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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)

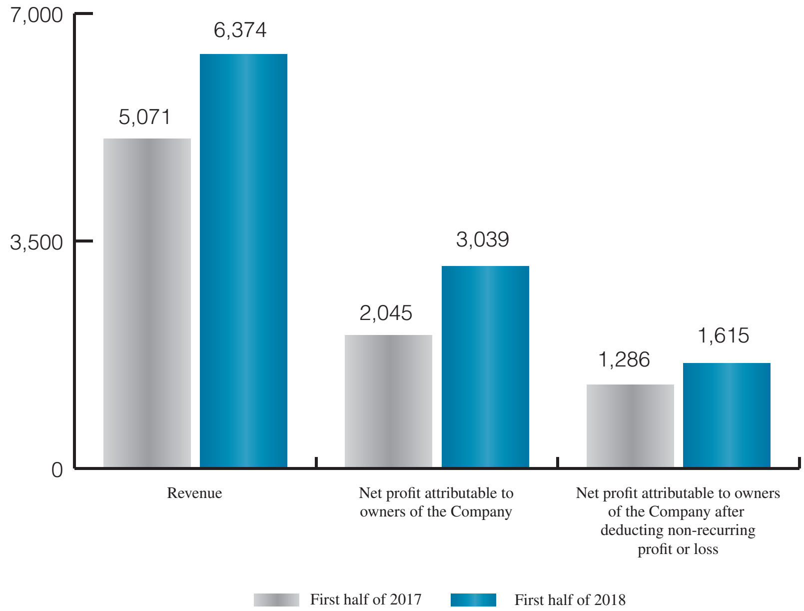
INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 (the "**Reporting Period**"), together with comparative figures for the same period in 2017.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2018	2017
	(RMB'000, except otherwise stated)	
	(Unaudited)	(Audited)
Revenue	**6,373,884**	5,070,967
Gross profit	**4,418,827**	3,696,299
Gross profit margin	**69.3%**	72.9%
Net profit	**3,213,608**	2,156,491
Net profit attributable to owners of the Company	**3,038,610**	2,045,171
Net profit margin attributable to owners of the Company	**47.7%**	40.3%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	**1,614,826**	1,286,401
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	**25.3%**	25.4%
Earnings per share	**RMB0.78**	RMB0.56

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 at the dates indicated:

	As at 30 June 2018	As at 31 December 2017
Number of shopping malls	**267**	256
Operating area of shopping malls (sq.m.)	**15,955,255**	15,137,728
Number of cities covered	**180**	177
Number of Portfolio Shopping Malls	**75**	71
Operating area of Portfolio Shopping Malls (sq.m.)	**6,092,458**	5,705,954
Average occupancy rate of Portfolio Shopping Malls	**97.9%**	97.6%
Number of Managed Shopping Malls	**192**	185
Operating area of Managed Shopping Malls (sq.m.)	**9,862,798**	9,431,775
Average occupancy rate of Managed Shopping Malls	**97.6%**	97.6%

Note:

(1) See definitions in the 2017 annual report of the Company.

Consolidated Income Statement
Six Months Ended 30 June 2018
(All amounts are expressed in RMB Yuan, except otherwise stated)

	Note	Six months ended 30 June **2018** (Unaudited)	2017 (Audited)
I. Revenue	*5*	**6,373,884,119.04**	5,070,967,324.48
Less: Costs of sales		**1,955,057,556.90**	1,374,668,202.19
Taxes and surcharges		**180,937,982.52**	152,766,772.53
Distribution and selling expenses	*6*	**646,073,061.94**	577,191,949.36
General and administrative expenses	*7*	**527,767,671.27**	468,073,572.29
Research and development expenses		**9,581,991.57**	–
Financial expenses	*8*	**587,122,443.32**	544,212,823.71
Including: Interest expenses		**698,438,211.60**	574,970,368.00
Interest income		**153,598,157.25**	39,982,040.44
Impairment loss of assets		**–**	104,678,298.05
Impairment loss of credit		**144,729,939.93**	–
Add: Other income		**55,801,019.59**	12,686,612.35
Investment income		**108,294,694.00**	60,754,608.04
Including: Investment income from associates and joint ventures		**105,492,722.92**	54,289,350.26
Gain or loss from fair value changes		**1,065,984,523.07**	960,437,111.54
Gain (loss) from disposal of assets		**214,551,818.78**	(326,742.39)
II. Operating profit		**3,767,245,527.03**	2,882,927,295.89
Add: Non-operating income		**7,993,510.02**	10,604,652.36
Less: Non-operating expenses		**7,822,960.77**	12,058,449.43
III. Total profit		**3,767,416,076.28**	2,881,473,498.82
Less: income tax expenses	*9*	**553,807,585.73**	724,982,916.95
IV. Net profit		**3,213,608,490.55**	2,156,490,581.87
(1) According to the classification of continuity of operation			
1. Net profit from continuing operations		**3,213,608,490.55**	2,156,490,581.87
2. Net profit from discontinued operations		**–**	–
(2) According to the classification of ownership			
1. Non-controlling interests		**174,998,777.34**	111,319,435.88
2. Net profit attributable to owners of the Company		**3,038,609,713.21**	2,045,171,145.99

	Note	Six months ended 30 June 2018 (Unaudited)	2017 (Audited)
V. Other comprehensive income (after tax)		**226,508,337.58**	1,606,854,307.56
Other comprehensive income (after tax) attributable to owners of the Company		**225,083,753.24**	1,446,168,876.80
(1) Other comprehensive income that will not be reclassified to profit or loss		**225,083,753.24**	–
1. Changes in fair value of other equity instrument investments		**225,083,753.24**	–
(2) Other comprehensive income that will be reclassified to profit or loss		**–**	1,446,168,876.80
1. Amount of financial assets reclassified into other comprehensive income		**–**	–
2. Gain or loss on changes in fair value of available-for-sale financial assets		**–**	1,446,168,876.80
Other comprehensive income (after tax) attributable to non-controlling interests		**1,424,584.34**	160,685,430.76
VI. Total comprehensive income		**3,440,116,828.13**	3,763,344,889.43
Total comprehensive income attributable to owners of the Company		**3,263,693,466.45**	3,491,340,022.79
Total comprehensive income attributable to non-controlling interests		**176,423,361.68**	272,004,866.64
VII. Earnings per share	*10*		
(1) Basic earnings per share		**0.78**	0.56
(2) Diluted earnings per share		**N/A**	N/A

Consolidated Balance Sheet

As at 30 June 2018

	Note	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Current assets			
Cash and bank balances		**10,123,573,924.17**	10,626,917,788.54
Financial assets held for trading		**210,289,863.93**	–
Notes receivable and accounts receivable	*12*	**2,051,417,411.71**	1,170,430,013.77
Prepayments		**302,543,897.90**	267,777,107.29
Other receivables	*13*	**1,586,631,674.21**	1,734,498,124.83
Inventories		**229,615,220.18**	120,291,360.44
Contract assets		**845,320,518.22**	–
Non-current assets due within one year		**120,000,000.00**	120,000,000.00
Other current assets		**1,167,610,211.85**	527,577,887.53
Total current assets		**16,637,002,722.17**	14,567,492,282.40
Non-current assets			
Available-for-sale financial assets		**–**	3,062,451,062.40
Long-term receivables		**1,628,120,564.67**	1,301,785,294.30
Long-term equity investments		**2,265,732,217.67**	1,613,818,294.75
Other equity instrument investments		**3,688,872,585.26**	–
Investment properties	*14*	**75,897,000,000.00**	70,831,000,000.00
Fixed assets		**169,372,805.60**	158,862,688.00
Construction in progress		**16,034,650.52**	66,100,052.88
Intangible assets		**475,675,970.33**	458,617,045.42
Development expenditure		**–**	29,418,402.19
Goodwill		**16,592,357.41**	16,592,357.41
Long-term prepaid expenses		**349,052,476.68**	229,333,419.48
Deferred tax assets		**1,079,882,420.86**	718,579,066.08
Other non-current assets		**4,502,075,610.24**	3,960,574,126.00
Total non-current assets		**90,088,411,659.24**	82,447,131,808.91
Total assets		**106,725,414,381.41**	97,014,624,091.31

	Note	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Current liabilities			
Short-term loans	*15*	**1,416,810,000.00**	300,010,000.00
Notes payable and accounts payable	*16*	**593,042,463.49**	491,215,018.66
Advance from customers		**1,194,829,844.94**	3,068,282,301.16
Contract liabilities		**1,508,070,532.98**	–
Payroll payable		**335,426,546.18**	800,537,116.04
Taxes payables		**640,840,903.60**	927,266,639.50
Other payables	*17*	**8,201,707,618.53**	7,579,360,891.86
Non-current liabilities due within one year	*18*	**9,179,030,132.58**	9,550,075,473.97
Total current liabilities		**23,069,758,042.30**	22,716,747,441.19
Non-current liabilities			
Long-term loans	*19*	**13,267,720,007.36**	11,372,664,484.81
Bonds payable		**4,929,532,172.70**	4,896,478,160.15
Long-term payables		**1,514,487,882.79**	1,415,698,075.42
Deferred income		**189,360,932.07**	192,141,221.74
Deferred tax liabilities		**10,599,499,359.42**	9,714,400,823.89
Other non-current liabilities		**5,397,629,936.76**	2,774,520,500.00
Total non-current liabilities		**35,898,230,291.10**	30,365,903,266.01
Total liabilities		**58,967,988,333.40**	53,082,650,707.20

	Note	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Equity			
Share capital	*20*	**3,938,917,038.00**	3,623,917,038.00
Capital reserve		**7,837,322,359.59**	5,362,115,385.55
Other comprehensive income		**1,672,852,041.36**	1,562,965,633.10
Surplus reserve		**1,623,080,808.19**	1,623,080,808.19
Retained earnings		**29,431,703,498.53**	28,254,693,080.77
General risk reserves		**13,301,928.90**	–
Total equity attributable to owners of the Company		**44,517,177,674.57**	40,426,771,945.61
Non-controlling interests		**3,240,248,373.44**	3,505,201,438.50
Total equity		**47,757,426,048.01**	43,931,973,384.11
Total liabilities and equity		**106,725,414,381.41**	97,014,624,091.31

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), hereinafter referred to as the "**Company**") 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.* (紅星傢俱集團有限公司), (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.

Approved by the second extraordinary general meeting of 2016 and permitted on 22 December 2017 in the 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, the Company carried out public offering of no more than 315,000,000 RMB-denominated ordinary shares (A shares) and was granted listing and trading at Shanghai Stock Exchange. On 17 January 2018, the Company completed the public offering of RMB-denominated ordinary shares (A shares) totaling 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 restricted RMB-denominated shares (A shares) was 2,561,103,969 shares; the amount of unrestricted RMB-denominated shares (A shares) was 315,000,000 shares, and the amount of overseas listed unrestricted foreign shares (H shares) was 1,062,813,069 shares. The Company completed the business registration in respect of such change on 20 March 2018.

As considered at the 2017 Annual General Meeting, A Shareholders' Class Meeting and H Shareholders' Class Meeting, the Company implemented repurchasing of overseas listed foreign shares (H share) by way of voluntary conditional cash offer (the "Offer"). The price of repurchasing the overseas listed foreign shares (H share) is HK$11.78 per share, with up to 388,917,038 shares subject to the repurchase. The Company has completed the repurchase of H shares and cancelled such H shares according to the Offer in July 2018.

The business scope of the Group mainly includes providing investees with management service, enterprise management and product information consulting; providing home furnishing stores with design planning and management services, wholesale of furniture, building materials and decoration materials, and relevant supporting services; exhibition and demonstration services.

The controlling shareholder of the Company is RSM Holding, and our actual controller is 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 at 30 June 2018, the Group's current liabilities in aggregate exceeded its current assets. The management of the Group had assessed its ongoing operation during the 12 months starting from 30 June 2018, and after taking into account the unutilized facilities held by the Group for the issuance of corporate bonds and super short-term commercial paper as at 30 June 2018, believe that the liquidity risk the Group is exposed to falls within the range of control due to the fact that its current assets is less than its current liabilities as at 30 June 2018, and thus has no material effect on the ongoing operation of the Group. Therefore, these financial statements have been prepared on a ongoing concern basis.

3. CHANGES OF MAJOR ACCOUNTING POLICIES

The Group has applied the New Standards for Financial Instruments and New Standards for Revenue since 1 January 2018. Meanwhile, the financial statements have been prepared in accordance with the "Notice on the Revision of the Format of General Financial Statements for 2018" (Cai Kuai [2018] No. 15) issued by the Ministry of Finance on 15 June 2018, ("**Cai Kuai Document No. 15**").

New Standards for Financial Instruments

The Group has applied the "Accounting Standards for Business Enterprises No. 22 – Financial Instrument: Recognition and Measurement", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprise No. 24 – Hedging Accounting" and "Accounting Standards for Business Enterprises No. 37 – Financial instrument: Presentation" ("**New Standards for Financial Instruments**") since 1 January 2018.

For classification and measurement of financial assets, the New Standards for Financial Instruments require that the financial assets should be classified into three categories: financial assets measured at amortised cost, financial assets at fair value through other comprehensive income ("**FVTOCI**") and financial assets at fair value through profit or loss ("**FVTPL**") based on characteristics of contractual cash flows and business models for the enterprise to manage these assets. The original categories including loans and receivables, held-to-maturity investments and available-for-sale financial asset have been cancelled. Investments in equity instruments are generally categorized into financial assets at FVTPL. The enterprise is also allowed to designate the non-tradable investments in equity instruments as financial assets at FVTOCI, but such designation is non-cancellable, and the cumulative amounts of changes in fair value previously recognised in other comprehensive income will no longer be reclassified to profit or loss upon disposal.

For impairment of financial assets, the New Standards for Financial Instruments on impairment are applicable to financial assets measured at amortised cost and trade receivables. The New Standards for Financial Instruments require adoption of expected credit losses model to replace the original incurred credit loss model. The new impairment model requires adoption of a three-phase model, credit loss provision is made based on expected credit losses within 12 months or during the entire life according to whether the credit risks of relevant items have been significantly increased since initial recognition. There is simplified method for the trade receivables whereby impairment provision is allowed to be recognised for the expected credit losses during the entire life all along.

Pursuant to the requirement by the Ministry of Finance (the "**MoF**"), domestically- and overseas-listed enterprises and enterprises listed overseas and adopting International Financial Reporting Standards or Accounting Standards of Business Enterprises to prepare financial statements shall apply the New Standards for Financial Instruments since 1 January 2018. Therefore, the Group has applied the abovementioned New Standards for Financial Instruments since 1 January 2018 and recognised, measured and reported the Group's financial instruments in accordance with the New Standards for Financial Instruments since that day.

If the recognition and measurement of financial instruments before 1 January 2018 was inconsistent with the New Standards for Financial Instruments, the Group would adjust in accordance with the transition requirement of the New Standards for Financial Instruments. In case there is inconsistence with the requirements of the New Standards for Financial Instruments for the comparative figures in financial statements, the Group will not make adjustment. The difference between the original carrying amount of the financial instruments and the new carrying amount at the adoption date of the new standards shall be recognized in retained earnings or other comprehensive income at 1 January 2018.

New Standards for Revenue

Since 1 January 2018, the Group has applied "Accounting Standards for Business Enterprises No. 14 – Revenue" ("**New Standards for Revenue**") revised by the MoF in 2017. The New Standards for Revenue introduced the 5-step approach to revenue recognition and measurement and added more instructions on specific transactions (or events). The New Standards for Revenue require the entity to adjust the cumulative effect into the retained earnings at the beginning of initial adoption period of the new standards (i.e. 1 January 2018) and relevant items in the financial statements, and not to adjust information in comparative period. For changes in contract incurred before the beginning of the adoption period of New Standards for Revenue, the Group uses simplified treatment, namely, the Group would identify the fulfilled and unfulfilled performance obligations, determine transaction price and allocate the transaction price between the fulfilled and unfulfilled performance obligations according to the final arrangement of contract changes.

A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. An entity shall present any unconditional (i.e. if only the passage of time is required before payment of that consideration is due) rights to consideration separately as a receivable.

4. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

5. REVENUE AND SEGMENT REPORT

Reporting by segment:

	Owned/leased portfolio shopping malls	Managed shopping malls	Construction and design	Sales of merchandise and related services	Other	Unallocated item	Total
Six months ended 30 June 2018 (Unaudited)							
Segment revenue – external transaction revenue	**3,535,894,591.52**	**1,749,199,266.87**	**458,986,112.62**	**187,528,781.63**	**442,275,366.40**	**–**	**6,373,884,119.04**
Segment operating profit	**1,934,676,622.93**	**851,612,962.02**	**161,973,069.03**	**(49,538,357.56)**	**193,642,271.33**	**674,878,959.28**	**3,767,245,527.03**

	Owned/leased portfolio shopping malls	Managed shopping malls	Construction and design	Sales of merchandise and related services	Other	Unallocated item	Total
Six months ended 30 June 2017 (Audited)							
Segment revenue – external transaction revenue	3,188,830,865.46	1,473,052,100.58	31,238,177.65	109,284,985.25	268,561,195.54	–	5,070,967,324.48
Segment operating profit	1,708,326,154.41	719,533,882.28	(6,148,569.76)	(43,232,213.00)	155,906,579.53	348,541,462.43	2,882,927,295.89

6. DISTRIBUTION AND SELLING EXPENSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Audited)
Salary, bonus and benefits	**29,108,228.90**	15,766,378.68
Depreciation and amortization	**3,388,683.81**	1,033,173.40
Energy and maintenance expenses	**167,214,843.32**	120,022,958.86
Advertising and promotional expenses	**411,971,857.16**	415,439,654.69
After-sales service expenses	**16,301,025.81**	12,978,469.68
Office and administrative expenses	**9,273,870.55**	6,930,921.95
Others	**8,814,552.39**	5,020,392.10
Total	**646,073,061.94**	577,191,949.36

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Audited)
Salary, bonus and allowances	**249,224,316.30**	231,527,404.54
Depreciation and amortization	**12,986,989.05**	13,071,621.33
Energy and maintenance expenses	**2,280,306.82**	3,437,722.87
Other professional services expenses	**57,561,571.10**	68,112,670.59
Office and administrative expenses	**150,607,918.02**	125,952,395.82
Others	**55,106,569.98**	25,971,757.14
Total	**527,767,671.27**	468,073,572.29

8. FINANCIAL EXPENSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Audited)
Interest expenses	**793,397,008.41**	650,222,248.82
Less: Capitalized interest expenses	**94,958,796.81**	75,251,880.82
Less: Interest income	**153,598,157.25**	39,982,040.44
Net interest expenses	**544,840,054.35**	534,988,327.56
Foreign exchange gain or loss	**32,983,413.85**	(470,457.37)
Others	**9,298,975.12**	9,694,953.52
Total	**587,122,443.32**	544,212,823.71

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Audited)
Current income tax based on tax law and relevant regulations	**507,090,694.75**	429,281,114.67
Deferred income tax	**40,744,920.55**	268,505,840.16
Difference from income tax annual settlement for prior year	**5,971,970.43**	27,195,962.12
Total	**553,807,585.73**	724,982,916.95

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 the subsidiaries stated below:

Certain subsidiaries have been entitled to the 15% preferential tax rate pursuant to the EIT Law and relevant laws and regulations under the Plan for Development of the West Regions within the Reporting Period and the same period of last year; certain subsidiaries have been entitled to be exempted from the enterprise income tax pursuant to the EIT Law and relevant laws and regulations within the Reporting Period under the initiative to foster key industrial enterprises in the impoverished area of Xinjiang.

10. EARNINGS PER SHARE

Calculation of the basic earnings per share for the six months ended 30 June 2018 and 30 June 2017 is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Audited)
Net profit attributable to owners of the Company	**3,038,609,713.21**	2,045,171,145.99
Including: Net profit attributable to ongoing operations	**3,038,609,713.21**	2,045,171,145.99
Net profit attributable to terminated operations	**–**	–
Weighted number of ordinary shares for the purpose of basic earnings per share	**3,886,417,038**	3,623,917,038
Basic earnings per share	**0.78**	0.56

The Group does not have dilutive ordinary shares.

11. DIVIDENDS

During the Reporting Period, the Company has declared a final dividend of RMB0.32 per share to the owners of the Company for the year ended 31 December 2017, with the total final dividend declared amounting to approximately RMB1,260,453,452.16, and such dividend has been paid after the Reporting Period. The Board of the Company has not recommended any payment of dividends for the Reporting Period.

12 NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	As at 30 June 2018	As at 31 December 2017
	(Unaudited)	(Audited)
Notes receivable	**1,000,000.00**	3,000,000.00
Accounts receivable	**2,050,417,411.71**	1,167,430,013.77
Total	**2,051,417,411.71**	1,170,430,013.77

Accounts receivable are disclosed by category:

	As at 30 June 2018 (Unaudited)			
	Book balance	Bad debt allowance		Book value
Category	Amount	Amount	Proportion *(%)*	Amount
Accounts receivable without significant financing components	2,980,295,267.45	929,877,855.74	31.20	2,050,417,411.71
Total	2,980,295,267.45	929,877,855.74	31.20	2,050,417,411.71

Ageing analysis of the book value of accounts receivable:

	As at 30 June 2018 (Unaudited)		
	Book balance	**Bad debt allowance**	**Amount Proportion** *(%)*
Within 1 year	1,032,685,279.30	69,930,182.89	6.77
1 to 2 years	503,830,057.41	59,136,345.25	11.74
2 to 3 years	492,882,776.48	236,227,173.34	47.93
3 to 4 years	424,912,000.00	206,287,000.00	48.55
4 to 5 years	370,306,632.95	238,451,965.27	64.39
Over 5 years	155,678,521.31	119,845,188.99	76.98
Total	2,980,295,267.45	929,877,855.74	31.20

Impairment for accounts receivable:

The Group measures the impairment provision of notes receivable and accounts receivable according to the amount of expected credit losses for the entire life period, and calculates its expected credit losses based on the comparison table for credit risk rating and default loss rate.

Credit risk rating:

	As at 30 June 2018 (Unaudited)		
	Default loss rate	**Book balance**	**Bad debt allowance**
Normal	2.11%	136,014,561.98	2,870,382.10
Doubtful	23.19%	2,496,079,296.41	578,806,064.58
In default	100.00%	348,201,409.06	348,201,409.06
Total		2,980,295,267.45	929,877,855.74

The default loss rate is calculated based on the historical actual credit loss, and it is adjusted based on the differences between the economic situation during the historical data collection period, the current economic situation and the economic situation that the Group believes to be during the expected life period.

	As at 31 December 2017 (Audited)				
	Book balance		Bad debt allowance		Book value
Category	Amount	Proportion *(%)*	Amount	Proportion *(%)*	Amount
Accounts receivable 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
Accounts receivable 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
Accounts receivable 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

13. OTHER RECEIVABLES

Other receivables presented by nature are as follows:

	As at 30 June 2018	As at 31 December 2017
	(Unaudited)	(Audited)
Loan and advances	**1,019,884,523.46**	678,234,257.94
– to related parties	**403,866,101.17**	118,226,176.43
– to non-controlling interests of subsidiaries	**91,815,418.12**	89,450,113.93
– to third parties	**524,203,004.17**	470,557,967.58
Equity transfer receivables	**–**	354,264,500.00
Sales proceeds collected on behalf of the tenants	**367,496,044.27**	553,075,277.01
Deposits	**116,805,355.27**	99,631,452.25
Others	**82,445,751.21**	49,292,637.63
Total	**1,586,631,674.21**	1,734,498,124.83

Other receivables are disclosed by category:

	As at 30 June 2018 (Unaudited)			
	Book balance	**Bad debt allowance**		**Book value**
Category	**Amount**	**Amount**	**Proportion** *(%)*	**Amount**
Other receivables without significant financing component	**1,833,744,276.38**	**247,112,602.17**	**13.48**	**1,586,631,674.21**
Total	**1,833,744,276.38**	**247,112,602.17**	**13.48**	**1,586,631,674.21**

Impairment for other receivables:

The Group measures the impairment provision of other receivables according to the amount of expected credit losses for the entire life period, and calculates its expected credit losses based on the comparison table of credit risk rating and default loss rate.

Credit risk rating	As at 30 June 2018 (Unaudited) Default loss rate	Book balance	Bad debt allowance
Normal	0.00%	367,496,044.27	–
Doubtful	7.89%	1,318,404,071.69	104,080,680.05
In default	96.75%	147,844,160.42	143,031,922.12
Total		1,833,744,276.38	247,112,602.17

The default loss rate is calculated based on the historical actual credit loss, and it is adjusted based on the differences between the economic situation during the historical data collection period, the current economic situation and the economic situation that the Group believes to be during the expected life period.

	As at 31 December 2017 (Audited)				
	Book balance		Bad debt allowance		Book value
Category	Amount	Proportion *(%)*	Amount	Proportion *(%)*	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	100.00	208,984,259.16	10.75	1,734,498,124.83

14. INVESTMENT PROPERTIES

	Completed properties	Properties under construction	Total
As at 1 January 2017 (Audited)	62,062,000,000.00	4,886,000,000.00	66,948,000,000.00
Additions during the year	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 upon 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**
Additions during the period	**472,026,077.27**	**999,948,746.89**	**1,471,974,824.16**
Additions from acquisition of subsidiaries	**2,266,399,991.50**	**224,333,336.26**	**2,490,733,327.76**
Changes in fair value	**937,573,931.23**	**165,717,916.85**	**1,103,291,848.08**
Transfer from properties under construction to completed properties	**165,000,000.00**	**(165,000,000.00)**	**–**
As at 30 June 2018 (Unaudited)	**71,705,000,000.00**	**4,192,000,000.00**	**75,897,000,000.00**

15. SHORT-TERM LOANS

	As at 30 June 2018	As at 31 December 2017
	(Unaudited)	(Audited)
Pledge loans	**971,810,000.00**	10,000.00
Mortgage and pledge loans	**145,000,000.00**	–
Credit loans	**300,000,000.00**	300,000,000.00
Total	**1,416,810,000.00**	300,010,000.00

16. NOTES PAYABLES AND ACCOUNTS PAYABLE

	As at 30 June 2018	As at 31 December 2017
	(Unaudited)	(Audited)
Amount payables for advertisements and purchase of goods	**593,042,463.49**	491,215,018.66
Total	**593,042,463.49**	491,215,018.66

As at the end of the Reporting Period and the end of the previous year, the Group's accounts payable aged over one year calculated from the invoice dates were RMB6,523,467.10 and RMB8,344,607.73, respectively.

17. OTHER PAYABLES

	As at 30 June 2018	As at 31 December 2017
	(Unaudited)	(Audited)
Interests payable	**438,899,357.04**	178,691,354.69
Dividends payable	**1,250,107,397.43**	61,960,000.00
Other payables	**6,512,700,864.06**	7,338,709,537.17
Total	**8,201,707,618.53**	7,579,360,891.86

Other payables presented by nature are as follows:

	As at 30 June 2018	As at 31 December 2017
	(Unaudited)	(Audited)
Proceeds collected on behalf of the tenants	**1,317,161,425.21**	2,346,259,268.66
Deposits from tenants	**2,211,426,482.19**	1,816,499,570.48
Payment received in advance from partners	**162,183,509.71**	152,900,000.00
Amounts payable to partners	**879,003,188.27**	809,321,874.67
Accrual expenses	**87,485,776.96**	217,405,781.98
Rental deposits from tenants	**772,185,229.92**	751,021,735.06
Amounts payable to construction contractors	**383,202,863.60**	900,281,717.08
Lease payable	**96,044,256.83**	50,917,834.27
Amounts payable to prepaid cards	**45,593,340.18**	73,420,850.89
Amounts payable for equity acquisition	**233,200,000.00**	–
Others	**325,214,791.19**	220,680,904.08
Total	**6,512,700,864.06**	7,338,709,537.17

18. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Long-term loans due within one year	**3,633,511,400.95**	4,011,084,091.87
Financial lease payables due within one year	**11,687,876.51**	13,277,093.22
Long-term rental due within one year	**20,000,000.00**	20,000,000.00
Bonds payable due within one year	**5,494,830,855.12**	5,486,714,288.88
Commercial mortgage backed securities payables due within one year	**19,000,000.00**	19,000,000.00
Total	**9,179,030,132.58**	9,550,075,473.97

19. LONG-TERM LOANS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Mortgage loans	**7,954,914,203.45**	6,215,305,888.66
Pledge loans	**2,484,300,000.00**	2,300,650,000.00
Mortgage and pledge loans	**1,605,784,375.00**	1,715,765,625.00
Mortgage and guaranteed loans	**493,977,125.00**	585,000,000.00
Mortgage, pledge and guaranteed loans	**488,744,303.91**	520,942,971.15
Credit loans	**240,000,000.00**	35,000,000.00
Total	**13,267,720,007.36**	11,372,664,484.81

20. SHARE CAPITAL

		Changes during the period			
Shareholder	**Opening amount**	**Issue of new shares**	**Others**	**Sub-total**	**Closing amount**
1 January to 30 June 2018 (Unaudited):					
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**
Shareholders of public issuance of A shares	–	315,000,000.00	–	315,000,000.00	**315,000,000.00**
Total	3,623,917,038.00	315,000,000.00	–	315,000,000.00	**3,938,917,038.00**

MANAGEMENT DISCUSSION AND ANALYSIS

1. Overview

During the Reporting Period, the Group continued to focus on the strategic positioning of growing into an "omni-channel platform service provider for the pan home improvement and furnishings industry", followed the operation and management mode of "market-oriented operation and shopping-mall-based management", further strengthened its cooperation with home improvement and furnishings manufacturers and distributors, and persistently optimized the structure of brands operated by us in home improvement and furnishings shopping malls to provide consumers with better services. With all such efforts, the Group obtained satisfactory results.

During the Reporting Period, the Group achieved a revenue of RMB6,373.9 million, representing an increase of 25.7% from RMB5,071.0 million for the same period in 2017. Gross profit margin decreased by 3.6 percentage points to 69.3% from 72.9% for the same period last year. During the Reporting Period, net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB1,614.8 million, representing an increase of 25.5% from RMB1,286.4 million for the same period in 2017. As at the end of the Reporting Period, the Group's cash and bank balance amounted to RMB10,123.6 million, representing a decrease of 4.7% from RMB10,626.9 million as at the end of 2017. As at the end of the Reporting Period, the net gearing ratio[(Note)] of the Group increased to 44.9% from 41.5% as at the end of 2017.

Note: Net gearing ratio is our interest-bearing liabilities (including short-term loans, long-term loans, bonds payable, 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.

During the Reporting Period, we continued to implement the two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls, with focuses on continuing development of our asset-light business model, and strategically expanded our shopping mall network nationwide in order to further enhance our market share, thereby continuously strengthening our market leadership in China's home improvement and furnishings industry. As at the end of the Reporting Period, we operated a total of 267 shopping malls with a nationwide coverage across 180 cities, with a total shopping mall operating area of 15,955,255 sq.m. We continuously improved the operation and management of shopping malls through tenant sourcing management, operation management, marketing management and property management, and proactively made efforts to develop explorative business such as Internet pan home improvement and furnishings consumption business, Internet home decoration business and full-range logistics service. We also explored the commercial application of information technology through the "Long Yi" (龍翼) 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 RMB6,373.9 million, representing an increase of 25.7% from RMB5,071.0 million for the same period in 2017. The stable growth in our revenue was primarily due to an increase in revenue from our Owned/Leased Portfolio Shopping Malls, Managed Shopping Malls as well as construction and design service. During the Reporting Period, the increase in revenue from the rent and management fees of our Owned/Leased Portfolio Shopping Malls was due to the increase in numbers of malls and the operating area and the growth in average effective unit income of mature shopping malls. The increase in revenue from our Managed Shopping Malls during the Reporting Period was mainly the result of the increase in the revenues from annual consulting and management services titled the Company's name for the project as well as construction consultation and management services. Meanwhile, during the Reporting Period, the Group's construction and design revenue has recorded a substantial growth to RMB459.0 million, accounting for 7.2% of the total revenue. Besides, the Group has adopted the New Standards for Revenue since 1 January 2018 (for further details, please refer to "Changes of Major Accounting Policies") which has also resulted in the increase in the revenue compared with the comparable period.

The following table sets forth our revenue by segments:

	Six months ended 30 June			
	2018 (Unaudited)		2017(Audited)	
	Amount	**%**	Amount	%
Owned/Leased Portfolio Shopping Malls	**3,535,894,591.52**	**55.5**	3,188,830,865.46	62.9
Managed Shopping Malls	**1,749,199,266.87**	**27.5**	1,473,052,100.58	29.0
Construction and Design	**458,986,112.62**	**7.2**	31,238,177.65	0.6
Sales of merchandise and related services	**187,528,781.63**	**2.9**	109,284,985.25	2.2
Others	**442,275,366.40**	**6.9**	268,561,195.54	5.3
Total	**6,373,884,119.04**	**100.0**	5,070,967,324.48	100.0

3. Gross profit and gross profit margin

During the Reporting Period, the Group's gross profit was RMB4,418.8 million, representing an increase of 19.5% from RMB3,696.3 million for the same period in 2017; the comprehensive gross profit margin was 69.3%, representing a decrease of 3.6 percentage points from 72.9% for the same period in 2017, primarily due to the gross profit margin of the revenue derived from Owned/Leased Portfolio Shopping Malls remained stable while the increased remuneration cost of staff relating to the business expansion of Managed Shopping Malls has led to decrease in gross profit margin. Meanwhile, the revenue from construction and design business in the Reporting Period increased substantially and the change in revenue structure has caused the decrease in comprehensive gross profit margin.

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Audited)
Owned/Leased Portfolio Shopping Malls	**78.2%**	78.1%
Managed Shopping Malls	**60.6%**	65.6%
Construction and design	**40.6%**	15.5%
Sales of merchandise and related services	**28.0%**	22.2%
Others	**80.5%**	78.1%
Total	**69.3%**	72.9%

4. Distribution and selling expenses and general and administrative expenses

During the Reporting Period, the Group's selling expenses amounted to RMB646.1 million (accounting for 10.1% of the revenue), representing an increase of 11.9% from RMB577.2 million (accounting for 11.4% of the revenue) for the same period in 2017, primarily due to growing advertising and promotional expenses as a result of the increase the of the investment in advertisements and promotions made for our newly opened shopping malls.

During the Reporting Period, the Group's general and administrative expenses amounted to RMB527.8 million (accounting for 8.3% of the revenue), representing an increase of 12.8% from RMB468.1 million (accounting for 9.2% of the revenue) for the same period in 2017, primarily due to increase in the staff remuneration and office and administrative expenses arising from the increase in the number of newly opened shopping malls. Meanwhile, the Group's investments and cooperations with enterprises with good potential and opportunities for business cooperation in the upstream and downstream home furnishing industry have also resulted in the increase in relevant administrative expenses.

5. Financial expenses

During the Reporting Period, the Group's financial expense amounted to RMB587.1 million, representing an increase of 7.9% from RMB544.2 million for the same period in 2017. Of which, the total interest expense amounted to RMB793.4 million, representing an increase of 22.0% from RMB650.2 million for the same period in 2017, primarily due to the increase in the amount of interest-bearing liabilities as a result of the increase in bank loans and the issuance of USD-denominated overseas bonds and commercial mortgage backed securities payables in the second half of 2017 and during the Reporting Period in order to meet the capital requirements in line with the expanding business scale of the Group. Meanwhile, the increase in the average financing rate in the market also resulted in the increase of interest expenses. The interest income amounted to RMB153.6 million, representing an increase of RMB113.6 million, comparing with RMB40.0 million in the same period in 2017, primarily due to the increased average cash and bank balance during the Reporting Period and the enhancing of capital pooling in response to the capital utilisation plan of the Group.

6. Income tax expense

During the Reporting Period, the income tax expenses of the Group amounted to RMB553.8 million, representing a decrease of 23.6 % from RMB725.0 million for the same period in 2017. Through effective and reasonable tax planning, the rate of the effective income tax decreased from 25.2 % for the same period of 2017 to 14.7% in the Reporting Period.

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

During the Reporting Period, net profit attributable to owners of the Company amounted to RMB3,038.6 million, representing an increase of 48.6% from RMB2,045.2 million for the same period in 2017; the net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB1,614.8 million, representing an increase of 25.5% from RMB1,286.4 million for the same period in 2017. The performance above is a comprehensive result of the substantial increases in our revenue and efficiency of the scale of operating expenses.

	Six months ended 30 June		
	2018	2017	Growth
	(Unaudited)	(Audited)	
Net profit attributable to owners of the Company	**3,038,609,713.21**	2,045,171,145.99	48.6%
Net profit margin attributable to owners of the Company	**47.7%**	40.3%	7.4 percentage points
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	**1,614,825,675.28**	1,286,401,391.87	25.5%
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	**25.3%**	25.4%	-0.1 percentage points

During the Reporting Period, the Group's earnings per share was RMB0.78, as compared to RMB0.56 for the same period in 2017.

8. Notes receivable and accounts receivable

As at the end of the Reporting Period, the balance of notes receivable and accounts receivable of the Group amounted to RMB2,051.4 million (including the book balance of accounts receivable of RMB2,980.3 million and the bad debt allowance of RMB929.9 million), representing an increase of RMB881.0 million from RMB1,170.4 million as at the end of 2017, primarily due to the impact of the increase in accounts receivable arising from the growth of the relevant revenue from Managed Shopping Malls during the Reporting Period and the adoption of New Standards for Revenue and New Standards for Financial Instruments by the Group since 1 January 2018.

Pursuant to the transition requirement for the New Standards for Revenue and the New Standards for Financial Instruments, the Group shall not adjust the information in comparable period. The Group prepared the financial statements for the comparative period in accordance with the New Standards for Revenue and the New Standards for Financial Instruments and restated the relevant figures pursuant to Cai Kuai Document No. 15, the book value of notes receivable and accounts receivable at the end of 2017 would be RMB1,824.1 million.

9. Other equity instrument investments

As at the end of the Reporting Period, the balance of the Group's other equity instrument investments amounted to RMB3,688.9 million, which was mainly due to the Group's long-term equity investments in the upstream and downstream of the home furnishing industry for strategic purposes.

The Group recorded the investments with no significant influence on the investee companies in this item in accordance with the requirements of New Standards for Financial Instruments and Cai Kuai Document No. 15. Such equity investments were listed under available-for-sale financial assets as at the end of 2017.

10. Investment properties and gain on fair value changes

As at the end of the Reporting Period, the balance of the Group's investment properties amounted to RMB75,897.0 million, representing an increase of 7.2% from RMB70,831.0 million as at the end of 2017. During the Reporting Period, the Group's investment properties realized gain on fair value changes of RMB1,103.3 million. The above growth trend was mainly due to the increase in rental of our Portfolio Shopping Malls, the construction progress of invested properties under development and the newly purchased properties.

11. Capital expenditure

During the Reporting Period, the Group's capital expenditures amounted to RMB1,622.1 million (the same period in 2017: RMB1,618.2 million), primarily including the expenditures incurred for the acquisition of land for investment properties and construction expenditures.

12. Cash and bank and cash flow

As at the end of the Reporting Period, the balance of the Group's cash and bank amounted to RMB10,123.6 million (of which, the balance of cash and cash equivalents amounted to RMB9,619.9 million), representing a decrease of RMB503.3 million from RMB10,626.9 million (of which, the balance of cash and cash equivalents amounted to RMB10,269.3 million) as at the end of 2017.

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Audited)
Net cash flow from operating activities	**1,134,302,924.24**	2,516,150,714.39
Net cash flow from investment activities	**(6,298,470,764.58)**	(4,837,792,737.52)
Net cash flow from financing activities	**4,523,425,278.83**	3,603,013,236.14
Impact on exchange rate changes on cash and cash equivalent	**(8,602,143.90)**	–
Net increase/(decrease) in cash and cash equivalents	**(649,344,705.41)**	1,281,371,213.01

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB1,134.3 million, representing a decrease of RMB1,318.8 million from the net inflow of RMB2,516.2 million for the same period in 2017, which was mainly due to the substantial increase in consumption in shopping mall at the end of 2017, leading to a significant increase in the net outflow of receipt and payment during the Reporting Period as compared with the same period in 2017.

During the Reporting Period, the Group's net cash outflow from investment activities amounted to RMB6,298.5 million, representing an increase of RMB1,460.7 million from the net outflow of RMB4,837.8 million for the same period in 2017, which was mainly due to the increase in cash outflow in relation to equity investment during the Reporting Period.

During the Reporting Period, the Group's net cash inflow from financing activities amounted to RMB4,523.4 million, representing an increase of RMB920.4 million, from the net inflow of RMB3,603.0 million for the same period in 2017, which was mainly due to the net cash inflow of raised funds from the issuance of A shares by the Company.

13. Major debt ratios

Among the total debts of the Group, the portion to be repaid in one year or on demand was RMB10,564.2 million; the portion to be repaid in more than one year but not more than two years was RMB3,941.5 million; the portion to be repaid in more than two years but not more than five years was RMB11,649.2 million; the portion to be repaid more than five years was RMB4,965.9 million; the Group would timely repay the above loans at the maturity date.

The following table sets out our major debt ratios:

	As at 30 June 2018	As at 31 December 2017
	(Unaudited)	(Audited)
Asset-liability ratio[(1)]	**55.3%**	54.7%
Net gearing ratio	**44.9%**	41.5%

Note:

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

14. Pledged assets

As at the end of the Reporting Period, the Group had pledged investment properties with book value of RMB56,636.0 million, the restricted cash and bank balance of RMB416.9 million and the other equity instrument investments with book value of RMB1,650.0 million for obtaining loans and providing guarantees.

15. Contingent matters

The Group and our cooperative partner provided financial guarantees to a financial institution in respect of a loan in the amount up to RMB2,500.0 million granted to one of our associates, of which the Group provided guarantee according to its equity proportion of 25%, which is RMB625.0 million, to secure the above facility. As at the end of the Reporting Period and the end of 2017, of which, RMB1,000.0 million and RMB1,600.0 million had been utilized by the associate, respectively.

The directors of the Company believe that the amount of the above financial guarantees is not significant and the guaranteed associate is in good financial status.

16. Capital commitments

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 RMB1,325.9 million. In addition, the Group has entered into agreements with its partners, pursuant to which the Group's commitment to contribute funds for development of investment properties jointly with the partners amounted to RMB352.9 million.

17. Financial resources and capital structure

As at the end of the Reporting Period, the net gearing ratio of the Group was 44.9%. 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.

18. 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.

19. 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 USD300 million USD-denominated bonds issued on 21 September 2017 and certain deposits denominated in USD and HKD. To manage the additional exchange risk exposure, the management of the Company adopted relevant risk management and control measures to prepare for risk hedging, including enhancing internal control awareness and strategy, strengthening cooperation with international banks, appropriately selecting forward contracts and currency swaps and other foreign debt hedging instruments, and closely monitoring on trends of foreign exchange market. We believe that foreign exchange risks related to such assets and liabilities denominated in other currencies will not have material impacts on operating results of the Group.

20. Human resources

As at the end of the Reporting Period, the Group employed 23,187 employees (the end of 2017: 22,621 employees) in total. The Group enters into labor contracts with employees according to the Labor Law of the PRC and the relevant provisions of the employee's locality. The Group determines the employee's basic wage and bonus level according to the employee's performance, work experience and the market wage standard, and pays social insurance and housing provident fund for the employees. During the Reporting Period, the Group paid a total of RMB1,453.9 million for salary expenditures (the same period in 2017: RMB1,163.3 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 improve the operation performance, and continuously improve the knowledge and technology level as well as business practice 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 267 shopping malls with a nationwide coverage across 180 cities in 29 provinces, autonomous regions and municipalities, with a total operating area of 15,955,255 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, accumulated extensive experiences in the operation of shopping malls, strengthened brand value, 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 75 Portfolio Shopping Malls covering a total operating area of 6,092,458 sq.m. with an average occupancy rate of 97.9%. Among these Portfolio Shopping Malls, 19 Portfolio Shopping Malls, representing 25.3% 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 1,690,504 sq.m., representing 27.8% of the total operating area of the Portfolio Shopping Malls. The same mall growth of mature shopping malls (note) was 9.6% during the Reporting Period, which was primarily affected by the increase in unit income from operation and the increase in operating area of mature Portfolio Shopping Malls during the Report period.

Note: "Same mall growth of mature shopping malls" is the growth in income from operation for a particular period compared with the same period in the prior year for all Portfolio Shopping Malls (including associated and joint 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 operation and management, we improved unit income from operation and optimized the operation area of the shopping malls, both of which contributed the increase in overall operating income.

During the Reporting Period, we opened 2 new Portfolio Shopping Malls and 2 Managed Shopping Malls were converted into Portfolio Shopping Malls. As at the end of the Reporting Period, we had 25 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, by virtue of a reputable brand name in the home improvement and furnishing industry and developed capabilities in shopping mall development, tenant sourcing and operation management, we continued to rapidly develop Managed Shopping Malls in Tier III Cities and other cities. We also had internally put in practice a stringent selection and evaluation mechanism to ensure the steady and rapid development of Managed Shopping Malls. As at the end of the Reporting Period, we operated 192 Managed Shopping Malls covering a total operating area of 9,862,798 sq.m., with an average occupancy rate of 97.6%. Among these Managed Shopping Malls, 114 Managed Shopping Malls, representing 59.4% of the total number of Managed Shopping Malls, were located in eastern China (excluding Shanghai) and northern China (excluding Beijing and Tianjin). The operating area of the aforesaid Managed Shopping Malls was 6,025,628 sq.m., representing 61.1% of the total operating area of Managed Shopping Malls. During the Reporting Period, we opened 10 new Managed Shopping Malls and closed 1 Managed Shopping Malls. In addition, 2 Managed Shopping Malls were converted into Portfolio Shopping Malls. As at the end of the Reporting Period, we have obtained land use rights/land parcels for 358 pipeline Managed Shopping Malls. Along with steady social and economic development of the country, further progress 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.

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 catered to the consumption trend in the market, and continuously optimized the brands and the categories of merchandise in shopping malls with a view to lead the consumption trend of the home furnishings industry. We also stepped up our efforts in introducing global brands and continued to build the international pavilions.

22.2 Operational Management

We comprehensively promoted the "Word of Mouth Advertising" project, and set high standards for and stringent requirements on the operation and management of shopping malls with respect to price, quality, service etc., aiming to improve customer satisfaction; and we continually launched "Leading Green" campaigns to promote consumers' green home life.

22.3 Marketing Management

We continued to reinforce our brand communication and insisted on the brand strategy of "selecting top products among global designs"; and established a leading new retail digital marketing system in the furnishing industry to build a flow ecological system so as to achieve self-containment with sales performance.

22.4 Property Management

We improved the environment of shopping malls to improve customer experience. We advocate energy conservation and environmental protection, and aim to build green shopping malls. During the Reporting Period, we recorded a total of approximately 4.39% reduction in power consumption in 65 major shopping malls as compared to the same period in 2017. We stringently controlled the safety of shopping malls; standardized the management and control mainly through prevention while adopting human control and technology control at the same time.

23. 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 a business life community for pan-home improvement and furnishings industry with the orientation on the "omni-channel platform service provider for the pan-home improvement and furnishings industry" and by upholding the core concept "home". During the Reporting Period, our internet platform provided consumers with pan-consumption industry chain services such as 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.

24. Continuously upgrading information infrastructures to support the development of the integration of online and offline businesses

During the Reporting Period, focusing on the objective of "integration of online and offline businesses" of the Company, we continued to promote the construction of information infrastructures in the Group's headquarters and shopping malls, thereby achieving certain results in reinforcement of financial system, upgrade and comprehensive promotion of the "Long Yi" (龍翼) system, application of data analysis as well as intelligent shopping malls and other areas.

25. Efficient human resources management policies

During the Reporting Period, closely in line with our corporate strategies, our human resources policies promoted the implementation of strategic adjustment to the integration of the Company's operation and development, rapidly completed the supporting work for organizations and personnel, propped up the integration of operation and development of the Company at provincial level, achieved coordination of the Company's national resources, ensured smooth connection of each of the Company's businesses, and achieved success in a number of aspects including system optimization, management of overall performance, talent development and business support, human resources operation and employee relations.

26. Outlook and prospects

We always shoulder the responsibility of "building a cozy and harmonious home, and improving the taste in shopping and home life". In the second half of 2018 and going forward, we will keep following the operational management mode of "market operation and commercial management" to provide customers with better and more professional services. We will consolidate our leading status in the market as well as the professional status of Red Star Macalline as an expert of home life with customers, to pursue our enterprise development goal of growing into China's most advanced and professional "omni-channel platform service provider for home decoration and furnishing industry".

The plan for our future development is as follows:

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

2. We will build comprehensive service system and strive to become new retail benchmark in the home decoration and furnishing industry;

3. We will enhance the long-term competitiveness of the Company through digital strategies;

4. We will be proactive in innovation and attach importance to the application of capital markets and financial instruments; and

5. We will continue to improve corporate governance, standardize our operation and practice social responsibilities.

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 Hong Kong Stock Exchange on 26 June 2015. The Company's A shares were listed on the Main Board of the Shanghai Stock Exchange on 17 January 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2018, 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 set 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 interests 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 the fact 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 that one-third of the board shall be independent non-executive directors, 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 shall act 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 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

A Share Offering

On 2 January 2018, the Company issued RMB ordinary shares (A shares) with a total issued size of 315,000,000 shares, a total face value of RMB315,000,000 and an issue price of RMB10.23 per share. The total amount of funds raised was RMB3,222,450,000.00, the issuance expenses was RMB172,442,150.37 and the net amount of funds raised was RMB3,050,007,849.63. The net amount raised per subscription share was RMB9.68 per share. For details, please refer to the announcements of the Company dated 2 January 2018, 16 January 2018 and 7 February 2018.

H Share Repurchase

Since the beginning of March 2018, the Company started to plan for the repurchase of H Shares in Hong Kong (the "**transaction**") and engaged China International Capital Corporation Limited as the financial advisor and Davis Polk & Wardwell ("**Davis**") as the Hong Kong legal counsel for the transaction. On 13 March, Davis, on behalf of the Company, submitted the relevant requests for the transaction plan to The Securities and Futures Commission of Hong Kong, and the reply and preliminary approval were obtained on 15 March. On 4 April, The Securities and Futures Commission of Hong Kong officially approved the plan for the transaction and issued a no comment letter on the transaction under Rule 3.5. For further details, please refer to the announcement of the Company dated 5 April 2018 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the announcement dated 9 April 2018 as disclosed on the designated media in China.

The Resolution of the Repurchase and Cancellation of H Shares and Reduction of Registered Capital of the Company was considered and approved at the 2017 Annual General Meeting, A Shareholders' Class Meeting and H Shareholders' Class Meeting on 8 June 2018. For the relevant approvals, please refer to the announcement disclosed on the designated media in China. On 17 July, the Company completed the repurchase of H Shares and the cancellation of corresponding H shares. For further details, please refer to the announcement of the Company dated 17 July 2018 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the announcement dated 19 July 2018 as disclosed on the designated media in China.

Save as disclosed above, the Group did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2018.

INTERIM DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2018.

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 95% of the net proceeds in total for fundraising investment projects as required. The Board resolved on 31 July 2015 and 18 January 2018 to change the intended use of part of the net proceeds from the Global Offering. For further details, please refer to the announcements of the Company dated 31 July 2015 and 18 January 2018 (collectively referred to as "**Announcements on Change in Use of Proceeds**" below). All net proceeds have been utilized in a manner consistent with the disclosure set out in the section headed "Future Plans and Uses of Proceeds" in the Prospectus and Announcements on Change in Use of Proceeds of the Company. Unutilized amount is expected to be used in two years.

Analysis of intended use and utilized net proceeds from the Global Offering as of 30 June 2018 is as follows:

Intended use	Planned use (RMB million)	Actual use of proceeds for the six months ended 30 June 2018 (RMB million)	Unutilized net proceeds for the six months ended 30 June 2018 (RMB million)
Development of portfolio shopping mall projects	1,928.5	1,928.5	0
Refinancing of existing debt	1,208.8	1,208.8	0
Investment or acquisition of other market participants in home furnishing industry, development funds for e-commerce business and information technology systems, and working capital and daily expenses	2,436.0	2,158.7	277.3

A SHARE OFFERING AND USE OF PROCEEDS

In order to consolidate the Company's market position in the home building materials circulation industry, complete the business development strategy plan of the Company, enhance the Company's brand awareness; at the same time, in order to make the construction of the unified logistic service system, the home design and decoration services, and O2O home decoration platform to be assembled as an extension and effective supplement to the existing main business of the Company, which can create synergy with the Company's existing home shopping malls operating business, allow the Company to further enhance its core competitiveness and brand influence, improve the financial structure of the Company and ease the capital requirements for normal operation of the Company, and thereby enhancing the overall operational capabilities of the Company; the Company issued 315,000,000 RMB ordinary shares (A Shares) on 2 January 2018 with a total par value of RMB315,000,000 at the issue price of RMB10.23 per share. The total proceeds raised amounted to RMB3,222,450,000.00, cost of offering amounted to RMB172,442,150.37 and the net proceeds raised amounted to RMB3,050,007,849.63. The net amount raised per subscription share is RMB9.68 per share. The closing price per share on the date of listing was RMB14.42. For further details, please refer to the announcements of the Company dated 2 January, 16 January, and 7 February 2018. As at the end of the Reporting Period, the Company has utilized approximately 60% of the net proceeds in total for fundraising investment projects as required as well as replenishing our general working capital, the remaining proceeds from the A share offering is expected to be utilized within this year. The utilized net proceeds have been utilized in a manner consistent with the disclosure set out in the section headed "Use of Proceeds Raised" in the A share prospectus.

EVENTS AFTER THE REPORTING PERIOD

Proposed establishment of commercial mortgage loan assets supporting project

Beijing Red Star Macalline EXPO Home Plaza Co. Ltd. (北京紅星美凱龍世博傢俱廣場有限公司) (“**Beijing Expo Home**”), and Yantai Red Star Macalline Home Co. Ltd. (煙台紅星美凱龍家居有限公司)(“**Yantai Red Star**”), holding subsidiaries of the Company, will establish a commercial mortgage loan assets supporting project with underlying assets, being the properties and relevant leased properties of Beijing Expo Home as well as the properties of Yantai Red Star and the rents and relevant operating income therefrom, with the Company as the original equity holder and CSC Financial Co., Ltd. as the manager; and issue asset-backed securities for financing under the project. The total issuance scale shall not exceed RMB3 billion. For further details, please refer to the announcement dated 11 July 2018 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk), and the announcements of Company dated 12 July 2018 as disclosed on the designated media in China.

Proposed utilization of shareholders’ loan claim of controlled subsidiaries as trust properties and establishment of assets supporting project

The Company is proposed to establish a property right trust with shareholders’ loan claim of Beijing Red Star Macalline International Home Furnishings Malls Company Limited and Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited held by the Company. Great Wall Securities Co., Ltd., as the manager, will acquire all trust beneficiary rights held by the Company through funds raising via issuing asset-backed securities to investors and the establishment of a assets supporting project. The issue scale shall not exceed RMB2.7 billion. For further details, please refer to the announcement of the Company dated 17 August 2018 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the announcement dated 18 August 2018 as disclosed on the designated media in China.

Proposed issuance of asset-backed notes

The Company is proposed to conduct the asset-backed notes project as an originator. Changzhou World Furniture and Home Plaza Co. Ltd. and Changzhou Macalline International Computer and Electronics Furnishing Plaza Co., Ltd., the wholly-owned subsidiaries of the Company, will publicly issue the first phase of the 2018 asset support notes of the Red Star Macalline Group Corporation Ltd. for financing, with underlying assets, being the properties of the Home World Project and Macalline Project and the rental income therefrom, as well as the rental income of the decoration city project rented and operated by the two companies, with the first phase of the 2018 asset support notes trust of the Red Star Macalline Group Corporation Ltd. (the principal) as the distributor, with Ping An Trust Co. Ltd. as the distributor management organization, in the national interbank bond market. The issue scale shall not exceed RMB1.3 billion. For further details, please refer to the announcement of the Company dated 17 August 2018 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the announcement dated 18 August 2018 as disclosed on the designated media in China.

The Results on the issuance of the first tranche of super short-term commercial papers in 2018

On 19 April 2016, the Resolution on the Application for Registration with the National Association of Financial Market Institutional Investors regarding the Super Short-term Commercial Papers by the Company was considered and approved at the 2016 second extraordinary general meeting of the Company. For details, please refer to the relevant announcement disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) on 12 February 2016. On 25 November 2016, the National Association of Financial Market Institutional Investors published the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2016]]] No. SCP400), indicating its consent for acceptance of the registration for the issuance of Super Short-term Commercial Papers by the Company with the amount for registration of Super Short-term Commercial Papers reaching RMB3 billion.

The Company has issued the 2018 first tranche of Super Short-term Commercial Papers on 18 July 2018 and the actual amount issued totaled RMB500 million, with an interest rate of 5.95% net proceeds after deducting the underwriting fees have been fully received on 19 July 2018. The proceeds raised from this tranche of Super Short-term Commercial Papers were wholly used for repayment of the bank loans of the Company and its subsidiaries. For further details, please refer to the announcement dated 19 July 2018 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk), and the announcements dated 20 July 2018 as disclosed on the designated media in China. For documents related to the issuance, please refer to the website of Chinamoney (http://www.chinamoney.com.cn) and the website of Shanghai Clearing House (http://www.shclearing.com).

Save as disclosed above, there were no material events of the Group after 30 June 2018.

REVIEW OF INTERIM RESULTS

The Company's audit committee has reviewed the interim results announcement for the six months ended 30 June 2018 and the unaudited consolidated financial statements for the six months ended 30 June 2018.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM 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 2018 interim report containing the information as required by the Listing Rules will be sent 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

Shanghai, the PRC
27 August 2018

As 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.