation of the New Financial Instrument Standards on the relevant items of the 2018 financial statements and the reasons therefor.

4. BASIS OF PREPARATION AND PRINCIPLE OF MEASUREMENT

The Group adopts the accrual basis as the basis of book-keeping in accounting. Except for investment properties and certain financial instruments which are measured at fair value, these financial statements have been prepared on the historical cost basis. In case of any impairment of any assets, corresponding impairment provision will be made in accordance with relevant requirements.

5. REVENUE

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

	Owned/Leased Portfolio Shopping Malls	Managed Shopping Malls	Sales of merchandise and related services	Other	Unallocated items	Total
2017 (Audited)						
Segment operating revenue						
– External transaction revenue	**6,394,481,799.81**	**3,628,735,577.78**	**294,256,196.34**	**642,039,095.84**	**–**	**10,959,512,669.77**
Segment operating profit (loss)	**3,047,379,363.23**	**1,520,796,530.95**	**(79,161,405.77)**	**178,068,501.86**	**1,249,351,145.29**	**5,916,434,135.56**
2016 (Audited, restated)						
Segment operating revenue						
– External transaction revenue	5,975,408,447.86	2,781,961,557.47	208,035,886.32	470,675,863.64	–	9,436,081,755.29
Segment operating profit (loss)	2,989,982,736.94	1,143,248,447.77	(27,133,690.13)	205,308,754.79	386,924,075.16	4,698,330,324.53

6. DISTRIBUTION AND SELLING EXPENSES

	2017	2016
	(Audited)	(Audited, restated)
Salary, bonus and benefits	**40,026,018.23**	36,637,366.62
Depreciation and amortization	**2,606,052.12**	6,750,917.55
Energy and maintenance expenses	**350,853,345.26**	336,134,761.01
Advertising and promotional expenses	**1,061,299,368.08**	780,526,412.02
After-sales service expenses	**38,555,744.07**	28,763,794.86
Office and administrative expenses	**9,089,128.77**	5,699,182.94
Others	**11,399,732.61**	11,185,152.59
Total	**1,513,829,389.14**	1,205,697,587.59

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
	(Audited)	(Audited, restated)
Salary, bonus and benefits	**827,583,962.18**	463,945,827.30
Depreciation and amortization	**47,681,503.37**	48,804,102.53
Energy and maintenance expenses	**7,707,149.02**	5,144,083.59
Auditing expenses	**10,859,774.08**	15,647,752.31
Other professional services expenses	**110,001,531.53**	92,155,966.30
Office and administrative expenses	**288,098,672.33**	248,431,575.23
Others	**69,855,606.53**	60,949,580.20
Total	**1,361,788,199.04**	935,078,887.46

8. FINANCIAL EXPENSES

	2017	2016
	(Audited)	(Audited, restated)
Interest expenses	**1,481,716,865.07**	1,209,234,988.38
Less: Capitalized interest expenses	**220,390,374.37**	248,918,769.62
Less: Interest income	**125,689,801.56**	96,125,262.13
Net interest expenses	**1,135,636,689.14**	864,190,956.63
Foreign exchange gain or loss	**(22,054,553.37)**	4,558,280.33
Others	**18,257,907.88**	8,958,653.42
Total	**1,131,840,043.65**	877,707,890.38

9. NON-OPERATING INCOME

	2017	2016
	(Audited)	(Audited, restated)
Government grants	**–**	85,929,212.07
Income from default compensation	**77,399,032.54**	2,429,157.68
Income from project termination	**4,245,283.00**	11,886,792.44
Discount of acquisition	**–**	355,659.60
Others	**30,605,913.81**	18,475,215.75
Total	**112,250,229.35**	119,076,037.54

10. INCOME TAX EXPENSES

	2017	2016
	(Audited)	(Audited, restated)
Current income tax based on tax law and relevant regulations	**854,268,014.04**	625,729,077.36
Deferred income tax	**833,967,929.68**	511,207,969.42
Under (over) provision in prior years	**19,786,831.51**	(8,861,166.99)
	1,708,022,775.23	1,128,075,879.79

Pursuant to the Enterprise Income Tax Law of the People's Republic of China (the "**EIT Law**") and the Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China, companies within the PRC are subject to an income tax rate of 25%, except for the subsidiaries stated below:

Certain subsidiaries of the Group located in the PRC have the entitlement to tax incentives under the Great Western Campaign and have been permitted to enjoy a preferential tax rate of 15% during the Reporting Period in accordance with the EIT Law and relevant regulations. Certain subsidiaries of the Group located in the PRC enjoy a preferential tax rate of 15% granted by the Tibet Autonomous Region. Certain subsidiaries of the Group located in the PRC are entitled to tax incentives for new enterprises setting foot in Kashgar and Khorgas special economic zones, exempt from enterprise income tax during the Reporting Period in accordance with the EIT Law and relevant regulations.

11. EARNINGS PER SHARE

Calculation of the basic earnings per share for the year ended 31 December 2017 and 2016 is as follows:

	2017	2016
	(Audited)	(Audited, restated)
Net profit for the period attributable to owners of the Company	**4,077,897,749.46**	3,397,183,234.32
Including: Net profit from continuing operations	**4,077,897,749.46**	3,397,183,234.32
Net profit from discontinued operations	**–**	–
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,623,917,038**	3,623,917,038
Basic earnings per share	**1.13**	0.94

The Group does not have dilutive potential ordinary shares.

12. DIVIDENDS

During the Reporting Period, the Company has declared a final dividend of RMB0.42 per share to the owners of the Company for the year ended 31 December 2016, with the total final dividend declared amounting to approximately RMB1,522,045,155.96, and such dividend has been paid during the Reporting Period. The Board recommended the payment of a final dividend of RMB0.32 per share for the year ended 31 December 2017. The final dividend is subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting of the Company to be held on 8 June 2018 (the "**AGM**"). The expected payment date is on or around 31 July 2018.

13. ACCOUNTS RECEIVABLE

Account receivables are disclosed by category:

	As at 31 December 2017 (Audited)				
	Book balance		**Bad debt allowance**		**Book value**
Category	**Amount**	**Proportion *(%)***	**Amount**	**Percentage *(%)***	**Amount**
Account receivables of significant individual amount and individually provided for bad debts	**655,902,174.73**	**33.91**	**547,912,155.26**	**83.54**	**107,990,019.47**
Account receivables of insignificant individual amount but individually provided for bad debts	**111,908,641.80**	**5.79**	**109,427,317.93**	**97.78**	**2,481,323.87**
Account receivables for which provision for bad debt is recognized by group with distinctive credit risk characteristics	**1,166,371,380.93**	**60.30**	**109,412,710.50**	**9.38**	**1,056,958,670.43**
Total	**1,934,182,197.46**	**100.00**	**766,752,183.69**	**39.64**	**1,167,430,013.77**

	As at 31 December 2016 (Audited, restated)				
	Book balance		Bad debt allowance		Book value
Category	Amount	Proportion *(%)*	Amount	Percentage *(%)*	Amount
Account receivables of significant individual amount and individually provided for bad debts	556,216,624.37	39.16	460,011,935.57	82.70	96,204,688.80
Account receivables of insignificant individual amount but individually provided for bad debts	142,951,833.23	10.07	93,979,411.15	65.74	48,972,422.08
Account receivables for which provision for bad debt is recognized by group with distinctive credit risk characteristics	720,990,526.45	50.77	66,357,599.64	9.20	654,632,926.81
Total	1,420,158,984.05	100.00	620,348,946.36	43.68	799,810,037.69

Accounts receivables portfolio for which bad debt provision is collectively assessed on a portfolio basis of credit risk characteristics:

	As at 31 December 2017 (Audited)				
	Book balance		Allowance for doubtful debts		Book value
	Amount	Proportion *(%)*	Amount	Percentage *(%)*	Amount
Within 1 year	**752,264,745.72**	**64.50**	**37,613,234.58**	**5.00**	**714,651,511.14**
1 to 2 years	**278,218,511.10**	**23.85**	**27,821,851.10**	**10.00**	**250,396,660.00**
2 to 3 years	**87,388,124.11**	**7.49**	**17,477,624.82**	**20.00**	**69,910,499.29**
3 to 4 years	**44,000,000.00**	**3.77**	**22,000,000.00**	**50.00**	**22,000,000.00**
4 to 5 years	**–**	**–**	**–**	**80.00**	**–**
Over 5 years	**4,500,000.00**	**0.39**	**4,500,000.00**	**100.00**	**–**
Total	**1,166,371,380.93**	**100.00**	**109,412,710.50**	**9.38**	**1,056,958,670.43**

	As at 31 December 2016 (Audited, restated)				
	Book balance		Allowance for doubtful debts		Book value
	Amount	Proportion *(%)*	Amount	Percentage *(%)*	Amount
Within 1 year	403,329,060.19	55.94	20,166,453.01	5.00	383,162,607.18
1 to 2 years	206,411,466.26	28.63	20,641,146.63	10.00	185,770,319.63
2 to 3 years	106,750,000.00	14.81	21,350,000.00	20.00	85,400,000.00
3 to 4 years	–	–	–	50.00	–
4 to 5 years	1,500,000.00	0.21	1,200,000.00	80.00	300,000.00
Over 5 years	3,000,000.00	0.41	3,000,000.00	100.00	–
Total	720,990,526.45	100.00	66,357,599.64	9.20	654,632,926.81

14. OTHER RECEIVABLES

Other receivables are disclosed by category:

	As at 31 December 2017 (Audited)				
	Book balance		Allowance for doubtful debts		Book value
Category	Amount	Proportion *(%)*	Amount	Percentage *(%)*	Amount
Other receivables of significant individual amount and individually provided for bad debts	**93,162,035.06**	**4.79**	**92,922,856.72**	**99.74**	**239,178.34**
Other receivables of insignificant individual amount but individually provided for bad debts	**40,063,187.55**	**2.06**	**35,491,774.59**	**88.59**	**4,571,412.96**
Other receivables for which provision for bad debt is recognized by group with distinctive credit risk characteristics	**1,810,257,161.38**	**93.15**	**80,569,627.85**	**4.45**	**1,729,687,533.53**
Total	**1,943,482,383.99**	**100**	**208,984,259.16**	**10.75**	**1,734,498,124.83**

	As at 31 December 2016 (Audited, restated)				
	Book balance		Allowance for doubtful debts		Book value
Category	Amount	Proportion (%)	Amount	Percentage (%)	Amount
Other receivables of significant individual amount and individually provided for bad debts	53,498,978.73	4.92	53,259,800.39	99.55	239,178.34
Other receivables of insignificant individual amount but individually provided for bad debts	16,276,786.08	1.50	11,984,807.08	73.63	4,291,979.00
Other receivables for which provision for bad debt is recognized by group with distinctive credit risk characteristics	1,017,549,255.96	93.58	43,400,174.93	4.27	974,149,081.03
Total	1,087,325,020.77	100.00	108,644,782.40	9.99	978,680,238.37

15. INVESTMENT PROPERTIES

	Completed properties	**Properties under construction**	**Total**
As at 31 December 2016 (Audited, restated)	62,062,000,000.00	4,886,000,000.00	66,948,000,000.00
Additions during the period	439,170,974.54	3,562,559,268.51	4,001,730,243.05
Additions from acquisition of subsidiaries	516,261,490.33	250,719,588.62	766,981,078.95
Changes in fair value	2,108,567,535.13	(112,378,840.83)	1,996,188,694.30
Transfer from properties under construction to completed properties	5,042,000,000.00	(5,042,000,000.00)	–
Decrease from disposal of subsidiaries	(2,304,000,000.00)	(577,900,016.30)	(2,881,900,016.30)
As at 31 December 2017 (Audited)	**67,864,000,000.00**	**2,967,000,000.00**	**70,831,000,000.00**

16. SHORT TERM LOANS

	As at 31 December 2017 (Audited)	As at 31 December 2016 (Audited, restated)
Pledge loans	**10,000.00**	10,000.00
Mortgage and pledge loans	**–**	500,000,000.00
Credit loans	**300,000,000.00**	–
Total	**300,010,000.00**	500,010,000.00

17. ACCOUNT PAYABLES

	As at 31 December 2017 (Audited)	As at 31 December 2016 (Audited, restated)
Amount payables for advertisements and purchase of goods	**491,215,018.66**	353,219,391.21
Total	**491,215,018.66**	353,219,391.21

As at the end of the Reporting Period and as at the end of 2016, the Group's account payables aged (based on invoice date) over one year were RMB8,344,607.73 and RMB10,020,870.41, respectively.

18. OTHER PAYABLES

	As at 31 December 2017 (Audited)	As at 31 December 2016 (Audited, restated)
Proceeds collected on behalf of the tenants	**2,346,259,268.66**	1,303,284,841.62
Deposits from tenants	**1,816,499,570.48**	1,421,900,377.11
Payment received in advance from partners	**152,900,000.00**	270,400,000.00
Amount payables to partners	**809,321,874.67**	580,285,509.25
Accrual expenses	**217,405,781.98**	250,615,063.76
Rental deposits from tenants	**751,021,735.06**	387,412,777.26
Amounts payable to construction contractors	**900,281,717.08**	599,649,921.94
Lease payables	**50,917,834.27**	51,603,323.91
Amount payables to equity transfer	**–**	30,988,965.89
Amount payables to prepaid cards	**73,420,850.89**	88,341,679.60
Others	**220,680,904.08**	174,483,857.49
Total	**7,338,709,537.17**	5,158,966,317.83

19. LONG TERM LOANS

	As at 31 December 2017 (Audited)	As at 31 December 2016 (Audited, restated)
Mortgage loans	**6,215,305,888.66**	5,962,990,000.00
Pledge loans	**2,300,650,000.00**	–
Mortgage and pledge loans	**1,715,765,625.00**	756,750,000.00
Mortgage and guaranteed loans	**585,000,000.00**	988,592,209.80
Mortgage, pledge and guaranteed loans	**520,942,971.15**	739,205,035.95
Credit loans	**35,000,000.00**	–
Total	**11,372,664,484.81**	8,447,537,245.75

20. SHARE CAPITAL

Shareholder	Opening amount	Changes during the period: Issue of new shares	Others	Sub-total	Closing amount
2017 (Audited):					
RSM Holding	2,480,315,772.00	–	–	–	2,480,315,772.00
Ping'An Pharmacy	3,688,206.00	–	–	–	3,688,206.00
Shanghai Jinghai Assets Management Center (Limited Partnership)	56,849,998.00	–	–	–	56,849,998.00
Shanghai Kaixing Business Administration Center (Limited Partnership)	7,589,999.00	–	–	–	7,589,999.00
Shanghai Hongmei Investment Management Center (Limited Partnership)	12,659,994.00	–	–	–	12,659,994.00
Shareholders of H shares	1,062,813,069.00	–	–	–	1,062,813,069.00
Total	3,623,917,038.00	–	–	–	3,623,917,038.00

MANAGEMENT DISCUSSION AND ANALYSIS

– Industry review

In 2017, facing the complex and volatile domestic and overseas economic environment, together with the effect of policies such as the structural reforms of supply side policies, the appropriate expansion of the total demands and the steady promotion of reforms, the Chinese economy achieved steady growth, outperformed predictions and sustained healthy and steady development.

According to the statistics of Frost & Sullivan, in 2017, the Group had a 13.5% market share in the chain home improvement and furnishings retail mall sector and a 5.3% mall sector market share in terms of sales volume, owning the largest relevant market share in China's rapidly growing home improvement and furnishings retail industry.

– Business review

1. Business development and presence: stable development of shopping malls and strategic presence with a nationwide coverage

As at the end of the Reporting Period, we operated a total of 256 shopping malls with a total operating area of 15,137,728 sq.m. across 177 cities in 29 provinces, municipalities, and autonomous regions in China. Through the two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls, we occupied properties in prime locations of Tier I and Tier II Cities, at the same time accumulated extensive experience in operating shopping malls, constantly strengthened the brand value and set a relatively high barrier to entry for other companies.

During the Reporting Period, we continued to strategically locate our Portfolio Shopping Malls in prime locations in Tier I and Tier II Cities, especially in prime regions in municipalities. As at the end of the Reporting Period, we operated 71 Portfolio Shopping Malls covering a total operating area of 5,705,954 sq.m. with an average occupancy rate of 97.6%. Among these Portfolio Shopping Malls, 18 Portfolio Shopping Malls, representing 25.4% of the total number of Portfolio Shopping Malls, were located in the four municipalities of Beijing, Shanghai, Tianjin and Chongqing. The operating area of the aforesaid Portfolio Shopping Malls was 1,583,330 sq.m., representing 27.8% of the total operating area of the Portfolio Shopping Malls. The same mall growth of mature shopping malls[(1)] during the Reporting Period was 5.4%. Such growth was due to the aggregated factors of the increase in effective unit income from operation and operating area of mature shopping malls during the Reporting Period. In addition, the replacement of business tax with value-added tax in 2016, which introduced the separation of tax from price[(2)], also exerted impact on such growth. The same mall growth after disregarding the impact of the replacement of business tax with value-added tax was 7.2%.

During the Reporting Period, we opened 7 new Portfolio Shopping Malls and closed 2 Portfolio Shopping Malls. In addition, 2 Managed Shopping Malls were converted into Portfolio Shopping Malls, and 2 Portfolio Shopping Malls were converted into Managed Shopping Malls. As at the end of the Reporting Period, we had 22 pipeline Portfolio Shopping Malls. We will continue to focus on the prime locations of Tier I and Tier II Cities to strategically expand our Portfolio Shopping Malls network in the future.

In addition, with a reputable brand name in the home improvement and furnishings industry and extensive experience in shopping mall development, strength in tenant sourcing and operational management, we continued to rapidly develop Managed Shopping Malls in Tier III Cities and other cities. We also established a strict internal screening and reviewing mechanism to ensure steady and rapid development of our Managed Shopping Malls. As at the end of the Reporting Period, we had 185 Managed Shopping Malls in operation covering a total operating area of 9,431,775 sq.m., with an average occupancy rate of 97.6%. Among these Managed Shopping Malls, 111 Managed Shopping Malls, representing 60.0% of the total number of Managed Shopping Malls, were located at eastern China and northern China. The operating area of the aforesaid Managed Shopping Malls was 5,820,524 sq.m., representing 61.7% of the total operating area of Managed Shopping Malls. During the Reporting Period, we opened 53 new Managed Shopping Malls and closed 2 Managed Shopping Malls. In addition, 2 Managed Shopping Malls were converted into Portfolio Shopping Malls, and 2 Portfolio Shopping Malls were converted into Managed Shopping Malls.

As at the end of the Reporting Period, among the pipeline Managed Shopping Malls, we have obtained land use rights/land parcels for 350 contractual projects. Along with steady social and economic development of the country, further development of urbanization strategy, and stable growth in disposable income per capita, we will focus on increasing the rate of expansion of our Managed Shopping Malls business throughout China.

Notes:

(1) "Same mall growth of mature shopping malls" is the growth in operating income in the Reporting Period compared with the same period in the prior year for all Portfolio Shopping Malls that were in operation for at least three financial years and were still in operation as at the end of the Reporting Period. Through refined operational management, we improved the effective unit operating income as well as optimized the operating area of shopping malls, which in turn contributed to the overall growth in operating income. We refined the indicator of the same mall growth of mature shopping malls to better present the impact of the operating businesses on the revenue and profit of the Group.

(2) Pursuant to the "Circular of the Ministry of Finance ("**MOF**") and the State Administration of Taxation ("**SAT**") regarding the Pilot Program on Comprehensive Implementation of Value Added Taxes from Business Taxes Reform" (Cai Shui [2016] No. 36) issued by the MOF and the SAT, the Group shall pay value-added tax instead of business tax for rental income and construction business, etc. starting from 1 May 2016. For illustration purposes, we present the income for 2016 as the income after the segregation of price and tax of the value-added tax.

2. *Business management: Continuous improvement of shopping mall operation and management*

2.1 Tenant sourcing management

We catered to the consumption trend in the market, and continuously optimized the brands and the categories of merchandise in shopping malls to lead the home furnishings consumption trend; continuously enhanced the standards of our refined rental management to improve the sustainable rental management mechanism; constantly strengthened the management of brand resources and enhanced the value-added services provided to our key customers; and catered to the trend of consumption upgrading and stepped up our efforts in introducing global brands and continued to build the international pavilions.

2.2 Operational management

We promoted the "Word of Mouth Advertising" project comprehensively, setting high standards for and strict requirements on shopping mall operations in respect of price, quality and service, in order to improve customer satisfaction. As at the end of the Reporting Period, the "Word of Mouth Advertising" project was promoted successfully in 205 shopping malls nationwide. We also improved operational management efficiency by means of digital space management. In addition, we continued to launch "Leading Green" campaigns to promote consumers' green home life quality.

2.3 Marketing management

Catering to the upgrading consumption trend of consumers in China, we comprehensively enhanced our brand positioning and passed on our brand strategy of "selecting global top-notch design products" based on sustainable and steady operation of our core business; constantly promoted the marketing strategy of deep-rooted advertising; comprehensively enhanced marketing digitalization to realise continuous growth of visits and sales.

2.4 Property management

We advocated energy saving and environmental protection and created green shopping malls; improved the environment of shopping malls to enhance the shopping experience of our customers; strictly controlled safety in our shopping malls with standardized management, focused mainly on prevention, and prevented safety hazards through our staff and technology.

3. Expansionary business: robust development

During the Reporting Period, the development of our expansionary businesses flourished. We continued to carry out upstream and downstream cross-border business extension and build up a business life community for pan home improvement and furnishings industry with the orientation on the "omni-channel platform service provider for pan home improvement and the furnishings industry" and by upholding the core concept of "home". During the Reporting Period, our internet platform provided consumers with industry chain services for pan home improvement and furnishings consumption ranging from home purchase to home renovation and purchase of household-related products. We also provided full-range and all-dimensional logistics services to satisfy multiple needs of users on both ends of the platform so as to realise resources sharing.

3.1 Establishment of internet-based platform: providing consumers with pan-home consumer chain services

Internet-based Home Improvement

Home decoration business is an upstream extension in the home improvement and furnishings retail industrial chain. As there is a high level of overlap between home furnishings consumers and home decoration consumers, and most consumers are not in possession of the capability for overall design and product matching, and most consumers would require professional designers to offer suggestions in order to achieve better decoration results, we therefore carried out home decoration business to help consumers with product selection, decoration style matching and product quality control, so as to further improve consumers' experience and enhance our reputation. As the industry pioneer in transformation and upgrade, our home decoration business integrates the upstream and downstream industrial chain in the home decoration industry by using the home furnishing shopping malls as a platform to promote our great brand impact. We provided comprehensive services by integrating decoration design, hard decoration construction, sale of materials, purchase of furniture and soft decoration for consumers, in order to improve the shopping experiences of our consumers, and drive sales in our shopping malls. As at the end of the Reporting Period, we had 36 offline home decoration stores, which were located in our shopping malls in cities including Beijing, Tianjin, Shanghai, Chongqing, Nanjing, Suzhou, Shenyang, Chengdu, Zhengzhou, Hefei, Shijiazhuang, etc..

Internet Retail

During the Reporting Period, we further upgraded and optimized our online retail platform to cover a series of convenient services including products display, consultancy, membership marketing, online transaction, guidance for offline stores in shopping mall and booking experience. Online and offline interaction helps expand our Company's communication channels with our consumers, enhance their satisfaction and loyalty, and drive the overall consumption demand. Our online retail platform is mainly materialized through mobile applications user portal, and it covers a complete set of household-related products, including furniture, construction materials, electrical appliance, furnishing and textile. While integrating certain tenant resources of the offline shopping malls of Red Star Macalline, the Company proactively explored online brands and stores, thus providing more abundant and diversified choices for consumers.

As at the end of the Reporting Period, the Company has attracted 11,781 tenants to sign up for its internet-based retail platform. Based on the self-developed new retail system, 42 offline shopping malls of Red Star Macalline in 16 cities succeeded in connecting with the products and services from the online platform.

3.2 *Provided home furnishings financial information services: retaining and expanding our consumer and tenant base*

During the Reporting Period, we provided consumers and financial institutions with consumer loan information service, through cooperation with commercial banks, consumer finance companies and other financial institutions which provided consumers with household consumer loans. The loans obtained by the consumers can only be used in our shopping malls. During the Reporting Period, the amount of consumer loans issued by financial institutions through the above channels reached RMB1,780 million, and our relevant commission income was RMB23.6 million, which boosted businesses of tenants of our shopping malls.

In addition, in order to establish a more effective group structure, simplify the Group's business structure and reduce the risk of related businesses, we entered into two equity transfer agreements with RSM Holding in May 2017 and August 2017 respectively, and transferred all the equity interests held by us in Shanghai Jiajinsuo Financial Information Service Co., Ltd. (上海家金所金融信息服務有限公司) and Shanghai Huangpu Red Star Microfinance Co., Ltd. (上海黃埔紅星小額貸款有限公司) to RSM Holding and its subsidiaries. For further details, please refer to the announcements of the Company dated 11 May 2017 and 28 August 2017, respectively.

3.3 *Comprehensive logistics service: to satisfy multiple needs on both ends of the platform and achieve resources sharing*

During the Reporting Period, we continued to expand the terminal service ecosystem of the home furnishings and furniture industry and provide professional distribution and installation services to our tenants and customers to facilitate the "Last Mile" distribution, installation and after-sales services, and to improve customer satisfaction and loyalty to the brands of our tenants as well as the brand of "Red Star Macalline". We have set up logistics trial centers in 7 cities, namely Nanjing, Wuxi, Shijiazhuang, Changsha, Shenyang, Jinan and Qingdao, to provide one-stop shop professional services for customers from purchase to professional product distribution and installation. As at the end of the Reporting Period, more than 350 brands have commenced operations with our logistics service business which has a storage area of more than 55,000 sq.m..

4. Upgrade and restructure the information technology infrastructure and support the development of internet-based platform

During the Reporting Period, focusing on the objective of "integration of online and offline businesses" of the Company, we continued to promote construction of information infrastructures, thereby achieving satisfactory results in the optimization of management process, transformation of financial functions, system development and data application, etc.. During the Reporting Period, we launched the fully self-developed online and offline integration platform, namely the "Dragon's Wings" platform. The platform integrates the functional modules such as investment management, commodity stores, transaction and promotion, payment and settlement, membership management, etc., forming a standardized and intelligent business process, and accumulating a large amount of business data, which provides a powerful system for the development of an internet platform business. As an upgraded version of the "Star Cloud System", the "Dragon's Wings" platform has promoted the transformation to the internet retail model by the Company. As at the end of the Reporting Period, the "Dragon's Wings" platform has been launched in 66 shopping malls with the number of users reaching 133,000.

5. Highly efficient human resources management policies: to support the efficient business growth

During the Reporting Period, our human resources policies were strictly in line with our strategies and achieved success in a number of aspects including system optimization, management of overall performance, talent development, business support, human resources operation and employee relations. We had a total of 22,621 employees as at the end of the Reporting Period.

– Financial Review

1. Revenue

During the Reporting Period, the Group's revenue amounted to RMB 10,959.5 million, representing an increase of 16.1% from RMB9,436.1 million in 2016, primarily due to stable development of relevant business in our Owned/Leased Portfolio Shopping Malls and Managed Shopping Malls. During the Reporting Period, the increase in revenue of 7.0% from the leasing and management fees of our Owned/Leased Portfolio Shopping Malls was due to the increase in the number of malls and the operating area. The increase in revenue of 30.4% from our Managed Shopping Malls during the Reporting Period was the result of a new revenue source from the Group's business expansion to provide consulting and tenant sourcing advisory services to property owners on one hand, and on the other hand, the year-on-year increase in the number of newly opened Managed Shopping Malls also brought a substantial increase in revenue from the Managed Shopping Malls.

The following table sets forth our revenue by segments:

	For the year ended 31 December			
	2017 (Audited)		2016 (Audited, restated)	
	Amount	*%*	*Amount*	*%*
Owned/Leased Portfolio Shopping Malls	**6,394,481,799.81**	**58.3%**	5,975,408,447.86	63.3%
Managed Shopping Malls	**3,628,735,577.78**	**33.1%**	2,781,961,557.47	29.5%
Sales of merchandise and related services	**294,256,196.34**	**2.7%**	208,035,886.32	2.2%
Others	**642,039,095.84**	**5.9%**	470,675,863.64	5.0%
Total	**10,959,512,669.77**	**100.0%**	9,436,081,755.29	100.0%

2. *Gross profit and gross profit margin*

During the Reporting Period, the Group's gross profit was RMB7,796.3 million, representing an increase of 14.3% from RMB6,823.3 million in 2016; the Group's integrated gross profit margin was 71.1%, representing a decrease of 1.2 percentage points from 72.3% in 2016, primarily due to the decrease in the gross profit margin of the revenue of Managed Shopping Malls as a result of the increasing number of newly opened Managed Shopping Malls.

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

	For the year ended 31 December	
	2017	2016
	(Audited)	(Audited, restated)
Owned/Leased Portfolio Shopping Malls	**77.2%**	77.2%
Managed Shopping Malls	**63.9%**	66.5%
Sales of merchandise and related services	**31.2%**	35.3%
Others	**70.3%**	61.9%
Total	**71.1%**	72.3%

3. *Distribution and selling expenses and general and administrative expenses*

During the Reporting Period, the Group's distribution and selling expenses amounted to RMB1,513.8 million (accounting for 13.8% of the revenue), representing an increase of 25.6% from RMB1,205.7 million (accounting for 12.8% of the revenue) in 2016, primarily due to growing advertising and promotional expenses as a result of the increase of the investment in advertisements and promotion for our newly opened shopping malls.

During the Reporting Period, the Group's general and administrative expenses amounted to RMB1,361.8 million (accounting for 12.4% of the revenue), representing an increase of 45.6% from RMB935.1 million (accounting for 9.9% of the revenue) in 2016, primarily due to increase in the number of staff for expansionary business, and increase in the expenses of newly-added internet application platform research and development team based on the establishment of the strategic layout of the omni-channel consumption platform for the pan home improvement and furnishings industry. At the same time, in order to fully stimulate employees' incentive, the Group increased the bonus and enhanced the staff remuneration standard. While boosting the performance of the Group, the above measures brought a corresponding increase in labor costs.

4. Financial expenses

During the Reporting Period, the Group's financial costs were comprised of interest of bank and other borrowings, interest of financial lease and bond interests, etc.. Financial expenses increased from RMB877.7 million in 2016 to RMB1,131.8 million in 2017, representing an increase of 29.0%. During the Reporting Period, the Group had new bank borrowings along with its operating business expansion, actively participated in the expansion of financing channels through promotion of financial innovation, issued USD-denominated bonds and commercial mortgage backed securities, which led to expanded financing scale. The issuance of RMB3 billion domestic corporate bonds in the second half of 2016 also resulted in the increase in interest expenses. The total interest expenses increased from RMB1,209.2 million in 2016 to RMB1,481.7 million in 2017, representing an increase of 22.5%.

5. Income tax expenses

During the Reporting Period, the income tax expenses of the Group amounted to RMB1,708.0 million, representing an increase of 51.4% from RMB1,128.1 million in 2016, which was mainly due to the increased income tax payable resulted from increase in the Group's operating profits and gains on disposal received by the Group during the Reporting Period. As a result, the effective income tax rate increased from 23.5% in 2016 to 28.5% in 2017.

6. Net profit attributable to owners of the Company, net profit attributable to owners of the Company after deducting non-recurring profit or loss and earnings per share

During the Reporting Period, net profit attributable to owners of the Company amounted to RMB4,077.9 million, representing an increase of 20.0% from RMB3,397.2 million in 2016; the net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB2,305.4 million, representing an increase of 11.2% from RMB2,072.7 million in 2016. The above good performance was a comprehensive result of the Group's steady and rapid business growth, significant revenue growth, efficiency of the scale of cost, and reasonable tax planning.

	For the year ended 31 December		
	2017	2016	Growth
	(Audited)	(Audited, restated)	
Net profit attributable to owners of the Company	**4,077,897,749.46**	3,397,183,234.32	20.0%
Net profit margin attributable to owners of the Company	**37.2%**	36.0%	1.2 ppts
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	**2,305,431,475.69**	2,072,651,764.43	11.2%
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	**21.0%**	22.0%	-1.0 ppts

During the Reporting Period, the Group's earnings per share was RMB1.13, as compared to RMB0.94 in the same period of 2016.

7. *Account receivables and other receivables*

As at the end of the Reporting Period, the account receivables and other receivables of the Group amounted to RMB2,901.9 million in total, of which account receivables amounted to RMB1,167.4 million, which were mainly comprised of our uncollected initiation and entrance fees, business consulting fees and tenant sourcing commissions to be paid by the partners of Managed Shopping Malls and construction consultation and management fees to be paid by constructors, represented an increase of RMB367.6 million as at the end of 2017 as compared with that as at the end of 2016. The increase was primarily due to increase in the number of newly opened Managed Shopping Malls, and increase in the business of consulting and tenant sourcing services during the Reporting Period along with the expansion of business scale of the Group, leading to an increase in the balance of account receivables.

At the end of the Reporting Period, the management of the Company has prudently reviewed the recoverability of account receivables, and reasonably carried out provision for impairment.

8. Investment properties

As at the end of the Reporting Period, the book value of the Group's investment properties amounted to RMB70,831.0 million, representing an increase of 5.8% from RMB66,948.0 million as at the end of 2016, mainly due to the increase in rent of our Portfolio Shopping Malls and advancement in construction progress of investment properties under development during the Reporting Period. During the Reporting Period, the Group's investment properties realized gain on fair value changes of RMB1,996.2 million, which was mainly due to the increase in rent and management fees level of Portfolio Shopping Malls in most of the cities during the Reporting Period and the construction progression of shopping malls, resulting in an increase in the fair value of investment properties. The Group will continue to collect rents by investment properties, and based on market conditions, will consider disposing of certain investment properties in appropriate opportunities.

9. Capital expenditure

During the Reporting Period, the Group's capital expenditure amounted to RMB6,148.6 million (2016: RMB3,189.9 million), which was mainly attributable to the advancement in construction progress of investment properties under development and the payments for purchasing offices during the Reporting Period.

10. Bank and cash balance and cash flow

As at the end of the Reporting Period, the bank and cash balance of the Group amounted to RMB10,626.9 million (of which, the balance of cash and cash equivalents amounted to RMB10,269.3 million), representing an increase of RMB4,376.9 million from RMB5,892.4 million as at the end of 2016.

	For the year ended 31 December	
	2017	2016
	(Audited)	(Audited, restated)
Net cash flow from operating activities	**6,518,358,928.83**	3,983,928,756.95
Net cash flow from investment activities	**(6,011,114,224.90)**	(4,908,725,138.52)
Net cash flow from financing activities	**3,873,637,421.83**	1,268,756,687.35
Impact on cash and cash equivalents from change of exchange rate	**(4,013,093.73)**	–
Net increase in cash and cash equivalents	**4,376,869,032.03**	343,960,305.78

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB6,518.4 million, representing an increase of 63.6% as compared with net cash inflow of RMB3,983.9 million in 2016, was primarily due to increase in rental and management fee received in advance and adequate collection of revenue related to Managed Shopping Malls. At the same time, with the increase in the number of newly opened shopping malls, the year-on-year increase in deposits, warranties and pledges received, also brought positive contribution to the increase in cash inflows from operating activities.

During the Reporting Period, the Group's net cash outflow from investment activities amounted to RMB6,011.1 million, representing an increase of 22.5% as compared with net cash outflow of RMB4,908.7 million in 2016, mainly due to the comprehensive result of the increase in payments of property expenditure and equity investment of the Group during the Reporting Period and recovered disposal consideration funds from the disposal of two Portfolio Shopping Malls in Tianjin during the Reporting Period.

In 2017, the Group's net cash inflow from financing activities amounted to RMB3,873.6 million, representing an increase of RMB2,604.9 million as compared with net cash inflow of RMB1,268.8 million in 2016, mainly due to the increase in financing scale of the Group by issuing USD-denominated bonds amounted to US$300 million and commercial mortgage backed securities amounted to RMB2.4 billion, and repayment of due mid-term notes and private bonds of RMB1.9 billion during the Reporting Period.

11. Major debt ratios

Among the total debts of the Group, the portion repayable within one year or on demand amounted to RMB9,816.8 million, the portion repayable over one year but less than two years amounted to RMB3,190.8 million, the portion repayable over two years but less than five years amounted to RMB11,126.5 million and the portion repayable over five years amounted to RMB4,311.2 million. The Group will promptly repay the above borrowings at maturity.

The following table sets out our major debt ratios:

	As at 31 December 2017 (Audited)	As at 31 December 2016 (Audited, restated)
Asset-liability ratio[(1)]	**54.7%**	51.0%
Net gearing ratio[(2)]	**41.5%**	39.7%

Note:

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

(2) Net gearing ratio means interest-bearing liabilities (including short-term borrowings, long-term borrowings, bond payables, financial lease payables, and commercial mortgage backed securities payables) less cash and bank balance and then divided by total equity at the end of each period.

12. *Assets with restricted ownership or use rights*

As at the end of the Reporting Period, the Group had pledged investment properties with book value of RMB54,025.0 million for obtaining borrowings; and the restricted currency funds of RMB263.4 million for deposit reserve placed with central bank and obtaining loans.

13. *Contingent liabilities*

On 8 November 2016, the Company provided 25% joint and several liability guarantee against the loan of RMB2.5 billion provided by Haier Group Finance Co., Ltd. to Haier Consume Financing Co., Ltd. As at the end of the Reporting Period, the balance of the loan was RMB1.6 billion (2016: RMB500 million).

14. *Material acquisitions and disposals*

On 16 May 2017, Yantai Red Star International Home Furnishings* (煙台紅星國際家居管理有限公司) ("**Yantai Red Star**"), an indirect wholly-owned subsidiary of a trust fund managed by Tianjin Changhe Shareholding Investment Fund Management Company Limited* (天津暢和股權投資基金管理有限公司) and 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) ("**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 Enterprise Management Consultation Company Limited (鄭州雋鎧企業管理諮詢有限公司) at a consideration of RMB2,650.0 million. The consideration shall be payable by Red Star Management by way of selling its 100% equity interests in its two wholly-owned subsidiaries, namely 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) and 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), together with a cash payment. For details, please refer to the announcement of the Company dated 16 May 2017.

15. *Capital Commitment*

As at the end of the Reporting Period, the amount of capital expenditure in respect of the acquisition and development of investment properties which the Group has contracted for but not recognized in the financial statements was RMB2,654.9 million. In addition, the Group has entered into agreements with its partners, pursuant to which the Group's commitment to contributing funds for development of investment properties jointly with the partners amounted to RMB589.9 million.

* *For identification purpose only*

16. Foreign exchange risk

As at the end of the Reporting Period, financial assets and liabilities denominated in currencies other than the functional currency of the Group mainly included the US$300 million USD-denominated bonds issued on 21 September 2017 and certain deposits denominated in USD and HKD. To manage this additional risk exposure, the management of the Company adopted relevant risk control measures to prepare for risk hedging, which included enhanced internal control awareness and strategy, strengthened cooperation with international banks, selection of appropriate forward and currency swaps and other hedging instruments, and close monitoring on trends of foreign exchange market. We believe that foreign exchange risk related to such assets and liabilities denominated in other currencies will not have a material impact on operating results of the Group.

17. Human Resources

As at the end of the Reporting Period, the Group had 22,621 employees (31 December 2016: 19,060 employees). The Group signs labour contracts with employees according to the Labor Law of the People's Republic of China and the relevant provisions of the employee's locality. The Group will determine the employees' basic wage and bonus level according to the employees' performance, work experience and the market wage standard, and shall pay social insurance and housing provident fund for the employees. In 2017, the Group paid a total of RMB2,997.5 million for salary expenditure (2016: RMB2,164.0 million). Meanwhile, the Group also kept investing resources to provide various education and training opportunities for the staff, aiming to standardize the management work and improve the operation performance, and continuously improved the knowledge and technical competence as well as professional practice competence of the employees.

– Outlook

We have persistently adhered to the mission of "building a warm and harmonious homeland enhancing consumption and living taste". In 2018 and thereafter, we will continue to follow the operation and management model of "market-oriented operation and shopping mall management", provide better and more professional services for consumers, consolidate our market leadership and strengthen the brand of "Red Star Macalline" of "Home Furnishings Expert" in the consumers' mind to build the most pioneering and professional "omni-channel platform provider in home improvement and furnishings industry".

Our future development plans are as follows:

1. To continue the implementation of two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls and strengthen the market leadership through strategic expansion of shopping mall network and brand portfolio;

2. To establish a comprehensive service system, striving to become new retail benchmark in home decoration and furnishing industry;

3. To enhance the long-term competitiveness of the enterprise through digital strategies;

4. To actively make innovations and value capital market and financial instruments; and

5. To improve corporate governance, standardize the operation, and fulfill our social responsibility.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.32 per share for the year ended 31 December 2017. The final dividend is subject to the approval of the Shareholders at the forthcoming AGM. The expected payment date is on or around 31 July 2018.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Company has completed the A Share Offering on 16 January 2018. The A Shares of the Company were listed and commenced trading on the Shanghai Stock Exchange on 17 January 2018 with stock code 601828. The total number of issued shares of the Company after the A Share Offering is 3,938,917,038 (comprising 1,062,813,069 H Shares and 2,876,103,969 A Shares). For details, please refer to the announcement of the Company dated 16 January 2018.

The Company issued 315,000,000 A shares at the issue price of RMB10.23 per share. The total proceeds raised amounted to RMB3,222.5 million and the net proceeds raised, after deducting the cost of the A Share Offering of RMB172.5 million, amounted to RMB3,050.0 million (the "**A Share Offering Proceeds**").

In order to improve the efficiency in the use of the A Share Offering Proceeds, on 7 February 2018, the Board has resolved to (i) use RMB48.1 million of the balance of A Share Offering Proceeds of the Harbin Songbei Shopping Mall to fill in the gap between the A Share Offering Proceeds to be used and the actual self-owned funds used of the Hohhot Yuquan Shopping Mall and Dongguan Wanjiang Shopping Mall and to use RMB35.3 million of the balance of A Share Offering Proceeds of the Tianjin Beichen Shopping Mall and RMB73.9 million of the balance of A Share Offering Proceeds of the Harbin Songbei Shopping Mall to meet the future capital requirements of the Urumchi Expo Mall; (ii) substitute the self-owned funds which the Company has previously invested in the investment projects with the A Share Offering Proceeds of RMB1,677.6 million; (iii) temporarily use not more than RMB500 million of the idle A Share Offering Proceeds to improve the liquidity of the Company and the period of such use shall not exceed 12 months (from the date when the A Share Offering Proceeds are transferred from the special account to the date when the A Share Offering Proceeds are returned to the special account); and (iv) use the balance of the A Share Offering Proceeds (RMB172.4 million) designated to the Urumchi Expo Mall by way of a loan to support this investment project. For details, please refer to the announcement of the Company dated 7 February 2018.

On 7 February 2018, the Company convened the twenty-third extraordinary meeting of the third session of the Board and the Board approved the "General mandate for the issue of domestic debt financing instruments" resolution to be proposed at the extraordinary general meeting to authorize the Board and authorized person of the Board to issue debt financing instruments with a size of no more than RMB15.0 billion at an appropriate timing. The above resolution must be approved by the Company's 2018 first extraordinary general meeting to be held on 25 April 2018.

USE OF PROCEEDS FROM LISTING

Net proceeds from the global offering (the "**Global Offering**") amounted to RMB5,573.3 million were intended to be used in the development of 9 Portfolio Shopping Malls, investment in or acquisition of other retailers or market participants in home improvement and furnishings industry, refinancing of existing debts and development of E-commerce and information technology systems, working capital and other general group purposes. The Board resolved on 31 July 2015 to change the intended use of part of the net proceeds from the Global Offering. For details, please refer to the announcement of the Company dated 31 July 2015.

As at the end of the Reporting Period, the Company cumulatively used 89% of the net proceeds from the Global Offering in the abovementioned fund raising investment projects.

After the Reporting Period, due to the re-orientation of business strategy and to better adapt to changing market conditions, the Company intends to change the use of the net proceeds from the Global Offering to maximize the business development opportunities of the Company. On 16 January 2018, the Board has resolved to change the use of approximately RMB543 million of the remaining net proceeds from the Global Offering intended for (i) the development of Shenyang Yuhong Mall, one of the nine Portfolio Shopping Malls; (ii) the investment or acquisition of other home improvement and furnishings retailers and other market participants; and (iii) the development of our O2O business and information technology systems as disclosed in the Prospectus to the Company's working capital and for other general corporate purposes. For details, please refer to the announcement of the Company dated 16 January 2018.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 9 May 2018 to Friday, 8 June 2018, both days inclusive, in order to determine the identity of the H Shareholders who are entitled to attend the AGM on 8 June 2018, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 8 May 2018.

The Shareholders whose names appear on the register of members of the Company on Tuesday, 8 May 2018 after close of business are entitled to attend and vote at the AGM.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Other than deviation from code provision A.2.1 of the Corporate Governance Code, the Company has complied with the principle and code provisions of the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2017.

DEVIATION FROM CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. CHE Jianxing ("**Mr. CHE**") is our Chairman and chief executive officer. In view of Mr. CHE's experience, personal profile and his roles in our Group and that Mr. CHE has assumed the role of chief executive officer and the general manager of our Company since June 2007, the Board considers it beneficial to the business prospect and operational efficiency of our Group that Mr. CHE, in addition to acting as the Chairman of the Board, continues to act as the chief executive officer of our 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) any decision to be made by our Board requires approval by at least a majority of our directors and that our Board has four 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 our Group and will make decisions for our 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 Group. Moreover, the overall strategic and other key business, financial, and operational policies of our 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 chief executive officer is necessary.

COMPLIANCE WITH MODEL CODE

The Company has adopted a code of conduct regarding directors' and supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiries were made to all directors and supervisors who had confirmed that they had complied with all the provisions and standards as set out in the Model Code during the year ended 31 December 2017 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any listed securities of the Company during the Reporting Period.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results announcement and the audited consolidated annual financial statements of the Group for the year ended 31 December 2017.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2017 ANNUAL REPORT

This announcement is published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of the Company at www.chinaredstar.com. The Company's 2017 annual report containing all the information as required by the Listing Rules will be dispatched to Shareholders and published on the website of the Hong Kong 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

Hong Kong, 28 March 2018

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