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 2018

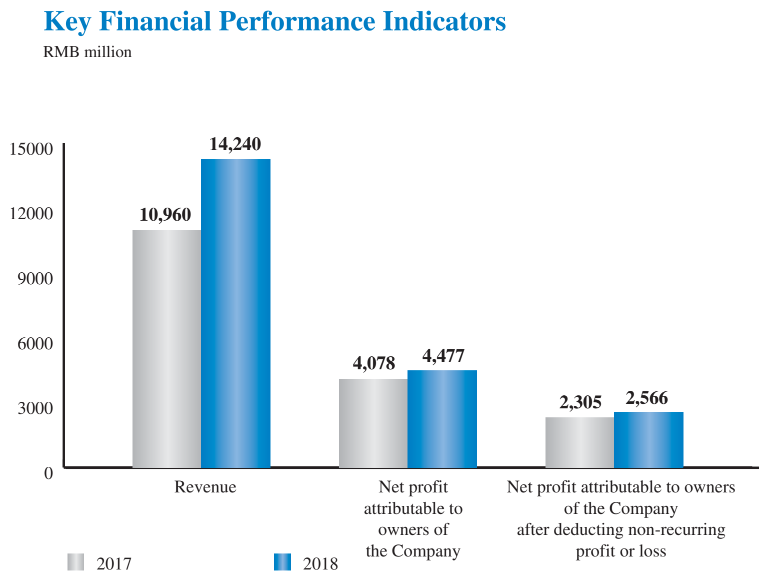
The board of directors (the "**Board**") of Red Star Macalline Group Corporation Ltd. (the "**Company**" or "**Red Star Macalline**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2018 (the "**Reporting Period**"), together with comparative figures for the same period of 2017. Such financial results in this announcement had been agreed by Ernst & Young Hua Ming (LLP), the external auditor of the Company.

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2018	2017
	(RMB'000, except otherwise stated)	
	(Audited)	(Audited)
Revenue	**14,239,793**	10,959,513
Gross profit	**9,426,093**	7,796,319
Gross profit margin	**66.2%**	71.1%
Net profit	**4,705,447**	4,278,014
Net profit attributable to owners of the Company	**4,477,411**	4,077,898
Net profit margin attributable to owners of the Company	**31.4%**	37.2%
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	**2,566,154**	2,305,431
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	**18.0%**	21.0%
Earnings per share	**RMB1.20**	RMB1.13
Dividend per share (tax inclusive)	**RMB0.27**	RMB0.32

Note: In the event of any inconsistency between the English version of this Announcement and the Chinese version of this Circular, the Chinese version shall prevail.

Key Financial Performance Indicators



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 2018	**As at 31 December 2017**
Number of shopping malls	**308**	256
Operating area of shopping malls (sq.m.)	**18,939,341**	15,137,728
Number of cities covered	**199**	177
Number of Portfolio Shopping Malls	**80**	71
Operating area of Portfolio Shopping Malls (sq.m.)	**6,918,993**	5,705,954
Average occupancy rate of Portfolio Shopping Malls	**96.2%**	97.6%
Number of Managed Shopping Malls	**228**	185
Operating area of Managed Shopping Malls (sq.m.)	**12,020,347**	9,431,775
Average occupancy rate of Managed Shopping Malls	**95.0%**	97.6%

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 2018

(*All amounts are expressed in RMB, except otherwise stated*)

	Notes	For the year ended 31 December **2018** **(Audited)**	 2017 (Audited)
I. Revenue	*5*	**14,239,792,500.44**	10,959,512,669.77
Less: Cost of sales		**4,813,699,821.07**	3,163,193,516.38
Taxes and surcharges		**387,369,974.23**	317,329,519.05
Distribution and selling expenses	*6*	**1,700,337,297.30**	1,513,829,389.14
General and administrative expenses	*7*	**1,490,961,410.80**	1,361,788,199.04
Research and development costs		**43,165,869.51**	—
Financial expenses	*8*	**1,533,151,372.35**	1,131,840,043.65
Including: Interest expenses		**1,670,758,123.43**	1,261,326,490.70
Interest income		**301,034,720.66**	125,689,801.56
Impairment loss of assets		**—**	283,436,250.82
Impairment loss of credit		**247,494,708.99**	—
Add: Other income		**111,159,889.42**	62,288,005.83
Investment income		**229,672,928.92**	633,897,111.33
Including: Investment income from associates and joint ventures		**183,468,563.89**	129,258,920.85
Gain on fair value changes		**1,767,009,613.56**	1,996,188,694.30
Gain/(loss) from disposal of assets		**(656,552.23)**	35,964,572.41
II. Operating profit		**6,130,797,925.86**	5,916,434,135.56
Add: Non-operating income	*9*	**38,512,766.67**	112,250,229.35
Less: Non-operating expenses	*10*	**149,990,961.12**	42,647,769.39
III. Total profit		**6,019,319,731.41**	5,986,036,595.52
Less: income tax expenses	*11*	**1,313,872,428.30**	1,708,022,775.23
IV. Net profit		**4,705,447,303.11**	4,278,013,820.29
According to the classification of ownership			
Non-controlling interests		**228,036,060.65**	200,116,070.83
Net profit attributable to owners of the Company		**4,477,411,242.46**	4,077,897,749.46

	Notes	For the year ended 31 December 2018 (Audited)	2017 (Audited)
V. Other comprehensive income/loss (after tax)		**(350,053,843.84)**	1,736,628,481.22
Other comprehensive income/loss (after tax) attributable to owners of the Company		**(284,856,658.06)**	1,562,965,633.10
Other comprehensive income that will not be reclassified to profit or loss			
Changes in fair value of other equity instrument investments		**(284,856,658.06)**	—
Other comprehensive income that will be reclassified to profit or loss			
Changes in fair value of available-for-sale financial assets		**—**	1,562,965,633.10
Other comprehensive income/loss (after tax) attributable to non-controlling interests		**(65,197,185.78)**	173,662,848.12
VI. Total comprehensive income		**4,355,393,459.27**	6,014,642,301.51
Total comprehensive income attributable to owners of the Company		**4,192,554,584.40**	5,640,863,382.56
Total comprehensive income attributable to non-controlling interests		**162,838,874.87**	373,778,918.95
VII. Earnings per share	*12*		
(1) Basic earnings per share		**1.20**	1.13
(2) Diluted earnings per share		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Notes	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Current assets			
Cash and bank balances		**8,527,607,964.92**	10,626,917,788.54
Financial assets held for trading		**236,256,219.87**	—
Notes receivable and accounts receivable	*14*	**1,687,918,584.76**	1,170,430,013.77
Prepayments		**319,437,303.71**	267,777,107.29
Other receivables	*15*	**1,936,025,518.72**	1,734,498,124.83
Inventories		**251,352,502.91**	120,291,360.44
Contract assets		**807,109,773.17**	—
Non-current assets due within one year		**314,950,000.00**	120,000,000.00
Other current assets		**1,637,934,842.98**	527,577,887.53
Total current assets		**15,718,592,711.04**	14,567,492,282.40
Non-current assets			
Available-for-sale financial assets		**—**	3,062,451,062.40
Long-term receivables		**1,795,159,925.01**	1,301,785,294.30
Long-term equity investments		**3,026,101,128.50**	1,613,818,294.75
Other equity instrument investments		**3,302,748,467.57**	—
Other non-current financial assets		**324,850,000.00**	—
Investment properties	*16*	**78,533,000,000.00**	70,831,000,000.00
Fixed assets		**192,418,042.50**	158,862,688.00
Construction in progress		**84,866,598.69**	66,100,052.88
Intangible assets		**460,830,931.51**	458,617,045.42
Development expenditure		**—**	29,418,402.19
Goodwill		**16,592,357.41**	16,592,357.41
Long-term prepaid expenses		**400,731,940.53**	229,333,419.48
Deferred tax assets		**822,269,149.42**	718,579,066.08
Other non-current assets	*17*	**6,182,556,566.38**	3,960,574,126.00
Total non-current assets		**95,142,125,107.52**	82,447,131,808.91
Total assets		**110,860,717,818.56**	97,014,624,091.31

	Notes	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Current liabilities			
Short-term loans	*18*	**5,148,516,740.00**	300,010,000.00
Notes payables and accounts payables	*19*	**970,116,980.34**	491,215,018.66
Advance from customers		**1,249,019,601.25**	3,068,282,301.16
Contract liabilities		**2,601,978,507.73**	—
Payroll payable		**913,986,023.52**	800,537,116.04
Taxes payables		**607,676,739.98**	927,266,639.50
Other payables	*20*	**8,712,208,081.24**	7,579,360,891.86
Other current liabilities		**1,161,684,557.80**	
Non-current liabilities due within one year	*21*	**3,948,619,684.75**	9,550,075,473.97
Total current liabilities		**25,313,806,916.61**	22,716,747,441.19
Non-current liabilities			
Long-term loans	*22*	**14,306,362,773.00**	11,372,664,484.81
Bonds payable		**7,156,394,519.96**	4,896,478,160.15
Long-term payables		**1,385,921,007.85**	1,415,698,075.42
Deferred income		**212,456,044.43**	192,141,221.74
Deferred tax liabilities		**11,008,662,811.23**	9,714,400,823.89
Other non-current liabilities		**6,181,288,065.26**	2,774,520,500.00
Total non-current liabilities		**40,251,085,221.73**	30,365,903,266.01
Total liabilities		**65,564,892,138.34**	53,082,650,707.20
Equity			
Share capital	*23*	**3,550,000,000.00**	3,623,917,038.00
Capital reserve		**4,490,018,895.43**	5,362,115,385.55
Other comprehensive income		**1,227,776,839.27**	1,562,965,633.10
Surplus reserve		**1,816,847,121.56**	1,623,080,808.19
Retained earnings		**30,629,417,859.13**	28,254,693,080.77
Total equity attributable to shareholders of the Company		**41,714,060,715.39**	40,426,771,945.61
Non-controlling interests		**3,581,764,964.83**	3,505,201,438.50
Total equity		**45,295,825,680.22**	43,931,973,384.11
Total liabilities and equity		**110,860,717,818.56**	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) 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) (the "**RSM Holding**") and Red Star Furniture Group Co., Ltd.* (紅星家具集團有限公司) (the "**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] 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) 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 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 20 March 2018, the Company has completed the change of registration of Administration of Industry and Commerce.

As considered and approved at the 2017 Annual General Meeting, A Share Shareholders' Class Meeting and H Share Shareholders' Class Meeting, the Company repurchased 388,917,038 overseas-listed foreign shares (H shares) at an offer price of HK$11.78 per share by way of conditional voluntary cash offer. The Company has completed the offer and cancelled such H shares in July 2018, after which the paid-in capital (share capital) of the Company amounted to RMB3,550,000,000.00. The Company completed the business registration in respect of such change on 29 September 2018.

The business scope of the Group is: Providing the invested enterprises with management service, enterprise management and product information consulting; providing the home furnishing business stores with design planning and management services, wholesale of furniture, building materials (steel exclusive) and decoration materials, and relevant supporting services, exhibition and display services (products involving quota license or special management provisions shall be subject to relevant state regulations) (with license if required). 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.

2. BASIS OF PREPARATION

The financial statements are prepared in accordance with Accounting Standards for Business Enterprises — Basic Standards issued by the Ministry of Finance and the specific accounting standards, application guide, interpretation and other relevant provisions promulgated and revised thereafter (the "**Accounting Standards for Business Enterprises**").

* *For identification purpose only*

As of 31 December 2018, the Group's current liabilities in aggregate exceeded its current assets in aggregate with an amount of RMB9,595.2 million. The management of the Group had assessed its ongoing operation for the 12 months starting from 1 January 2019, and after taking into account unutilized bank facilities as at 31 December 2018, expected net cash inflows from operating activities and financing arrangements, and believes that the liquidity risk arising from the fact that its current assets is less than its current liabilities as at 31 December 2018 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 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 (the "**MoF**") on 15 June 2018 ("**Cai Kuai Document No. 15**").

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 method for 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.

New Standards for Financial Instrument

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" (the "**New Standards for Financial Instruments**") revised by the MoF 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 amortized 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 recognized 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 amortized 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 a simplified method for the trade receivables whereby impairment provision is allowed to be recognized for the expected credit losses during the entire life.

Pursuant to the requirement by 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 any inconsistency with the requirements of the New Standards for Financial Instruments for the comparative figures in financial statements, the Group will not make adjustments. 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 recognised in the retained earnings or other comprehensive income on 1 January 2018.

Cash Flow Items Changes Attributable to Government Grant Related to Assets

According to the Interpretation of Issues Relating to the Format of 2018 Financial Statements of General Enterprises issued by the MoF, the Group has changed the original "investment activities" to "operating activities" when preparing the cash flow statement. Accordingly, the Group has adjusted the comparative figures retroactively. This change in accounting policy reduces the net cash flows from investment activities in the consolidated and company cash flow statements and increases the net cash flows from operating activities by the same amount, but has no impact on the net increase in cash and cash equivalents.

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 the Group's revenue and operating results by operating segment':

	Owned/Leased Portfolio Shopping Malls	Managed Shopping Malls	Construction and design	Sales of merchandise and related services	Other	Unallocated items	Total
2018 (Audited)							
Segment revenue							
— External transaction revenue	**7,167,976,016.22**	**4,176,778,594.26**	**1,479,553,020.36**	**466,289,187.59**	**949,195,682.01**	**—**	**14,239,792,500.44**
Segment operating profit (loss)	**3,593,777,333.15**	**1,657,697,812.15**	**372,186,585.71**	**(71,947,935.31)**	**295,710,201.34**	**283,373,928.82**	**6,130,797,925.86**
2017 (Audited)							
Segment revenue							
— External transaction revenue	6,394,481,799.81	3,628,735,577.78	56,129,950.62	294,256,196.34	585,909,145.22	—	10,959,512,669.77
Segment operating profit (loss)	3,047,379,363.23	1,520,796,530.95	(45,322,959.41)	(79,161,405.77)	223,391,461.27	1,249,351,145.29	5,916,434,135.56

6. DISTRIBUTION AND SELLING EXPENSES

	2018	2017
	(Audited)	(Audited)
Salary, bonus and benefits	**74,323,302.54**	40,026,018.23
Depreciation and amortization	**10,619,733.02**	2,606,052.12
Energy and maintenance expenses	**422,449,462.40**	350,853,345.26
Advertising and promotional expenses	**1,116,818,206.66**	1,061,299,368.08
After-sales service expenses	**42,012,169.62**	38,555,744.07
Office and administrative expenses	**11,365,384.68**	9,089,128.77
Others	**22,749,038.38**	11,399,732.61
Total	**1,700,337,297.30**	1,513,829,389.14

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
	(Audited)	(Audited)
Salary, bonus and allowances	**894,771,469.46**	827,583,962.18
Depreciation and amortization	**50,425,617.50**	47,681,503.37
Energy and maintenance expenses	**6,405,972.57**	7,707,149.02
Auditing expenses	**11,506,348.94**	10,859,774.08
Other professional services expenses	**139,569,232.37**	110,001,531.53
Office and administrative expenses	**340,886,856.32**	288,098,672.33
Others	**47,395,913.64**	69,855,606.53
Total	**1,490,961,410.80**	1,361,788,199.04

8. FINANCIAL EXPENSES

	2018	2017
	(Audited)	(Audited)
Interest expenses	**1,873,767,131.68**	1,481,716,865.07
Less: Capitalized interest expenses	**203,009,008.25**	220,390,374.37
Less: Interest income	**301,034,720.66**	125,689,801.56
Net interest expenses	**1,369,723,402.77**	1,135,636,689.14
Foreign exchange gain or loss	**139,958,434.14**	(22,054,553.37)
Others	**23,469,535.44**	18,257,907.88
Total	**1,533,151,372.35**	1,131,840,043.65

9. NON-OPERATING INCOME

	2018 (Audited)	2017 (Audited)
Income from default compensation	**2,847,757.85**	77,399,032.54
Income from project termination	**9,433,962.26**	4,245,283.00
Profit and loss from enterprise integration	**9,857,414.57**	—
Others	**16,373,631.99**	30,605,913.81
Total	**38,512,766.67**	112,250,229.35

10. NON-OPERATING EXPENSES

	2018 (Audited)	2017 (Audited)
Compensation expenses	**126,155,948.41**	16,906,543.41
Charitable donations	**10,576,739.79**	10,947,206.75
Others	**13,258,272.92**	14,794,019.23
Total	**149,990,961.12**	42,647,769.39

11. INCOME TAX EXPENSES

	2018 (Audited)	2017 (Audited)
Current income tax	**429,550,144.25**	874,054,845.55
Deferred income tax	**884,322,284.05**	833,967,929.68
Total	**1,313,872,428.30**	1,708,022,775.23

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 are entitled to tax incentives under the Plan for Development of the West Regions and have been permitted to enjoy a preferential tax rate of 15% during the Reporting Period in accordance with the EIT Law and the 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 the special economic zones Kashgar and Khorgas in Xinjiang, to be exempted from enterprise income tax during the Reporting Period in accordance with the EIT Law and the relevant regulations.

12. EARNINGS PER SHARE

Calculation of the basic earnings per share for the year ended 31 December 2017 and 2018 is as follows:

	2018 (Audited)	2017 (Audited)
Net profit attributable to owners of the Company	**4,477,411,242.46**	4,077,897,749.46
Including: Net profit attributable to ongoing operations	**4,477,411,242.46**	4,077,897,749.46
Net profit attributable to terminated operations	**—**	—
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,746,302,941**	3,623,917,038
Basic earnings per share	**1.20**	1.13

The Group does not have dilutive ordinary shares.

13. 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 during the Reporting Period. The Board recommended the payment of a final dividend of RMB0.27 per share for the year ended 31 December 2018. 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 16 May 2019 (the "**AGM**"). The expected payment date is on or around 16 July 2019.

14. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Notes Receivable	**—**	3,000,000.00
Accounts Receivable	**1,687,918,584.76**	1,167,430,013.77
Total	**1,687,918,584.76**	1,170,430,013.77

Account receivables are disclosed by category:

	As at 31 December 2018 (Audited)				
	Book balance		**Allowance for doubtful debts**		**Book value**
Category	**Amount**	**Percentage(%)**	**Amount**	**Proportion(%)**	**Amount**
Receivables for which bad debts are provided individually	**902,007,709.64**	**31.78**	**851,684,477.71**	**94.42**	**50,323,231.93**
Receivables for which provision for bad debt is recognized by group with distinctive credit risk characteristics	**1,936,659,225.85**	**68.22**	**299,063,873.02**	**15.44**	**1,637,595,352.83**
Total	**2,838,666,935.49**	**100.00**	**1,150,748,350.73**	**40.54**	**1,687,918,584.76**

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

Accounts receivables portfolio for which bad debt provision is recognized by group with distinctive credit risk characteristics:

	As at 31 December 2018 (Audited)				
	Book balance		Allowance for doubtful debts		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Within 1 year	**1,121,913,740.85**	**57.93**	**101,767,823.60**	**9.07**	**1,020,145,917.25**
1 to 2 years	**371,164,965.00**	**19.17**	**53,507,984.81**	**14.42**	**317,656,980.19**
2 to 3 years	**237,228,387.43**	**12.25**	**50,645,609.86**	**21.35**	**186,582,777.57**
3 to 4 years	**124,506,000.00**	**6.43**	**43,539,000.00**	**34.97**	**80,967,000.00**
4 to 5 years	**52,346,132.57**	**2.70**	**25,447,254.75**	**48.61**	**26,898,877.82**
5 to 6 years	**14,000,000.00**	**0.72**	**8,656,200.00**	**61.83**	**5,343,800.00**
Over 6 years	**15,500,000.00**	**0.80**	**15,500,000.00**	**100.00**	**—**
Total	**1,936,659,225.85**	**100.00**	**299,063,873.02**	**15.44**	**1,637,595,352.83**

	As at 31 December 2017 (Audited)				
	Book balance		Allowance for doubtful debts		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	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
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

15. OTHER RECEIVABLES

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Interest receivables	**96,854,369.24**	22,740,676.88
Other receivables	**1,839,171,149.48**	1,711,757,447.95
Total	**1,936,025,518.72**	1,734,498,124.83

Other receivables are disclosed by nature:

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Loan and advances	**957,102,681.95**	655,493,581.06
Equity transfer receivables	**—**	354,264,500.00
Sales proceeds collected on behalf of the tenants	**504,214,047.79**	553,075,277.01
Deposits	**161,820,517.67**	99,631,452.25
Others	**216,033,902.07**	49,292,637.63
Total	**1,839,171,149.48**	1,711,757,447.95

The movement of bad debt provision for other receivables based on 12-month expected credit losses and the lifetime expected credit losses is as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit loss (Single evaluation)	Lifetime expected credit loss (portfolio evaluation)	Stage 3 Credit-impaired financial assets (lifetime)	Total
Balance of bad debt provision on 1 January 2018	80,569,627.85	—	—	128,414,631.31	208,984,259.16
Impact of the beginning of the year	(2,524,499.09)	—	—	—	(2,524,499.09)
Balance of bad debt provision on 1 January 2018 during the period	78,045,128.76	—	—	128,414,631.31	206,459,760.07
— Transfer to stage 2	—	—	—	—	—
— Transfer to stage 3	(8,000,000.00)	—	—	8,000,000.00	—
— Reverse to stage 2	—	—	—	—	—
— Reverse to stage 1	—	—	—	—	—
Provision during the period	55,713,299.41	—	—	32,508,673.96	88,221,973.37
Reversal during the period	—	—	—	(9,875,798.60)	(9,875,798.60)
Balance of bad debt provision on 31 December 2018	**125,758,428.17**	**—**	**—**	**159,047,506.67**	**284,805,934.84**

Significant changes on book balance of other receivables that affected the change in bad debt provisions this year include: the balance of Handan Fengfengkuang District Royal Property Development Company Limited increased by 15.62% as a result of newly added account receivables, and correspondingly led to increase expected credit losses in the next 12 months; the details are as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit loss (Single evaluation)	Lifetime expected credit loss (portfolio assessment)	Stage 3 Credit-impaired financial assets (lifetime)	Total
Book balance on 1 January 2018	1,787,516,484.50	—	—	133,225,222.61	1,920,741,707.11
Balance on 1 January 2018 during the period	1,787,516,484.50	—	—	133,225,222.61	1,920,741,707.11
— Transfer to stage 2	—	—	—	—	—
— Transfer to stage 3	(8,000,000.00)	—	—	8,000,000.00	—
— Reverse to stage 2	—	—	—	—	—
— Reverse to stage 1	—	—	—	—	—
Additions during the period	167,855,083.14	—	—	35,380,294.07	203,235,377.21
Book balance on 31 December 2018	**1,947,371,567.64**	**—**	**—**	**176,605,516.68**	**2,123,977,084.32**

	As at 31 December 2017 (Audited)				
	Book balance		Bad debt provision		Book value
	Amount	Percentage (%)	Amount	Proportion (%)	Amount
Significant individual amount and individually provided for bad debts	93,162,035.06	4.85	92,922,856.72	99.74	239,178.34
Provision for bad debt is recognized by group with distinctive credit risk characteristics	1,787,516,484.50	93.06	80,569,627.85	4.51	1,706,946,856.65
Insignificant individual amount but individually provided for bad debts	40,063,187.55	2.09	35,491,774.59	88.59	4,571,412.96
Total	1,920,741,707.11	100.00	208,984,259.16	10.88	1,711,757,447.95

16. INVESTMENT PROPERTIES

	Completed properties	**Properties under construction**	**Total**
As at 31 December 2017(audited)	67,864,000,000.00	2,967,000,000.00	70,831,000,000.00
Additions in the period	643,631,281.17	2,205,289,554.33	2,848,920,835.50
Additions from acquisition of subsidiaries	2,266,399,991.51	766,506,055.54	3,032,906,047.05
Changes in fair value	864,968,727.32	955,204,390.13	1,820,173,117.45
Transfer from properties under construction to completed properties	165,000,000.00	(165,000,000.00)	—
As at 31 December 2018(audited)	**71,804,000,000.00**	**6,729,000,000.00**	**78,533,000,000.00**

17. OTHER NON-CURRENT ASSETS

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Prepayments for construction	**1,054,474,837.71**	820,469,683.34
Earning right related to land consolidation	**1,835,867,940.18**	—
Prepayments for purchasing an office premise	**2,023,201,395.18**	2,117,929,865.00
Entrusted loans	**416,421,312.81**	250,985,284.28
Prepayments for equity transfer	**301,323,500.00**	166,100,000.00
Prepayments for repurchase	**247,705,000.00**	247,705,000.00
Prepayments for land	**210,862,580.50**	—
Deposits	**92,700,000.00**	—
Capital contribution to investees	**—**	178,350,000.00
Construction contributions	**—**	179,034,293.38
Total	**6,182,556,566.38**	3,960,574,126.00

18. SHORT TERM LOANS

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Pledge loans	**981,760,000.00**	10,000.00
Mortgage loans	**3,126,756,740.00**	—
Guaranteed loans	**285,000,000.00**	—
Credit loans	**700,000,000.00**	300,000,000.00
Mortgage and guaranteed loans	**55,000,000.00**	—
Total	**5,148,516,740.00**	300,010,000.00

19. NOTES PAYABLES AND ACCOUNT PAYABLES

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Amounts payable for advertisements and purchase of goods	**354,045,884.56**	336,777,472.61
Amounts payable for construction	**616,071,095.78**	154,437,546.05
Total	**970,116,980.34**	491,215,018.66

As of 31 December 2018, the Group had no significant accounts payable aged over one year.

20. OTHER PAYABLES

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Interest payables	**215,310,507.17**	178,691,354.69
Dividends payables	**16,556,410.95**	61,960,000.00
Other payables	**8,480,341,163.12**	7,338,709,537.17
Total	**8,712,208,081.24**	7,579,360,891.86

Other payables categorized by nature are presented as below:

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Proceeds collected on behalf of the tenants	**2,233,316,693.86**	2,346,259,268.66
Deposits from tenants	**2,199,727,009.49**	1,816,499,570.48
Amount payables to partners	**1,438,160,139.88**	962,221,874.67
Accrual expenses	**277,643,310.09**	217,405,781.98
Rental deposits from tenants	**708,621,532.51**	751,021,735.06
Amounts payable to construction contractors	**800,535,460.58**	900,281,717.08
Lease payables	**57,739,035.70**	50,917,834.27
Amount payables to equity transfer	**512,739,975.11**	—
Amount payables to prepaid cards	**16,165,219.09**	73,420,850.89
Others	**235,692,786.81**	220,680,904.08
Total	**8,480,341,163.12**	7,338,709,537.17

As at 31 December 2018, the Group had no significant other payables with aging more than one year.

21. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Long-term loans due within one year	**2,355,738,787.02**	4,011,084,091.87
Bonds payable due within one year	**1,496,573,720.79**	5,486,714,288.88
Commercial mortgage backed securities due within one year	**62,800,000.00**	19,000,000.00
Long-term rental due within one year	**20,000,000.00**	20,000,000.00
Financial lease payables due within one year	**13,507,176.94**	13,277,093.22
Total	**3,948,619,684.75**	9,550,075,473.97

22. LONG TERM LOANS

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Mortgage loans	**8,671,995,000.02**	6,215,305,888.66
Pledge loans	**1,814,850,000.00**	2,300,650,000.00
Mortgage and pledge loans	**2,802,292,625.00**	1,715,765,625.00
Mortgage and guaranteed loans	**992,225,147.98**	585,000,000.00
Mortgage, pledge and guaranteed loans	**—**	520,942,971.15
Credit loans	**25,000,000.00**	35,000,000.00
Total	**14,306,362,773.00**	11,372,664,484.81

23. SHARE CAPITAL

		Movement during the period			
Shareholder	**Opening amount**	**Issue of new shares**	**Repurchase of shares**	**Sub-total**	**Closing amount**
2018 (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
Overseas listed foreign shares (H share)	1,062,813,069.00	—	(388,917,038.00)	(388,917,038.00)	673,896,031.00
Domestic listed domestic shares (A share)	—	315,000,000.00	—	315,000,000.00	315,000,000.00
Total	3,623,917,038.00	315,000,000.00	(388,917,038.00)	(73,917,038.00)	3,550,000,000.00

MANAGEMENT DISCUSSION AND ANALYSIS

— Industry review

In 2018, in light of the complex and volatile international environment and the difficult and arduous task of reform, development and stability, together with the effect of policies such as the structural reforms of supply side policies, the appropriate expansion of the total demands and the intensification of reforms, opening-up and innovation, the Chinese economy achieved steady growth, stable improvement in quality and benefit, and sustained healthy and steady development.

According to the statistics from Frost & Sullivan, in 2018, the Group had a 15.2% market share in the chain home improvement and furnishings mall sector and a 6.0% market share in the whole home improvement and furnishings mall sector (including chain and non-chain) in terms of sales volume, owning the largest market share in China's steadily 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, the Company operated 80 Portfolio Shopping Malls and 228 Managed Shopping Malls, in addition, the Company opened 22 franchised home improvement material projects[note 1], which includes a total of 359 home improvement material stores/industry streets[note 2]. Our Portfolio Shopping Malls and Managed Shopping Malls spread over 199 cities in 29 provinces, municipalities and autonomous regions in China, with a total operating area of 18,939,341 sq.m. 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 entry barrier 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 80 Portfolio Shopping Malls, covering a total operating area of 6,918,993 sq.m. with an average occupancy rate of 96.2%[note 3]. Among these Portfolio Shopping Malls, 19 Portfolio Shopping Malls, representing 23.8% 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 1,811,236 sq.m., representing 26.2% of the total operating area of the Portfolio Shopping Malls. The same mall growth of mature shopping malls[note 4] during the Reporting Period was 8.1%. Such growth was due to the aggregated contribution from the effective unit income from operation and operating area of mature shopping malls during the Reporting Period.

During the Reporting Period, we opened 6 new Portfolio Shopping Malls and 3 Managed Shopping Malls were converted into Portfolio Shopping Malls. As at the end of the Reporting Period, we had 30 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 228 Managed Shopping Malls in operation covering a total operating area of 12,020,347 sq.m., with an average occupancy rate of 95.0%. Among these Managed Shopping Malls, 122 Managed Shopping Malls, representing 53.5% of the total number of Managed Shopping Malls, were located at eastern China and northern China (excluding Shanghai, Beijing, Tianjin). The operating area of the aforesaid Managed Shopping Malls was 6,955,735 sq.m., representing 57.9% of the total operating area of Managed Shopping Malls. During the Reporting Period, we opened 50 new Managed Shopping Malls and closed 4 Managed Shopping Malls. In addition, 3 Managed Shopping Malls were converted into Portfolio 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 361 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:

note 1: Franchised home improvement material projects represent the home improvement material stores and home improvement material industry streets operated by the Company by way of franchising. For such franchised home improvement material projects, the Company will not participate in the daily operation and management after their commencement of operations.

note 2: For home improvement material stores/industry streets, the Company regards those with independent market logos as home improvement material stores/industry streets for the purpose of operation and management convenience after taking into full account the physical form of the managed property and the types of product sold.

note 3: The mall located in Yuxi Road, Hefei City suspended tenant sourcing due to the adjustment of product mix by tenants, therefore it was not included in the rental rate when calculating.

note 4: "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 (including associated and joint malls) that were in operation for at least three financial years and were still in operation as at the end of the Reporting Period.

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

2.1 Tenant sourcing management

In order to cater to the consumption trend in the market, the Company continuously optimizes the layout of the brands and categories of merchandise in shopping malls to take lead in the home furnishings consumption trend. We continuously enhance the standards of our refined rental management to achieve sustainable growth of rental income, and constantly strengthen the management of brand resources, dealer resources and promote accurate business matching. The Company also caters to the trend of consumption upgrading, steps up efforts in introducing global brands and continues to build international pavilions. The trade shows have collected global excellent brand and have accumulated resources for the tenant sourcing management and business integration.

2.2 Operational management

We rolled out the "Word of Mouth Advertising" project, with specific requirements on price, quality and service etc., by setting high standards and strict requirements on shopping mall operations. We also improved operational management efficiency by means of digital space management and continued to launch "Leading Green" campaigns to promote consumers' green home life quality.

2.3 Marketing management

In terms of brand management, with continuous concern on expanding the brand positioning of Selecting Global Top-notch Design Products, we are devoted to building a high-end brand image. In respect of marketing management, we built the first integrated digital marketing system in the furniture industry, achieving digital and commercial upgrade of marketing through IMP (Intelligent Marketing Platform) global furniture intelligent marketing platform. We created a new marketing model of top-notch products and a new field of on-line marketing on applet, built the first universal social marketing platform in the industry, flow performance evaluation system with the ability to assess individuals performance and flow operating system with omni-channel and full consumption cycle.

2.4 Property management

We strictly control safety in our shopping malls with standardized management and we prevent safety hazards through our staff and technology. We constantly improve the environment of our shopping malls to enhance the shopping experience of our customers, and advocate energy-saving and environmental protection to create green shopping malls.

3. Expansionary business: robust development

During the Reporting Period, the development of our expansionary businesses flourished. With the strategic orientation on the "omni-channel platform service provider for pan-home improvement and the furnishings industry" and by upholding the core concept of "home", we continued to carry out upstream and downstream cross-border business extension and to build up a community of shared business future for pan-home improvement and furnishings industry. During the Reporting Period, our online and offline integration platform provided consumers with industry chain services for pan-home improvement and furnishings consumption ranging from design, home renovation, to purchasing 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 realize resources sharing.

3.1 Internet-based pan-home improvement and furnishings consumption

We have established the internet-based platform building around the concept of "home", which provides consumers with pan-home improvement and furnishings consumption industry-chain services ranging from design, home renovation, to purchasing of household-related products through the operation model of expanding the design and home decoration business. We have fully integrated and shared the business resources of the online home improvement and furnishings consumption platform with the offline real shopping mall network by digitally transforming and upgrading the existing home improvement and furnishings mall. Through these efforts, the Company succeeded in providing convenient and quality services and interactive online and offline experiences to our customers. At the same time, we had achieved synergies between the offline business and the expansionary business on the internet, which has further improved the overall operation efficiency and maximized value creation.

During the Reporting Period, in order to promote our self-draining ability of online and offline integration platform that covers both the internet platform and the real shopping mall, and to meet high-end customers' personalized demand, we expanded our business to front-end design and terminal service on the base of original internet retail and internet home decoration businesses, realized our strategic object of "One Stop High-end Home Decoration", and provided consumers with one-stop solutions covering design, home decoration, goods and services.

During the Reporting Period, with a main focus on the design business, we developed a series of innovative businesses such as the China M+ Top Design Award, the "Star Design" platform and the M+ Design Creator Space. We continued to expand the brands resources of internet-based new retail platform and merchant resources through mobile resources APP user terminal and Wechat applet, and further strengthened the linkage with the merchant resources of offline real shopping malls, thus to provide consumers with more plentiful and diversified selections. As of the end of the Reporting Period, a total of 14,630 merchants have signed up for our internet new retail platform; based on the new retail system developed by our Company, we have realized the connection between 81 offline Red Star Macalline shopping malls in 38 cities with goods and services on online platforms.

As an important part of services in the home improvement and furnishings retail industry chain, for the purpose of improving the shopping experiences of our consumers, and driving sales in our shopping malls, our home improvement business provided whole-package services to customers-integrating decoration design, hard decoration construction, sale of materials, purchase of furniture and soft decoration. As at the end of the Reporting Period, our internet-based home improvement platform has signed agreements with 2,364 high-end home decoration companies, has received home decoration reservation appointments from 98,522 customers through the platform. We had 40 offline self-operated home decoration stores, located in our shopping malls in cities including Beijing, Tianjin, Shanghai, Chongqing, Nanjing, Suzhou, Shenyang, Chengdu, Zhengzhou, Hefei and Shijiazhuang.

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 our cooperation with financial institutions as commercial banks and consumer financing companies, the consumers are provided with household consumer loans which 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 RMB1,250 million, and our relevant commission income was RMB13.2 million, which boosted businesses of tenants of our shopping malls.

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 provided professional distribution and installation services to our tenants and customers to facilitate the "Last Mile" distribution, installation and after-sales services, and to improve customers' 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 17 cities 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, the storage area of our logistic service business has exceeded 75,000 sq.m. and we have commenced operations with more than 450 brands.

4. ***Continuously upgrade the information technology infrastructure and support the development of online and offline integration***

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 headquarter and shopping malls, thereby achieving results in the reinforcement of strategic financial functions, expansion and upgrade of the Long Yi system and its full coverage in shopping malls, building of data centers, intelligent shopping malls construction and other sectors. We upgraded and optimized comprehensive budget system, substantially promoted the performance of the system, efficiently improved the efficiency of the filling process of business personnel. We finished the nationwide coverage of the Long Yi system in all shopping malls, which is the internal informatization system of our Group, and brought 203 shopping malls online throughout the year, thereby we have achieved the milestone goal of using self-developed system in all shopping malls. The monthly average users of "Dragon's Eyes" mobile office platform, an APP platform developed for in-house employees and internal management of the Company, broke through the number of 20,000 users, as a result, we have achieved our set goal of one-stop mobile office of all staff of our Group at any places and at any time. In respect of data centers, we have primarily finished the establishment of a data center completing the design of the "three vertical and three horizontal" structure based on main data, application data and big data, and driven by data collection, data mart and intelligent data. We launched the construction of intelligent shopping malls. By using the advanced artificial intelligence technologies such as machine vision and trajectory analysis, and initiating the use of guide service robots in shopping malls, we have further improved customers' experience and raised operating efficiency of shopping malls and tenants.

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

During the Reporting Period, we have strictly adhered to our corporate strategies, whereby 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 connections between the Company's different 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.

We had a total of 24,339 employees as of the end of the Reporting Period.

6. ***The establishment of home furnishing shopping malls brand portfolio***

In terms of the establishment of brand portfolio, in addition to the core brand "Red Star Macalline", the Company also invested in new brands paralleling to the core brand to achieve brand diversity and further enrich the variety of services provided by the Company. A more fashionable and high-end brand, "Red Star Ogloria" (紅星 • 歐麗洛雅), was created to broaden consumer bases and further increase market share. Moreover, since 2016, the Company has provided commercial consultation services and written consultation reports to property owners in the stage of development planning for properties in operation other than Portfolio and Managed Shopping Malls. At the same time, the Company can also grant such property owners the authorization to use "Xingyijia" (星藝佳) brand in the way agreed by the Company. In addition, as the Company obtained the concession right of "Jisheng Wellborn", a high-end home improvement and furnishings retail brand, with a term of 30 years in 2014, the Company has subsequently obtained the right to use the licensed trademarks in our Portfolio Shopping Mall or Managed Shopping Mall or in all business operation course related with those shopping malls, and to authorize any third parties to use the abovementioned licensed trademarks within the properties of the home furnishings shopping malls.

As at the end of the Reporting Period, "Red Star Macalline", the core brand remains its leading position in terms of the number of shopping malls and revenue contribution.

— Financial Review

1. Revenue

During the Reporting Period, the Group's revenue amounted to RMB14,239.8 million, representing an increase of 29.9% from RMB10,959.5 million in 2017, primarily due to the stable development of the relevant business in our Owned/Leased Portfolio Shopping Malls and Managed Shopping Malls and the significant increase in our construction and design business. During the Reporting Period, the increase of 12.1% in rental and related income of our Owned/Leased Portfolio Shopping Malls was mainly due to the steady growth of mature shopping malls and the revenue contribution of newly opened shopping malls. The increase in revenue of 15.1% 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 business consulting and tenant sourcing advisory services to property owners on the one hand, and on the other hand, the year on-year increase in the number of newly opened Managed Shopping Malls also brought an increase in revenue from the relevant management progressively. At the same time, the revenue from construction and design business of the Group provided to partners increased significantly to RMB1,479.6 million, representing 10.4% of the revenue during the year.

The following table sets forth our revenue by segments:

	For the year ended 31 December			
	2018 (Audited)		2017 (Audited)	
	Amount	**%**	Amount	%
Owned/Leased Portfolio Shopping Malls	**7,167,976,016.22**	**50.3**	6,394,481,799.81	58.3
Managed Shopping Malls	**4,176,778,594.26**	**29.3**	3,628,735,577.78	33.1
Construction and design	**1,479,553,020.36**	**10.4**	56,129,950.62	0.5
Sales of merchandise and related services	**466,289,187.59**	**3.3**	294,256,196.34	2.7
Others	**949,195,682.01**	**6.7**	585,909,145.22	5.4
Total	**14,239,792,500.44**	**100.0**	10,959,512,669.77	100.0

2. Gross profit and gross profit margin

During the Reporting Period, the Group's gross profit was RMB9,426.1 million, representing an increase of 20.9% from RMB7,796.3 million in 2017; the Group's integrated gross profit margin was 66.2%, representing a decrease of 4.9 percentage points from 71.1% in 2017, primarily due to the fact that the gross profit margin of Owned/Leased Portfolio Shopping Malls slightly increased, while the increased remuneration cost of staff relating to the business expansion of Managed Shopping Malls and the increase in the number of newly opened Managed Shopping Malls have led to a decrease in gross profit margin. Meanwhile, the revenue from construction and design business during the Reporting Period was 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:

	For the year ended 31 December	
	2018	2017
	(Audited)	(Audited)
Owned/Leased Portfolio Shopping Malls	**77.6%**	77.2%
Managed Shopping Malls	**60.4%**	63.9%
Construction and design	**32.7%**	23.3%
Sales of merchandise and related services	**33.7%**	31.2%
Others	**74.1%**	74.8%
Total	**66.2%**	71.1%

3. Distribution and selling expenses

During the Reporting Period, the Group's distribution and selling expenses amounted to RMB1,700.3 million (accounting for 11.9% of the revenue), representing an increase of 12.3% from RMB1,513.8 million (accounting for 13.8% of the revenue) in 2017, which was primarily due to the increase in advertising fee and marketing fee resulting from brand publicity activities of the Company and promoting and marketing activities for newly opened shopping malls.

4. General and administrative expenses

During the Reporting Period, the Group's general and administrative expenses amounted to RMB1,491.0 million (accounting for 10.5% of the revenue), representing an increase of 9.5% from RMB1,361.8 million (accounting for 12.4% of the revenue) in 2017, which was primarily due to the increase in labor, office and administrative expenses resulting from the strengthening of centralized control of related expenses by the headquarters of the Group and the increase of newly opened shopping malls.

5. Financial expenses

During the Reporting Period, the Group's financial expenses were mainly comprised of interest expenses, interest revenues and exchange gains and losses, etc.. Financial expenses increased from RMB1,131.8 million in 2017 to RMB1,533.2 million in 2018, representing an increase of 35.5%.

Interest expenses were comprised of interest of bank and other borrowings, interest of financial lease and bond interests, etc. Interest expenses increased from RMB1,481.7 million in 2017 to RMB1,873.8 million in 2018, representing an increase of 26.5%. This was mainly due to the increase of interest-bearing liabilities resulting from new short term and long term bank borrowings, USD-denominated overseas borrowings and commercial mortgage backed securities in the second half of 2017 and during the Reporting Period. In addition, the interest rate of new borrowings has increased compared with the previous year due to the impact of the domestic macro-economy during the Reporting Period.

Interest income increased from RMB125.7 million in 2017 to RMB301.0 million in 2018, representing an increase of 139.5%. This was mainly due to the enhanced efficiency of capital use, and the external borrowings generated in coordination with the main business have generated more interest income during the Reporting Period.

Exchange gain or loss was incurred because the Group held US$296.7 million bonds and HK$1,057.7 million in borrowings. During the Reporting Period, the RMB depreciated against the US dollar, resulting in an exchange loss of approximately RMB140.0 million.

6. Non-operating expenses

During the Reporting Period, the Group generated RMB150.0 million in non-operating expenses, of which approximately RMB113.9 million was the compensation and the forfeited deposit required to be paid to Changsha Ideal Real Estate Development Co., Ltd. (長沙理想房地產開發有限公司) based on the judgment of the court. Subsequent to the period, the Group has received the compensation from actual controller.

7. Income tax expenses

During the Reporting Period, the income tax expenses of the Group amounted to RMB1,313.9 million, representing a decrease of 23.1% from RMB1,708.0 million in 2017, which was mainly due to the decrease of effective tax rate from 28.5% in 2017 to 21.8% during the Reporting Period by effective tax arrangements in accordance with laws and regulations to decrease unnecessary income tax expenses of the Group. At the same time, some subsidiaries of the Group had fully completed their annual settlement within the Reporting Period, which greatly decreased income tax expenses.

8. 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 RMB4,477.4 million, representing an increase of 9.8% from RMB4,077.9 million in 2017; the net profit attributable to owners of the Company after deducting non-recurring profit or loss amounted to RMB2,566.2 million, representing an increase of 11.3% from RMB2,305.4 million in 2017. The above good performance was a comprehensive result of the Group's steady business growth, appearing efficiency of the cost-scale effect, and extension of the industry chain to continuing providing customers with high value-added quality services.

	For the year ended 31 December		
	2018 (Audited)	2017 (Audited)	Increase/ Decrease
Net profit attributable to owners of the Company	**4,477,411,242.46**	4,077,897,749.46	9.8%
Net profit margin attributable to owners of the Company	**31.4%**	37.2%	-5.8 ppts
Net profit attributable to owners of the Company after deducting non-recurring profit or loss	**2,566,153,840.44**	2,305,431,475.69	11.3%
Net profit margin attributable to owners of the Company after deducting non-recurring profit or loss	**18.0%**	21.0%	-3.0 ppts

During the Reporting Period, the Group's earnings per share was RMB1.20, as compared to RMB1.13 in the same period of 2017.

9. Notes receivable and accounts receivable

As at the end of the Reporting Period, the book value of notes receivable and accounts receivable of the Group amounted to RMB1,687.9 million (including the book balance of accounts receivable of RMB2,838.7 million and the bad debt allowance of RMB1,150.7 million), representing an increase of RMB517.5 million from RMB1,170.4 million as at the end of 2017, which was primarily due to the impact of the adoption of New Standards for Revenue and New Standards for Financial Instruments by the Group during the Reporting Period.

Pursuant to the transition requirement for the New Standards for Revenue and Financial Instruments, the Group shall not adjust the financial data in comparable period. The Group prepared the financial statements for the comparative period in accordance with the New Standards for Revenue and 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 RMB1,199.7 million.

10. Other equity instruments

As at the end of the Reporting Period, the book value of other equity instruments investments of the Group was RMB3,302.7 million, which was mainly because the Group invested in the equity of upstream and downstream enterprises in the household industry and home furnishing products manufacturer related to artificial intelligence, for strategic purposes, and planned to hold such equity investments for a long time.

Pursuant to the requirements for the New Standards for Financial Instrument and Cai Kuai Document No.15, the Group will list the equity investment projects that have no significant impact on the invested company in this subject, while these items are listed as available-for-sale financial assets at the end of 2017.

11. Other non-current assets

During the Reporting Period, other non-current assets of the Group increased from RMB3,960.6 million as at the end of 2017 to RMB6,182.6 million as at the end of 2018, with an increase of RMB2,222.0 million, which was mainly due to the increase of prepayments for construction projects and the acquisition of income right related to land consolidation.

12. Investment properties and gain on fair value changes

As at the end of the Reporting Period, the book value of the Group's investment properties amounted to RMB78,533.0 million, representing an increase of 10.9% from RMB70,831.0 million as at the end of 2017. During the Reporting Period, the investment properties of the Group realized a gain on fair value changes of RMB1,820.2 million. The increase was mainly due to the increase in rent of our Portfolio Shopping Malls, advancement in construction progress of investment properties under development and the purchase of new properties during the Reporting Period.

13. Capital expenditure

During the Reporting Period, the Group's capital expenditure of properties owned or leased amounted to RMB3,438.1 million (2017: RMB6,148.6 million), which mainly includes purchase expenditure and the development expenditure of the construction of investment properties. Capital expenditure decreased significantly as compared with the expenditure in 2017, which is mainly attributable to the payment of RMB1,907.8 million for the purchase of an office premise in Hongqiao Business District of Shanghai in 2017.

14. Bank and cash and cash flow

As at the end of the Reporting Period, the bank and cash balance of the Group amounted to RMB8,527.6 million (of which, the balance of cash and cash equivalents amounted to RMB7,614.5 million), representing a decrease of RMB2,099.3 million from RMB10,626.9 million as at the end of 2017 (of which, the balance of cash and cash equivalents amounted to RMB10,269.3 million).

	For the year ended 31 December	
	2018	2017
	(Audited)	(Audited)
Net cash flow from operating activities	**5,857,930,704.35**	6,528,468,928.83 note 1
Net cash flow from investment activities	**(10,994,440,295.78)**	(6,021,224,224.90) note 1
Net cash flow from financing activities	**2,475,297,944.71**	3,873,637,421.83
Impact on cash and cash equivalents from change of exchange rate	**6,405,135.96**	(4,013,093.73)
Net increase/(decrease)in cash and cash equivalents	**(2,654,806,510.76)**	4,376,869,032.03

Note:

(1) According to "Interpretation of the Issues Concerning the Format of Financial Statements for General Enterprises in 2018" published by MoF, cash flow of government grant related to assets which is originally listed as cash flow from investment activities should be changed to cash flow from operating activities when preparing for Cash Flow Statement. The Group adjusted the comparative data retroactively. This change in accounting principles reduces the net cash flow from investing activities in the consolidated and corporate Cash Flow Statements and increases the net cash flow from operating activities cash by the same amount, but has no impact on the net increase in cash and cash equivalents.

During the Reporting Period, the Group's net cash inflow from operating activities amounted to RMB5,858.0 million, representing a decrease of RMB670.5 million as compared with the cash inflow of RMB6,528.5 million during the same period in 2017. It was primarily due to promotion activities were mainly conducted at weekends at the end of 2017, more unsettled Union Pay payments generated during non-working days were paid at the beginning of this Reporting Period, which resulted in a significant decrease of net inflow of collection and payment during this Reporting Period compared with 2017.

During the Reporting Period, the Group's net cash outflow from investment activities amounted to RMB10,994.4 million, representing an increase of RMB4,973.2 million as compared with the cash outflow of RMB6,021.2 million. It was primarily due to (1) the sales of two shopping malls in Tianjin through the Real Estate Investment Trusts receiving cash of RMB2.25 billion in 2017, but this type of business did not occur during the Reporting Period; (2) the equity investment of upstream and downstream enterprises in the home industry chain increased during the Reporting Period; (3) the acquisition of commercial properties in Shanghai, Chongqing, Ningbo, Suzhou, etc., during the Reporting Period.

During the Reporting Period, the Group's net cash inflow from financing activities amounted to RMB2,475.3 million, representing a decrease of RMB1,398.3 million as compared with cash inflow of RMB3,873.6 million in 2017. It was primarily due to the fact that (1) during the Reporting Period, the Company issued A shares to raise funds of approximately RMB3,050.0 million; (ii) during the Reporting Period, the Company carried out H share repurchase with payments of approximately RMB3,902.9 million.

15. Major debt ratios

Among the total debts of the Group, the portion repayable within one year or on demand amounted to RMB10,063.6 million, the portion repayable over one year but less than two years amounted to RMB7,361.8 million, the portion repayable over two years but less than five years amounted to RMB13,364.0 million and the portion repayable over five years amounted to RMB5,523.5 million. The Group will promptly repay the above borrowings at maturity.

The following table sets out our major debt ratios:

	As at 31 December 2018 (Audited)	As at 31 December 2017 (Audited)
Asset-liability ratio[(1)]	**59.1%**	54.7%
Net gearing ratio[(2)]	**62.3%**	41.5%

Notes:

(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 the total equity at the end of each period.

16. Collateralized and Pledged Assets

As of the end of the Reporting Period, the Group has pledged investment properties with book value of RMB59,493.0 million, other equity instruments with book value of RMB1,385.1 million for obtaining borrowings and restricted currency funds with book value of RMB286.4 million for deposit reserve placed with the central bank and obtaining loans.

17. Contingent liabilities

There is no contingent liability at the end the Reporting Period.

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. (海爾消費金融有限公司). As at 31 December 2017, the balance of the loan owed by Haier Consume Financing Co., Ltd. was RMB1,600.0 million, and was reduced to RMB0 as at the end of the Reporting Period.

18. Material acquisitions and disposals

There is no significant acquisition and disposal during the Reporting Period.

19. 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 RMB3,310.0 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 RMB1,618.7 million.

20. 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, the new HKD short-term borrowings in 2018 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.

21. Human resources

As at the end of the Reporting Period, the Group had 24,339 employees (31 December 2017: 22,621 employees). The Group signs labor 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 2018, the Group paid a total of RMB3,461.7 million for salary expenditure (2017: RMB2,997.5 million). Meanwhile, the Group also kept investing resources to provide various education and training opportunities for its employees, 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 2019 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 image of "Red Star Macalline" as a "Home Furnishings Expert" in the consumers' mind to build the most pioneering and professional "omni-channel platform-provider in the 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 strengthen the brand image of "Home Service Expert and Platform" by deepening promotion and marketing;

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

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

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

FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.27 per share for the year ended 31 December 2018 with a total of RMB958,500,000.00 was paid, of which RMB776,548,071.63 was paid to holders of A Shares and RMB181,951,928.37 was paid to holders of H Shares respectively. The final dividend is subject to the approval of the Shareholders at the forthcoming AGM. The expected payment date is on or around 16 July 2019.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

1. The Trading of the Shares Subject to Trading Moratorium under the Initial Public Offering

The Company was listed on the Shanghai Stock Exchange on 17 January 2018. An aggregate amount of 80,788,197 shares were subject to trading moratorium, which were held by Shanghai Jinghai Assets Management Center (Limited Partnership)* (上海晶海資產管理中心(有限合夥)), Shanghai Hongmei Investment Management Center (Limited Partnership)* (上海弘美投資管理中心(有限合夥)), Shanghai Kaixing Business Administration Center (Limited Partnership)* (上海凱星企業管理中心(有限合夥)) and Shanghai Ping'an Pharmacy Company Limited* (上海平安大藥房有限公司), representing 2.28% of the total share capital of the Company. Upon expiration of the lock-up period on 17 January 2019, the aforementioned shares have become tradeable. For detailed information, please refer to the announcement of the Company dated 12 January 2019 as disclosed on the designated media in China and the announcement dated 11 January 2019 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk).

2. Announcement on Loans to Related Parties and Connected Transactions

Red Star Macalline Home Furnishing Group Finance Company Limited (紅星美凱龍家居集團財務有限責任公司), the controlling subsidiary of the Company proposed to provide an operating property loan to a related party of the Company, Wuhu Minghui Business Management Co., Ltd. (蕪湖明輝商業管理有限公司). The amount of the loan will not exceed RMB400 million (inclusive) and the loan will carry a floating interest rate of no less than 10% above the benchmark interest rate of the People's Bank of China at the relevant period, and will be used to pay off the existing bank loan and the Shareholders' loan. For detailed information, please refer to the announcement of the Company dated 25 January 2019 as disclosed on the designated media in China and the announcement dated 24 January 2019 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk).

3. Results of the Issuance of the 2019 First Tranche of Mid-term Notes

According to the "Resolution on the General Mandate for the Issuance of Domestic Debt Financing Instruments and Relevant Authorization" considered and passed at the 2018 first extraordinary general meeting convened by Red Star Macalline Group Corporation Ltd., on 25 April 2018, the general meeting of the Company authorized the board of directors and its authorized persons to make decisions on financing in due course and to conduct domestic issuance of debt financing instruments, including but not limited to medium-term notes, corporate bonds, and other debt financing instruments recognized by domestic regulators, with a total amount of not exceeding RMB15 billion. The Company has filed an application to the National Association of Financial Market Institutional Investors (the "**NAFMII**") for the issuance of medium-term Commercial Papers. For detailed information, please refer to the Announcement on Proposed Issuance of 2018 First Tranche of Mid-term Notes by Red Star Macalline Group Corporation Ltd. (Announcement Code: 2018-052) disclosed by the Company on the official website of the Shanghai Stock Exchange and via designated media.

On 12 September 2018, the Company received the Notice for Acceptance of Registration (Zhong Shi Xie Zhu [2018] No. 506MTN) issued by the NAFMII, expressing its consent for the registration for the issuance of mid-term notes of the Company, with a registration amount of RMB5 billion. The registration amount will be valid for two years from the date of the Notice for Acceptance of Registration issued by NAFMII. From 23 January 2019 to 24 January 2019, the issuance of the 2019 first tranche of mid-term notes of the Company was completed with amount in total of RMB500,000,000 at interest rate of 5.75%. For detailed information, please refer to the announcement of the Company dated 26 January 2019 as disclosed on the designated media in China and the announcement dated 25 January 2019 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk). For documents relating to the issuance of the med-term notes of the Company, please refer to the website of Chinamoney (http://www.chinamoney.com.cn) and the website of Shanghai Clearing House (www.shclearing.com).

4. The Planning of the Second Phase Employee Stock Ownership Plan

The Company plans to launch the second phase employee stock ownership plan (the "**Employee Stock Ownership Plan**"). The Employee Stock Ownership Plan shall have a total size of not more than RMB120 million. The accumulative total number of shares held under the Employee Stock Ownership Plan shall not exceed 1% of the total share capital of the Company. The accumulative total number of shares corresponding to the equity interests obtained by each individual employee shall not exceed 0.1% of the total share capital of the Company. The holders of the Employee Stock Ownership Plan primarily comprise directors, supervisors, senior management, certain front-line management personnel of the Company and its subsidiaries and those employees who have indirectly held shares of the Company through stock ownership platform. For further details, please refer to the announcement of the Company dated 27 February 2019 as disclosed on the designated media in China and the announcement dated 26 February 2019 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk)

5. Related Parties and Affiliates plan to Purchase Company Shares

On 26 February 2019, the Company received a notice from RSM Holding, which advised the Company that certain employees of RSM Holding and its affiliates (except for listed companies and controlling subsidiaries of listed companies) (the "**Purchasers**") intended and to acquire ordinary A shares of the Company from the secondary market (the "**Purchasement**"), and to entrusted a professional institution with asset management qualifications to manage (the "**Placement Scheme**"). The Placement Scheme shall have a total size of not more than RMB160 million. The accumulative total number of shares held under the placement scheme shall not exceed 1% of the total share capital of the Company. The accumulative total number of shares corresponding to the equity interests obtained by each individual employee shall not exceed 0.1% of the total share capital of the Company. The Purchasers are certain employees of RSM Holding and its affiliates (except for listed companies and controlling subsidiaries of listed companies). For further details, please refer to the announcement of the Company dated 27 February 2019 as disclosed on the designated media in China and the announcement dated 26 February 2019 as disclosed on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk)

6. Bond Insurance Plans

On 27 February 2019, the Company convened the forty-fourth extraordinary meeting of the third session of the Board and the Board approved the "Resolution of the Company meeting the Requirements of the Public Issuance of Corporate Bonds to Qualified Investors" and the "Resolution in respect of the Public Issuance of Corporate Bonds by the Company in 2019", in which the Company planned to issue public corporate bonds of less than RMB4 billion (including 4 billion) in total to domestic qualified investors. The par value of the bonds is RMB100 and the bonds will be sold at par value with a maturity of no more than 7 years (7 years inclusive) which can be single maturity or hybrids of multiple maturity. The corporate bonds to be issued are fixed interest rate bonds, and the particular coupon interest rate and ways of dividend payment will be confirmed in accordance with the results of the offline price logbook enquiry by the Company and main underwriters after reaching a consensus on the range of enquiry of interest rate pursuant to the relevant regulations of the PRC. For details, please refer to the announcement of the Company dated on 28 February 2019 as disclosed on designated domestic media and the announcement dated 27 February 2019 as disclosed on the website of Hong Kong Stock Exchange (http://www.hkexnews.hk).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 16 April 2019 to Thursday, 16 May 2019, both days inclusive, in order to determine the identity of the H Shareholders who are entitled to attend the AGM on 16 May 2019, 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 Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 15 April 2019.

The Shareholders whose names appear on the register of members of the Company on Monday, 15 April 2019 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 2018.

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 2018 and up to the date of this announcement.

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 on 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 Polk**") as the Hong Kong legal counsel for the transaction. On 13 March, Davis Polk, 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 on 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 Shares Class Meeting and H Shares 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 Reporting Period.

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 Group has utilized 99.5% 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**"). 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 use / intended use and utilized net proceeds from the Global Offering as of 31 December 2018 is as follows:

Use / Intended use	Planned use (RMB million)	Actual use of proceeds for the year ended 31 December 2018 (RMB million)	Unutilized net proceeds for the year ended 31 December 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 in 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	2,408.4	27.6

ISSUANCE OF A SHARE 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.

The Board resolved on 7 September 2018 to change the intended use of part of the net proceeds from the A Share Offering. For further details, please refer to the announcement of the Company dated 7 September 2018.

As at the end of the Reporting Period, the Company has utilized approximately 80.74% of the net proceeds in total for fundraising investment projects as required as well as replenishing working capital. 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 and the announcement dated on 7 September 2018 on Change in Fundraising investment project of the Company.

Analysis of the use of proceeds from issuance of A share as of 31 December 2018 is as follows:

	RMB '000
Total amount of fund raised	3,222,450
Issuance expense	172,442
Net fund raised	3,050,008

Proposed investment projects		**Total investment planned** *(RMB'000)*	**Investment amount during the Reporting Period** *(RMB'000)*	**Remarks**
Home furnishing shopping mall construction project	Tianjin Beichen Shopping Mall Project	**245,317**	**245,137**	Fully invested
	Hohhot Yuquan Shopping Mall Project	**76,825**	**76,825**	Fully invested
	Dongguan Wanjiang Shopping Mall Project	**164,145**	**164,145**	Fully invested
	Harbin Songbei Shopping Mall Project	**294,809**	**294,809**	Fully invested
	Urumqi Convention and Exhibition Mall Project	**669,084**	**640,118**	Expected to be invested by June 2019
	Changsha Jinxia Shopping Mall Project	**190,000**	**69,403**	Expected to be invested by January 2020
	Xining Expo Shopping Mall Project	**110,000**	**60,786**	Fully invested
	Sub-total	**1,750,000**	**1,551,223**	
New intelligent home furnishing shopping mall		**400,000**	**11,268**	
Repayment of bank loans		**400,000**	**400,000**	
Supplement of liquidity		**150,008**	**150,008**	
Repayment of interest-bearing debts		**350,000**	**350,000**	
Total		**3,050,008**	**2,462,499**	

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 2018.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2018 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 2018 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

Shanghai, the PRC, 27 March 2019

As at the date of this announcement, the executive Directors of the Company are CHE Jianxing, GUO Binghe, CHE Jianfang and JIANG Xiaozhong; the non-executive Directors are CHEN Shuhong, XU Guofeng, Joseph Raymond GAGNON and ZHANG Qiqi; and the independent non-executive Directors are QIAN Shizheng, LEE Kwan Hung, WANG Xiao and ZHAO Chongyi.